PRIVATE PROPERTY AND HUMAN NATURE

by Tom Bethell*

The need for private property in economic life originates in human nature. It does not depend on specific arguments that have been made for property, and is not weakened by arguments made against it. Whether we turn to Plato or Aristotle, John Locke or Karl Marx, and read what they say about property, their arguments pro and con have no effect on the underlying reality. Locke, for example, said that the privatization of common land could be justified if a man mixed his labor with it, as long as “there is as much and as good left behind.” That gave rise to much criticism from political philosophers such as Jeremy Waldron and Alan Ryan.

Once upon a time I used to read their arguments with apprehension, lest I should find that my book was based on false premises. Then I realized that it didn’t make any difference what they, or indeed what anyone said. Even if no philosopher had ever come to its defense, the case for private property would be just as strong. That case is based on human nature, specifically on our ability to reason. We need private property because people can reason, not because certain reasons have been given for adopting private property.

How Property Rights Are Configured

Broadly speaking, three and only three configurations of property rights are possible: private, communal and state ownership. In order to appreciate the case for private property, the best strategy is to contemplate its alternatives; of which as I say there are only two. That way, it can easily be shown that private property alone is consistent with the free exercise of the faculty reason.

To be sure, there are some goods with special properties that are best appropriated by the state. These are called “public goods.” Military defense is the best example, and the police force is another. The justice system is a third. These goods have the peculiar property that it is difficult or perhaps impossible to prevent those who do not pay for them from sharing in their benefits. Modern technology can sometimes solve the problem of public goods, however. Roads are often considered to be public goods, but computerized toll-collecting devices attached to cars can allow fees to be collected from individual users with great efficiency.

It is striking, nonetheless, that the roles traditionally fulfilled by government correspond precisely with the modern conception of public goods. Over the centuries, governments have provided defense, police and the machinery of justice; and it is difficult for markets to provide these goods. The obvious corollary is that when governments undertake to furnish those goods that markets are perfectly capable of providing, they do so badly, and expensively. Health care and education are preeminent examples, both much in the news today.

Problems with Communal Property, Illustrated by the Pilgrims

Let us consider the first alternative to private property—the communal arrangement. Visualize a commune. Its defining (and self-destructive) feature is that the rights to the use of goods produced by the commune are not defined. All communards may consume what they “need.” A family is a (small) commune, but that usually works out well enough. In the first place, it is small enough to allow the parents to keep an eye on

what is going on. And because they are bigger and stronger than the children, at the crucial stage, they are also able to enforce the rules that are needed to economize.

But consider what happens when the “family” consists of lots of individual families mixed in together. It will soon become difficult or impossible to enforce work and disciplinary rules. This happened at Plymouth Colony, when the Pilgrims arrived here from England in 1620. They adopted communal property at the outset and found it to be unworkable.

The property was held in common not for religious reasons, as some have supposed, but because the investors in England wanted it that way. They were afraid that if the colonists, 3000 miles away and unsupervised, had their own private houses and plots, they would spend all their time working for themselves, and not laboring to benefit the “common wealth.” The investors were supposed to get half the proceeds or “dividend” at the end of seven years. Only with communal property could they be sure that they would get their share. At least that was the way they saw it.

It didn’t work out, however, because by 1623 the Pilgrims were on the verge of starvation. Numbering about 150, they just couldn’t get the communal arrangement to work, even though their lives depended on it. The same thing had happened 15 years earlier at Jamestown, where communal property had led to death by starvation. It was called “the starving time.” We know in greater detail what happened at Plymouth, however, because the governor of the colony, William Bradford, wrote it down in his journal. His key passage has become well known.

As hardship increased, the governor “assigned to every family a parcel of land,” according to the number of dependents. “This had very good success, for it made all hands very industrious, so as much more corn was planted than otherwise would have been by any means the Governor or any other could use,” Bradford wrote. The change in ownership saved the Governor “a great deal of trouble and gave far better content. The women now went willingly into the field, and took their little ones with them to set corn; which before would allege weakness and inability; whom to have compelled would have been thought great tyranny and oppression.”

