

# How property rights solve problems



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essay: How Property Rights Solve Problems Should restaurants allow smoking or not? Should schools teach evolution or intelligent design or both? Should insurance companies cover contraception? Should I be able to take off my shoes in your living room? You might think that that last question doesn't belong with the first three. After all, the first three questions are momentous ones about "public policy." The last one is only about the rules you have for my behavior in your living room" a "private-policy" question. And your answer to that question will depend on how you want to use your property.

But think about what you just read: Your answer to whether I should be able to remove my shoes in your living room depends on how you want to use your property. What is implicit here, but obvious to all, is that the choice is yours. I have no say in the matter. That doesn't mean you won't take account of my thoughts and feelings. You will. Let's assume that you find it distasteful for me to take off my shoes, but that you like my company.

Let's further assume that telling me that I can't get comfortable by taking off my shoes will mean that I won't want to visit you. Then you will trade off your distaste at having me shoeless with the pleasure you take from my company. If one outweighs the other, in your subjective estimation, then you'll choose accordingly. Notice how property rights solve the problem. It's your living room and so you get to choose. How your living room gets used is not a public-policy problem.

And here's the kicker. If property rights are respected, none of the other three questions is a public-policy problem either. Consider each in turn.

Should a restaurant allow smoking or not? I have no idea. Neither do you.

Who does? The restaurant owner. The restaurant owner knows that if he bans smoking, he will get more business from non-smokers and less business from smokers.

He also knows that if he doesn't ban smoking, he will get more business from smokers and less from non-smokers. He will make that tradeoff and, if he has no particular interest one way or the other, will likely do so in a way that maximizes his net income from running a restaurant. 1Ah, but what about his employees? Don't they matter? Yes, they do, and the restaurant owner knows that they do and has an incentive to take account of their preferences.

If his employees don't like working where there's smoke, he will take account of both the extra wages he must pay to get good employees and the higher turnover of employees. These all factor into his decision. Interestingly, though, when I discussed this issue with a former waitress who doesn't like smoke, she told me that she and her colleagues had preferred, as waiters and waitresses, to work in restaurants that allowed smoking. Why? Because, she said, people who smoked also had a higher probability of drinking alcohol and, therefore, had higher restaurant tabs and paid bigger tips. In short, whether restaurant owners should allow smoking is not a public-policy problem. It's a totally private issue, and the person who should make the decision is the owner. The only reason it looks like a public-policy problem is that the government has made it one" by increasingly putting its thumb on the scales and dictating non-smoking restaurants.

I should note that none of what I wrote above is due to my own view on smoking. I hate smoking with a passion. I'm a militant anti-smoker when it comes to my own behavior and what I allow in my home. But I'm a militant defender of the right to smoke and, more important in this context, a militant defender of property rights. A true story about two well-known economists is a propos.

Robert Barro, an economics professor at Harvard University, who is on many people's short list for a Nobel Prize in economics, hates smoke also. When he was on the economics faculty at the University of Chicago, at a time when smoking was allowed, he had a "No smoking" sign on his office door. But that's not all the sign said. One of Barro's colleagues at the time was Robert Lucas, a brilliant economist who, in 1995, did win the Nobel Prize in economics. Barro treasured his conversations with Lucas. So, the full text of sign was: "No smoking, except for Bob Lucas." In other words, Bob Barro traded off his intense dislike of cigarette smoke for his intense appreciation of his conversations with Bob Lucas. He made a judgment about how to use his property "his office" based on that tradeoff.

4 That's similar to the story about how you would use your living room if you valued my company but "disvalued" my having my shoes off. Consider the second question I asked above. Should schools teach evolution or intelligent design or both? Many people might be tempted to say that the answer depends on which is true: evolution or intelligent design. But what if what one person thinks is true another person thinks is false? Some people are absolutely sure that evolution is true, while others are absolutely sure that intelligent design explains why we were here on planet Earth. But the only

reason this appears to be a public-policy problem is that with a prior intervention, governments have made it one.

How so? By taxing people, some of whom believe in intelligent design, some of whom believe in evolution, and some of whom dont know what they believe, to pay for other peoples schooling. In other words, it appears to be a public-policy problem because of a prior violation of peoples right to keep their own property. Thats why there is conflict. People who argue that they shouldnt be forced to subsidize the teaching of intelligent design have a point. So do those who argue that they shouldnt be forced to subsidize the teaching of evolution. Thomas Jefferson put it best: “ To compel a man to furnish contributions of money for the propagation of opinions which he disbelieves and abhors is sinful and tyrannical.” For more information, see *Property Rights*, by Armen Alchian, and *Education*, by Linda Gorman in the *Concise Encyclopedia of Economics*. If the government got out of schooling and let people choose how and where to spend their money on their childrens schools and on other childrens schools (Im assuming that, consistent with history, many more-affluent people who are free to choose how to spend their money would willingly subsidize the schooling of those who are less affluent<sup>5</sup>), the problem would go away.

Those who want to finance the teaching of evolution would do so; those who want to finance the teaching of intelligent design would do so. The conflict would disappear. Of course there would still be people who are upset that a school teaches something they disapprove of, but that doesnt mean that there would be conflict.

If everyone's property rights were respected, there would be no conflict. There would simply be people who are upset by others' choices. Consider, finally, a hot-button issue that has come up in the last two months: Should insurance companies cover contraception? That's for each individual insurance company to decide. In making that decision, will they consider the interests of their customers? Absolutely.

It's in the insurance companies' interest to do. How will they think about it? Companies whose owners or managers think it's immoral to cover contraception will not cover contraception. They have the right not to and their rights should be respected. Most companies will probably think about it the standard way they think about these things: How much are customers willing to pay to get coverage of contraceptives? And how much will it cost the insurance company to provide such coverage, taking into account that covering contraception might save the insurance company money that it would have spent on abortions and on pregnancies brought to term. The insurance companies probably have a lot of information on these issues. There's little that we can tell them that they haven't thought of.

But it's not a public-policy issue unless the government makes it one. It's a matter for the insurance company to decide. Then customers can decide whether to deal with that company. This is just a small list of the problems that are apparently "public-policy" problems only because the government has chosen to make them so. Private property solves people's problems every day. ;,?