

## **Importance of Private Property Rights**

Private property rights are absolutely essential for a society to flourish. America's Founders understood that private property rights are the foundation of prosperity and of social cohesion.

### **Worldwide Experience**

The annual *Index of Economic Freedom*, published as a project by *The Wall Street Journal* and The Heritage Foundation, analyzes the relationship between economic freedom and prosperity across the world.<sup>1</sup> Of the 184 countries analyzed each year, the data point to the same conclusion: Countries with the most economic freedom also have higher rates of long-term economic growth; their people are better off, at all income levels. The *Index* uses property rights as one of 12 measurements of a country's economic freedom. The data show that improved scores in property rights along with government integrity and judicial effectiveness, together called "the rule of law," are associated with improved economic performance. Improvement in these components is strongly associated with greater per capita gross domestic product (GDP).

### **Increased Economic Output**

Private property rights allow owners to do whatever they see fit, so long as it does not infringe on the rights of others. Where property rights are secure, there is much more incentive to spend hours investing labor, knowing that the fruit of the labor will not be stolen in the end. Ownership must be protected to encourage the investment of labor,<sup>2</sup> an economic decision that benefits the productive output of the nation.<sup>3</sup> Human ingenuity is the ultimate resource that makes other resources more plentiful, wrote economist Julian L. Simon.<sup>4</sup> Human ingenuity flourishes when protected by secure property rights and economic freedom.

### **Efficient Use of Resources and Increased Productivity**

Economist Ludwig von Mises and Nobel Laureate economist Friedrich A. von Hayek, in their critique of socialism, emphasized the functional significance of clearly defined and enforced private property rights for the economic calculation of alternative investment opportunities.<sup>5</sup> Clearly defined and enforced private property rights establish a clear understanding of "mine" and "yours," which provides the institutional basis for exchange. Exchange relationships allow monetary prices to be formed on the market. Monetary prices allow a person to compare and contrast prospective allocations of scarce resources, guided by profit and loss information, leading to adjustments to resource use, market efficiencies, and increased productivity.

### **Basis for Economic Development**

"Private property rights are important to economic development," writes Peter Boettke, Ph.D., Professor of Economics and Philosophy at George Mason University, "because:"<sup>6</sup>

1. Recognized private property rights provide the legal certainty necessary for individuals to commit resources to ventures. The threat of confiscation, by either private individuals or public officials, undermines confidence in market activity and limits investment possibilities.
2. Clear property rights tend to make decision makers pay close attention to resource use and the discounted value of the future employment of scarce resources. Absent private

property rights, economic actors will tend to be short-sighted in their decision making and not conserve resources over time.

3. Property rights are the basis of exchange, and the extension of ownership to capital goods provides the basis for the development of financial markets that are essential for economic growth and development.
4. Secure private property rights...is the basis for limited and civilized government. The elimination of arbitrary confiscation and the establishment of regular taxation at announced rates enables merchants to calculate the present value of investment decisions and pass judgment on alternative allocations of capital.”

### **Property Defined**

Property is defined as: 1) something owned or possessed; 2) the exclusive right to possess, enjoy, and dispose of a thing – another word for ownership. James Madison in *On Property* wrote, “In a word, as a man is said to have a right to his property, he may be equally said to have a property in his rights.”<sup>7</sup>

Private property rights are defined as the rights of a property owner to acquire, use, and dispose of his/her property.

“The existence of persons and property preceded the existence of the legislator, and his function is only to guarantee their safety. The function of law is to protect the free exercise of these rights, and to prevent any person from interfering with the free exercise of these same rights by any other person,” wrote political economist Frédéric Bastiat in *The Law*.<sup>8</sup>

“Government is instituted to protect property of every sort; as well that which lies in the various rights of individuals, as that which the term particularly expresses. This being the end of government, that alone is a just government, which impartially secures to every man, whatever is his own,” wrote James Madison in *On Property*.<sup>9</sup>

“A wise and frugal Government, which shall restrain men from injuring one another, shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned. This is the sum of good government,” said President Thomas Jefferson.<sup>10</sup>

### **Real Property Defined**

Real estate is property in physical land and buildings attached to the land.