With communal property, the community had been afflicted by an unwillingness to work, by a loss of mutual respect, and a prevailing sense of slavery and injustice. And this among “godly and sober men,” Bradford reported. But after the land was divided, colonists immediately became responsible for their own actions, not for those of the whole community. Knowing that the fruits of his labor would benefit his own family and dependents, the head of each household was given an incentive to work harder. With communal property, he might reasonably suspect that any additional effort would merely substitute for the lack of industry of others. Communal arrangements practically guarantee that the industrious subsidize slackers.

Modern Examples of Communal Property Problems

We can see this in more detail in an apartment building where the utilities are “master-metered”—where there is a single meter for the entire building. Here the same problem arises but less conspicuously. The utilities bill for each unit is reached by dividing the entire bill by the number of units. In fact, this was the arrangement in the building where I was writing my book on property. Suppose I go away for a week in the summer. I leave the air conditioning on, because I know that if I turn it off the apartment will be hot when I get back and it will take a few hours to cool it down. Let’s say the additional charge for my wasteful consumption is $15 and there are 300 units in the building. My bill at the end of the year will be 50 cents higher, but so will that of everyone else. The cost of my selfishness can be “exported” to everyone else in the building.

Now suppose that I am conscientious and frugal. Aware of my civic responsibilities, I turn off lights, turn down the heat in the winter and so on. Now I reduce the costs for everyone else in the building. In other words, the communal arrangement encourages me to behave badly. If I am selfish, others pay, if I am virtuous, others benefit. Now notice what happens when individual meters for each unit are introduced. If I use more electricity, my bill and only mine goes up. If I use less, I am rewarded with a smaller bill.

With individual meters, in other words, each unit owner has a bill that is commensurate with his use. Each owner is “given his due.” This is interesting, and important, because “rendering to each his due” is the classical definition of justice, found in Aristotle’s *Nicomachean Ethics* (4th century B.C.), the *Institutes* of Justinian (6th century A.D.), St. Thomas Aquinas (13th century), and many others since. We have tended to lose sight of this in our own day, when the muddled and misleading concept of social justice has so often been substituted for justice proper.

We see, then, that private property itself goes some way towards institutionalizing justice. The boundaries of property can be compared to mirrors, which reflect back upon each individual owner the consequences of his actions. This, I believe, is the most powerful of all
arguments for private property. But there are others. Without question, private property increases efficiency. Utility companies report that when individual meters are installed in large buildings, for example, electricity use will decline by as much as 20 percent. But the most corrosive feature of communal property, reported by William Bradford, and experienced by anyone who has ever lived in a commune, is that it generates a pervasive sense of injustice. The precautions that must be taken to minimize it are so costly that privatization turns out to be the logical and almost inevitable remedy.

**The Free-Rider Problem and the Tragedy of the Commons**

The problem of communes or communal ownership is sometimes called the free-rider problem. For about 100 years, it was rare to find any discussion of it in books about the foundations of economics. The person who did finally draw attention to it was Garrett Hardin in a famous essay called “The Tragedy of the Commons,” published in *Science* in 1968. Common land to which all have access for grazing will become overused and denuded, he said. And at about the same time, we begin to find intelligent discussion of property among such economists as Armen Alchian (1965) and Harold Demsetz (1964) at UCLA and Ronald Coase (1960) at the University of Chicago.¹

Garrett Hardin concluded his essay by pointing out that the problem could be solved “by private property or something formally like it.” But it is striking that he was not interested in this solution. He saw the problem as one of overpopulation. In his later writings, he made it clear that he would rather curtail population by force than solve the tragedy of the commons with something as radical as private property.²

The free-rider problem is so severe and debilitating that communal arrangements for living and working more or less have to be ruled out from the start. There has been a widespread pretense that the Israeli kibbutzim do have communal property and that the kibbutzniks were able to make the system work. What we are not always told, however, is that the kibbutz system (there were about 300 of these rural communes at one point, each with thousands of residents) was from the start heavily subsidized by the Israeli government.

