

## FOREWORD

### **Private Property and Collective Action: Managing a Faustian Bargain**

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If you go to Google Images and type in “Korean Peninsula at night,” you will see a variety of satellite photos that show South Korea brightly illuminated, while North Korea is dark. Some of those photos will also take in surrounding territory from China and Japan. Those territories, too, are brightly illuminated, though China not so much as Japan. It is said that a picture is worth a thousand words. In this respect, those pictures from space tell a tale of how private property promotes human flourishing, while collective property impairs it.

This tale is not new. It is ancient, going back at least to the classical Greeks and the debate between Plato and Aristotle over the raising of children. Plato proposed that children be raised collectively to prevent some children from gaining advantage because their parents reared them in particularly good fashion. The trouble with Plato’s scheme, Aristotle pointed out, was that all children would be treated with equal indifference, leading to the degradation of all children.

This ancient debate is alive in the comparison of North and South Korea. North Korea is based on communal property; South Korea on private property. People have generally weak incentive to develop common property, while having strong incentive to abuse it. Suppose a lake is held in common by a thousand adjoining residents. Someone who catches immature fish will have strong incentive to keep the fish rather than return for someone else to catch. It is better to have a small fish than no fish. Thus, communal property undergoes degradation unless it is managed in voluntary fashion, as Elinor Ostrom’s *Governing the Commons* explains.

While the world presents us with numerous particular arrangements of human governance, the apparent surface complexity rests upon two simple principles. One principle is private property, which entails individual responsibility for the value consequences of one’s actions. The other principle is communal property, where value consequences are diffused throughout society. Grounding in private property gives us the illumination of South Korea; grounding in communal property gives us the darkness of North Korea.

Late in the 18<sup>th</sup> century, Adam Smith concluded that “little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural course of things.” Smith’s conclusion presents us with a puzzle. There would surely exist universal agreement that liberty and opulence are superior to servility and destitution. Yet liberty and opulence have not dominated human history and are far from universal today. Human interaction is only incompletely governed by principles of private property. In the presence of a universal desire for liberty and opulence, how can we account for the limited place of private property in the organization of human governance throughout the world? Both technical and moral issues are involved in limiting the range of private property.

As a technical matter, private property requires a suitable administrative apparatus. Objects of ownership must be established and recorded. Transfers of ownership must likewise be recorded. Such recordation is necessary to help resolve disputes over ownership that will inevitably arise. Dispute resolution, in turn, will require the development of institutional arrangements and their associated processes and procedures. There are different paths this development can follow, and these can operate with varying quality. This administrative apparatus, moreover, will be operated by people who may undertake their activities with varying degrees of skillfulness and rectitude. The talents and capacities required to accommodate governance through private property are many and varied.

While the significance of these technical matters should not be underestimated, the most severe impediments to private property are surely moral. Human governance through private property requires both that people embrace responsibility for the value consequences of their actions and that they forbear from interfering with the similar actions of other people. You may open a

business, but you must also forbear from interfering in the equal right of other people to open businesses, even if their businesses compete with yours for customers. If your business does not do well, it is you who will bear the loss. Forbearance entails a morality of individual responsibility for both losses and gains.

This morality is invariably undermined by governmental action, more fully in some countries than in others. Governmental power inescapably involves a form of a Faustian bargain: a government can use force to accomplish good, but it will also accomplish harm. Good is secured to the extent a government uses its powers to secure rights of private property, as illustrated by the efficient keeping of records and the impartial administration of justice. But power is never used just for good; this is the Faustian bargain at work. Governments will require modest amounts of taxation to support their universally beneficial activities. But governments are never modest in their appetites for revenue, or for power.

An impartial administration of justice requires but modest revenue and leaves government as a background participant in the life of a society. Government officials are like stagehands. But governments can use their taxing and regulating powers to propel their officials onto center stage. This happens all too easily, always with harmful consequences, as illustrated by the recent credit crisis.

At base, credit is a simple contract regarding the use of private property. A lender gives temporary custody of property to a borrower. If the borrower does not return the property according to the terms of the contract, the government should assist the lender by enforcing compliance with the terms of the contract. That the object that is rented is intangible, in contrast to the tangible character of a contract to rent a house or a car, does nothing to change the simple nature of a credit transaction.

All complications that arise over credit contracts are manifestations of governmental stagehands forcing their way onto center stage. Credit contracts are no longer simple relationships between borrowers and lenders. Governments have become active participants in those relationships and in many particular ways, all of which move away from the impartial administration of justice. Some governmental actions protect borrowers who do not repay their loans. Other governmental actions force lenders to make loans they would not have made under an impartial administration of justice. Yet other governmental actions offer rewards to lenders who support the movement onto center stage of government officials.

In her masterful *Systems of Survival*, Jane Jacobs described a well working society as involving carriers of two distinct moral syndromes: the commercial and the guardian. Within this societal architecture, carriers of the commercial syndrome occupy center stage and carriers of the guardian syndrome support the commercial carriers through the impartial administration of justice. Power might be reasonably contained in such a well working society but it can never be tamed. To the extent power breaks its containment, hybridization results between commercial and guardian syndromes, which Jacobs described as “monstrous moral hybrids.” Rather than seeking to compete by developing better products, businesses come to compete by supporting governmental efforts to restrict the ability of others to compete. Rather than being content with enforcing commercial contracts, governmental officials move onto center stage by becoming participants in commercial activity.

Despite the immense complexity we see in systems for governing human relationships throughout the world, there are really only two contrasting principles by which that governance can be secured. One operates through private property and individual responsibility. The other operates through common property and collective responsibility. With private property, we are the director of our actions, and our relationships with other people follow the principle of equality under law. With collective property, by contrast, our actions are to a significant degree directed by those who possess power over us, and with relationships among people thereby mired in positions and attitudes of deference and supplication.

Neither principle operates in its pure form, of course, and nor could it. There is good reason to think, however, that the work of the Property Rights Alliance in promoting awareness that property rights are the true foundation for genuine human rights will help to spread the blessings of liberty and human flourishing throughout the world.