



# PHILOSOPHY OF ECONOMICS & POLITICS

## LECTURE 17: PROPERTY RIGHTS

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LECTURER **JULIAN REISS**



# Today's agenda

- \* Today we'll look at a **basic dilemma** democratic societies face under capitalism: **why don't the 'poor'** use their voting power to **expropriate the 'rich'**?
- \* We'll look specifically at **property rights**, how their enforcement can help to **stabilise democracies** and thus resolve the dilemma
- \* These arguments are **qualifiedly pro-capitalist**; critical voices will be heard next week when we discuss 'principles of distributive justice'

# Justifying property rights

- \* At the most basic level, there are **two types of justification of property rights**:
  - \* **Deontological**
    - \* Theological (7th Commandment: 'Thou Shalt Not Steal!')
    - \* Natural rights (Locke...)
    - \* Social contract theories
  - \* **Consequentialist**
    - \* Effects on welfare
    - \* Effects on other freedoms such as civic and political freedoms



# John Locke on property rights

- \* In his *Second Treatise on Government*, Locke asked by what right an individual can claim to own one part of the world, when, according to the Bible, God gave the world to all humanity in common?
- \* He answers that even in the state of nature, in which there is no private property, **humans ‘own themselves’** and their own labour
- \* **When individuals ‘mix their labour’ with a natural resource** – for instance, by cultivating land – **that resource becomes theirs**; individual property in the resource is thereby created
- \* But that only under a qualification: ‘...at least where there is enough, and as good, left in common for others’ (**‘Lockean proviso’**)

# Consequentialist defences of property rights

- \* Private property rights most certainly are **conducive to economic growth** because they provide a motivation to invest, work hard and use resources efficiently
- \* This is a defence used by **Hayek**, for instance
- \* Usher, however, proposes a different consequentialist defence of property rights
- \* Essentially: with the entire allocation of jobs and the entire distribution of income at stake, **the temptation of majorities to exploit the corresponding minorities**, and of the party in office to use the full authority of the state to remain in office indefinitely, **would be irresistible — property rights prevent this**



# The basic dilemma of capitalism & democracy

- \* Minimally, **democracy entails majority vote ruling and broad franchise:**
  - \* **Franchise is never truly universal** – children (until what age?), mentally ill, prisoners...
  - \* **Restricting franchise to property owners would**, however, **constitute an oligarchy** rather than a democracy, so it has to be broader than that
- \* Under those conditions, **why don't the poor soak the rich?** Why doesn't the majority form a coalition to expropriate the minority?
- \* Usher proposes two mechanisms:
  - \* **Prevention of the formation of exploitative majorities**
  - \* **Limitation of the sphere of democratic rule**

# The basic dilemma of capitalism & democracy

- \* The formation of a majority in order to exploit the minority requires **compromise and sense of duty**
- \* One of the first results of '**public choice theory**' (the use of economic tools to address problems of political science) was the '**paradox of voting**': why do self-interested voters, for whom voting is costly and the chances of making a difference to the outcome minimal, vote at all?
  - \* This is an **n-persons prisoners dilemma**: everybody is better off if elections are held; but every individual is best off if everybody else is voting and s/he isn't
  - \* We need to have a '**sense of duty**' or '**public spiritedness**' (Tocqueville) in order to participate
- \* However, that same spirit can make voters recognise that **exploitation of minorities will mean the end of democracy**
- \* In addition, **checks and balances** can help to prevent unique coalitions from forming (through two chambers of parliament, for instance)



# The basic dilemma of capitalism & democracy

- \* The second mechanism was the **limitation of the democratic sphere**
- \* While most government decisions have winners and losers, clearly **there are some domains to which the majority rule should not apply**
  - \* Trivially, **the majority rule itself**
  - \* Politicians in power must not be able to **punish their opponents or predecessors**
  - \* People's **civil rights** and **the rule of law** must be protected
  - \* Usher argues also in favour of a '**system of equity**' (which we'll look at in a minute)
- \* Note that such a political system is sometimes referred to as '**republican**' rather than '**democratic**'



# Why a system of equity is needed

- \* Usher doesn't mean 'equality' or 'justice' by the term, but rather something like '**allocation according to agreed upon rules**' and focuses on income determination in particular
- \* **Income determination by a political process leads to instability:**
  - \*  $n = 99$  citizens, all vote;  $Y$  is the income they have to allocate
  - \* Would they allocate  $Y/n$  to each citizen? Not if they're self interested: a coalition of 50 voters can expropriate the rest and bag nearly twice as much ( $= Y/50 = 2Y/(n + 1)$ )
- \* Democratic government works when the outcome of majority rule voting is accepted as binding by majority and minority alike
- \* Therefore, **if the majority behaves in this way, the minority will either find non-parliamentary ways to overturn the decision or the majority will try to prevent the coalition from breaking by dispensing with elections altogether**
- \* Either way, **democracy will not be preserved**; only if income is determined outside of the political process can democracy survive