To be sure, monasteries have been able to make communal property work; they are the rare exception. And some have endured for hundreds of years. But celibacy is a prerequisite. Families, as I said, are already communal, and parents must make considerable sacrifices to raise even their own children. This they are willing to do, but they will not do so to benefit the offspring of other parents who thereby enjoy a free ride. It is said that a Protestant community called the Hutterites have been able to combine communal property with child-rearing. But the descriptions of the severe communal discipline to which they must submit (no locks on doors, elders given ready access to the “private” dwelling places of other communards) only go to show how difficult it is to maintain a productive, non-celibate commune.

**Problems with State Ownership of Property**

Now we come to the second alternative to private property. The free-rider problem can in theory be overcome by state ownership. If the state owns everything, including the people within its borders, a central planning agency can order people what to do and penalize them if they don’t comply. “The theory of the Communists can be summarized by the single sentence: abolition of private property!” as Karl Marx said in the *Communist Manifesto* (1848). But as has been shown in practice, the problem of production is far too complicated to be solved in so extreme a way—one that involves reducing everyone to a state of slavery.

Nonetheless, a lengthy and pernicious experiment was conducted to put this remarkable theory to the test. The experiment was called the Soviet Union, and it endured for 74 years. The experiment was then extended to China, where it was abandoned after about 30 years in that country. It continues to this day in Cuba.


and North Korea. In the process, all these countries experienced tremendous privation, hardship and tyranny. Tens of millions of people died of starvation and tens of millions more died in concentration camps.

In 1991, the Russian president Boris Yeltsin had this to say about what had happened: “I think this experiment which was conducted on our soil was a tragedy for our people, and it was too bad that it happened on our territory. It would have been better if this experiment had been conducted in some small country at least, so as to make it clear that it was a utopian idea . . .”

The experiment was started, first and foremost, because it enjoyed strong support from many Western intellectuals. They relished the prospect of central planning because it meant that they would now be able to tell ordinary people what to do and how to live their lives. “A plan of production is a plan of consumption,” as Walter Lippmann said in his trenchant and lucid criticism of central planning. “If the authority is to decide what shall be produced, it has already decided what shall be consumed.” It followed that a plan of production was incompatible with voluntary labor. Lippmann’s remarks were published in The Good Society, in 1937, seven years before Friedrich Hayek’s Road to Serfdom. (Hayek made essentially the same argument.)

The communist experiments continued as long as they did for a variety of reasons, terror and coercion being uppermost. But let me draw attention to something else. There was a widespread pretense that these experiments were working—that they were achieving far higher levels of production than they were in fact. Western authorities collaborated in this deception. As recently as the 1989 edition of his famous textbook, Paul Samuelson said that “measured Soviet real GNP has grown more rapidly in the long run than have most of the market economies.” Also in 1989, the Statistical Abstract of the United States, published by the U.S. Department of Commerce, claimed that GNP per capita in East Germany was higher than it was in West Germany—a manifest absurdity even at the time.

In edition after edition, Samuelson’s textbook showed a graph of Soviet GNP, starting from a lower base but overtaking the GNP of the United States twenty years in the future. With each edition, the dates along the horizontal axis of the chart were updated, while the graph itself remained unchanged. Basically, the Commerce Department and the Central Intelligence Agency were getting their information from Moscow and not questioning it. The textbook writers were repeating the information, also without question, and the result was that throughout the entire period of the Cold War the leading economics textbooks in the Western world did not insist that private property was indispensable to economic development. The Soviet/CIA figures turned out to be greatly exaggerated, perhaps by a factor of ten.

One unfortunate consequence endures in the Third World today. The colonial empires in Africa and elsewhere disbanded at a time when the Western belief in the efficacy of planning was at a peak. To this day, it is rare to hear development experts in the Agency for International Development, the World Bank or the IMF say that what these countries need is not aid but secure, transferable private property rights. And until they really do have such rights, they will remain mired in poverty. Fortunately, some large and populous countries, notably India and China, are figuring it out for themselves.

Meanwhile, in the Cold War period, a number of highly destructive land-reform experiments were carried out, overwhelmingly at the behest of the U.S. government. For a period of about 40 years, our national leaders were unwisely convinced that what was needed was the redistribution of property, not its privatization. Countries that were harmed by this folly included South Vietnam (which collapsed and was taken over by Communists within two years of the implementation of a very radical program), Chile (which also fell into Communist hands, if only briefly), Iran (where the Shah was destabilized and overthrown) and El Salvador (which survived as a free country only by the skin of its teeth).

The Classical Economists and Property Rights

It’s worth noting that in the classical texts of political economy, private property was also neglected, but for a quite different reason: It was taken for granted. Adam Smith talked about “the sacred rights of private property,” but did not analyze the issue. One might say that sacred things are deliberately not analyzed. There just was not any alternative to private property then on the table. In The Wealth of Nations (1776), Smith assumed the legal system that then prevailed in Great Britain. He did not think it was necessary to spell it out or identify its parts, and few people since have realized how difficult it is to achieve such a system.

Adam Smith gave pride of place (the first three chapters) to the division of labor, which the Nobel Prize winning economist George Stigler in 1976 identified as one of Smith’s “regrettable” failures. The division of labor is not analytically helpful because it is involved in all conceivable production excepting only where Robinson-Crusoe conditions obtain. Stressing the div-
sion of labor does not help us to decide between one ownership arrangement and another.

David Ricardo (Principles of Political Economy and Taxation, 1817) likewise took private property for granted (and also called it “sacred”), as did Thomas Robert Malthus. But Malthus in addition gave us an important clue to his thinking. At the beginning of book 2 of his Principles of Political Economy (1820), he stipulated that property belonged to the province of “politics,” not economics. Its security, he allowed, is among the “most important causes which influence the wealth of nations.” But it depended on “the political constitution of a country, the excellence of its laws, and the manner in which they are administered.” He did not intend to analyze these matters, he wrote. Ever since, economists have followed Malthus’s example, and have been inclined either to neglect or take for granted the institutional background of their subject. Knowing the structure of law on which an economy must be based if it is to function with any efficiency has not until very recently been regarded as an essential ingredient of economic analysis.

John Stuart Mill’s Principles of Political Economy was published in 1848, and in the 19th century it exerted an influence comparable to that of Samuelson’s text in the 20th. It turns out that his key chapter on property was rewritten at the behest of his radical wife, Harriet Taylor, to whom he was extremely submissive. The rewritten version appeared in all the numerous later editions of his book, and few people ever saw the original version. It did not become generally available until it was published (in 1965) as an appendix to the University of Toronto’s 35-volume edition of Mill’s Collected Works.

After Harriet Taylor died (in 1858), Mill wrote in his Chapters on Socialism (published posthumously in 1879) that “the very idea of conducting the whole industry of a country by direction from a single centre is so chimerical that nobody ventures to propose any mode in which it should be done.” Actually, by then Karl Marx had proposed just that, along with the blanket expropriation of private property. Mill, to his credit, thought this both immoral and impractical. He countenanced only voluntary arrangements. (Marx and Mill lived in London at the same time but there is no evidence that Mill was aware of the fact or even knew of Marx’s existence.)