# Why a system of equity is needed

- \* The **problem of faction** can, to some extent, be ameliorated by:
  - \* **decentralisation** (cf. Tocqueville!) – because power is divided and it is unlikely that the same people form coalitions in the central government and in the states
  - \* Representative government too can help because **representatives have to win majorities in constituencies**, not among ‘people of a kind’ (but of course sometimes the interests of people in a constituency are very homogeneous)
  - \* **Lack of permanence of the majorities** (also, cf. Tocqueville!)
  - \* Many issues are **single peaked**, and if they are there are good chances that policies designed to be preferred by the median voter find wide approval



# Why a system of equity is needed

- \* But all four defences work at best partially and sometimes
- \* Hence we need a different kind of defence: **don't let the parliament/politics decide incomes at all** – separate economic and political spheres in this respect
- \* **If democracy is limited in this way, people will accept majority decisions because what they can lose is limited**
- \* Ideally, **issues of common concern to all citizens are resolved in the public sector** while the allocation of the national income among citizens is determined outside of the political realm
- \* This is an ideal indeed as **all political decisions benefit some and harm others**



# Which system of equity?

- \* Idea: **take the allocation of income out of the public sector as far as possible** and use the allocation reached in the private sector as standard when the public sector cannot avoid influencing income distribution
- \* General Equilibrium Theory shows under what conditions this is possible (and assumes that property rights have already been assigned)
- \* There must be a **stable core of rules determining who gets what** if the private sector is to supply a standard of equity at all (e.g., rules of property transfers, inheritance etc.)
- \* The standard can change over time but not too frequently or for bad reasons



# What do property rights entail?

- \* In Roman law, owners of what was called '**dominium**' were said to have '**absolute**' rights over their possessions
- \* But **no right is absolute**: an owner of a chainsaw is not free to commit a massacre
- \* An owner of property normally has the right to **consume, alter, share, redefine, rent, mortgage, pawn, sell, exchange, transfer, give away or destroy it, or to exclude others from doing these things**
- \* But there are **limits** even on that: building regulations, animal rights, externalities...
- \* **When does property cease to fulfil its socially beneficial functions?**



# Porous boundaries

- \* If the state owns a resource (such as rare metals or oil), it has to decide **how to allocate the benefits** of owning the resource
- \* **When an ‘all-purpose’ resource such as water and the irrigation system is state-owned, the same problems arise as in a nationalised economy:** majority rule voting is unsustainable because government has full authority to determine who shall prosper and who shall not (‘hydraulic state’)
- \* **Regulations are required** for:
  - \* Externalities
  - \* Monopolies
  - \* Product and workplace safety standards
- \* But **such regulations always have distributive consequences** (for different individuals; strata of society; present vs future generations)



# Redistribution vs reallocation

- \* Usher distinguishes two kinds of effects of these policies:
  - \* **The *redistribution* of income** – the narrowing of the spread between rich and poor
  - \* **The *reallocation* of income** – the reassignment of individuals on the scale from rich to poor
- \* **Redistribution doesn't threaten democracy** (and in fact can have a stabilising effect because poor people have less incentive to vote for a dictator), but reallocation may
- \* **Extensive reallocation of income creates a serious exploitation problem**



# Civil rights vs property rights

- \* As civil rights apply to everyone equally and property rights entail inequality, **there is an inevitable conflict of interest between rich and poor when it comes to civil rights**
- \* **Are health care, a minimum standard of living or 'economic security' civil rights?** Protection from environmental damage? Workers' rights?
- \* **Eminent domain** – where to draw the line?
- \* **Imprisonment or fine?**



# In sum, ...

- \* In his book *The Economics of Voting*, Dan Usher has presented a **novel defence of individual property rights** (and thus, of capitalism):
  - \* **Without property rights, democracy is ultimately not viable** because majorities will form to exploit minorities which, in turn, will not accept the democratic outcome and seek means to revise it
- \* **Redistribution from rich to poor is benign**, as long as it is rank-preserving
- \* **A problem arises because it is unavoidable that some aspects of the economy be regulated**; all regulations have distributive consequences, however
- \* **The reallocate consequences of regulation should be limited** because the greater the extent to which individuals are reassigned on the income scale, the less stable democratic government will become