The Classical Economists Confront Marx and the Notion of Progress

By the mid-19th century, all views on the desired institutional structure of society were increasingly colored by the idea of progress. This referred not just to progress as it applied to technology and science but to human nature. It was a general article of faith among intellectuals as diverse as Karl Marx and Herbert Spencer that people were getting better and better in their mental and moral makeup. Mill therefore argued that, although private property was essential for people “in their present state,” they would in the future be more public spirited. In fact, the idea of progress seemed to reduce all criticism of socialism to mere pedantry. That criticism applied only to people as they were now, after all.

“All history,” Marx said, “is nothing but a continuous transformation of human nature.” The Idea of Progress, as J.B. Bury wrote in his book of that name (1920), was by the 1870s and 1880s becoming a general article of faith. There followed in the next quarter century a large literature of social science in which indefinite progress was “generally assumed as an axiom.”

The Fabian socialists embraced the idea, and Darwinism was enlisted in the cause of socialism. “The struggle for existence causes in the long run those races of men to survive in which the individual is most willing to sacrifice himself for the benefit of those around him,” Alfred Marshall wrote. Marshall, the teacher of John Maynard Keynes, wrote a treatise entitled The Principles of Economics, published in 1890. It contains the remarkable statement that the need for private property “reaches no deeper than the qualities of human nature.” And within a few years Leon Trotsky was asserting (in Literature and Revolution, 1924) that under collectivism: “Man will become immeasurably stronger, wiser and subtler. His body will become more harmonized, his movements more rhythmic, his voice more musical. The forms of life will become dynamically dramatic. The average human type will rise to the heights of an Aristotle, a Goethe, or a Marx. And above these heights new peaks will rise.”

I happened to be working at the Hoover Institution when I came across Alfred Marshall’s remarkable comment about human nature. Exactly 100 years had elapsed since he had published it, and the Berlin Wall had recently fallen. I saw Milton Friedman going up the stairs in front of me and so I repeated the Marshall comment and asked him what he thought. “No deeper than human nature?” Friedman repeated. “I would say that goes pretty deep.”

The socialist experiment was over. Reforming human nature had proved to be impossible, with or without the Gulag.

In his History of the Russian Revolution (1995), Ri-
chard Pipes wrote that the Soviet experiment had been “the most audacious and most determined effort in the entire history of mankind to reshape human nature and redesign human society. . . . It was something new in history both in conception and implementation: an attempt to launch humanity, by compulsion, on paths it had given no prior indication of wishing to tread.”

Notice what had happened since the time of Adam Smith. Private property went from being “sacred” to being vilified without so much as an intermediate stage of analysis. It was certainly never studied by Marx before he launched his blazing attack. And by the time the great destruction of the Communist experiment was unleashed, the prevailing assumption was that private property was at best a necessary evil, and at worse a manifestation of human wickedness and greed.

**Conclusion**

I said at the beginning that private property was indispensable for economic production because human beings are endowed with the faculty of reason. When intellectuals in the 19th century dreamed that human nature could be changed, or reformed, they did not realize that they were reposing their faith in the abolition of something so fundamental as the faculty of reason.

We have seen that only two ownership arrangements are possible other than private property. Communal property is directly at odds with the faculty of reason because people quickly learn in a communal environment that they are rewarded if they act selfishly and punished if they act selflessly. These immensely counterproductive incentives can only be overcome by dividing up the property. At that point, a proper ratio is established between effort and reward. This benefit brings with it the establishment of an institutionalized or “social” justice.

As to the remaining alternative, state ownership: From the time when it was first proposed, it was shown that it could only be made to work if a central planning agency was empowered to tell people what work they must do and what goods and services they must consume. State ownership therefore takes away from the people their ability to calculate and make their own choices, based on how the opportunities look from their individual perspective. They are therefore reduced by planning to a state of serfdom. Their faculty of reason must be suspended. Citizens become prisoners, which is why walls have always had to be built around Communist countries.

Private property is the only institutional arrangement that leaves the faculty of reason intact, in a way that is conducive to productive and moral outcomes. We may conclude that a productive society must be based on private property. No alternative exists, and we can safely assume that no alternative to it will be found in the future.