Real property includes the benefits and rights inherent in the ownership of physical real estate. Real property includes the bundle of rights that refers to the beneficial interests and rights inherent in the ownership of real estate. When individuals purchase a piece of property, they automatically receive certain rights to that property. Some of the rights granted to property owners include the rights of possession, control, exclusion, enjoyment, and disposition. Private property is in essence a bundle of rights for the benefit of the owner, freely exchangeable in accordance with the terms of private agreements, and recognized and protected by common consent.

### **American Experiment in Socialism**

In the Plymouth colony, the Pilgrims attempted to implement communal property, as a Christian act. William Bradford, governor of the Plymouth colony in 1623 wrote in *Of Plymouth Plantation* that they thought “that the taking away of property, and bringing in community into a commonwealth, would make them happy and flourishing; as if they were wiser then [sic] God. For this community (so far as it was) was found to breed much confusion and discontent, and retard much employment that would have been to their benefit and comfort. For the young-men that were most able and fit for labor and service did repine [complain] that they should spend their time and strength to work for other men’s wives and children, without any recompense.”<sup>11</sup>

The colony soon was on the verge of starvation.

Bradford wrote, “So they began to think how they might raise as much torne [corn] as they could, and obtain a better crop then they had done, that they might not still thus languish in misery. At length, after much debate of things, the Govr (with the advice of the chiefest amongst them) gave way that they should set corve [crops from labor] every man for his own particular, and in that regard trust to themselves; in all other things to go on in the general way as before. And so assigned to every family a parcel of land...This had very good success; for it made all hands very industrious, so as much more torne [corn] was planted then otherwise would have been by any means the Govr or any other could use, and saved him 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 torne [corn], which before would allege weakness, and inability; whom to have compelled would have bene thought great tyranny and oppression.”<sup>12</sup>

After changing to a private property system in 1623, within a short period of time, the lives of the Pilgrims were greatly improved.

### **Venezuelan Experiment in Socialism**

“Those who cannot remember the past are condemned to repeat it,” wrote philosopher George Santayana in *The Life of Reason*.<sup>13</sup>

Venezuela, a Bolivarian Republic, turned to socialism in 1998 when Hugo Chávez was elected president. The new regime established a new constitution.<sup>14</sup> Chávez passed laws redistributing land and wealth, and passed a land reform decree that would eliminate larger estates as part of redistribution. Chávez nationalized the oil industry, agricultural operations, transportation, power generation, telecommunications, steel production, and banks.<sup>15</sup> In 2018, Venezuela is the second least free economy in the world, ahead of only North Korea.<sup>16</sup>

As a direct result of those actions, Venezuela went from being the wealthiest country in South America – one rich in natural resources and the world’s largest proven oil reserves – to a country where people are literally fighting for scraps of food.<sup>17</sup> Private industry is being strangled by centrally planned price controls, which are causing widespread shortages of basic goods. Venezuela’s economy shrank 18 percent in 2016.<sup>18</sup> The unemployment rate was 25 percent in 2017 and climbing. Inflation was 24,571 percent from May 2017 to May 2018.<sup>19</sup> Hyperinflation

has destroyed the country's currency. Riots have become common since 2017. This is what socialism produces, when faithfully executed. President Nicolás Maduro is continuing the disastrous economic policies of the late President Chávez.<sup>20</sup>

Venezuela is on the verge of starvation.

Food has grown so scarce that three in four citizens report involuntary weight loss, averaging 19 pounds in a year.<sup>21</sup> Tens of thousands of Venezuelans, unable to buy the food and medicine, are flooding into neighboring Colombia<sup>22</sup> and Brazil,<sup>23</sup> seeking basic goods. In Venezuela, 87 percent of people were living in poverty in 2017.<sup>24</sup> During the first five months of 2018, about 400,000 Venezuelans fled the country, following 1.8 million who left over the preceding two years.<sup>25</sup>

In order to end the economic and social crisis, socialism needs to be abandoned, and the private sector needs to be allowed to operate. Private property rights need to be enforced, and fears of property confiscation need to be put to rest.<sup>26</sup> Dropping price controls would let businesses import essentials. A return to a stable currency is paramount. Without fundamental reform to restore a stable currency and private incentives, the people of Venezuela will continue to suffer. Moves to stabilize the economy will attract foreign capital, for desperately needed investment to return Venezuela to prosperity.

### **Other Experiments in Socialism**

Historical examples showing the disaster of collective ownership and the benefits of private ownership include the Jamestown colony, the Soviet Union, and today's less developed countries, such as Cuba and North Korea.

The reality of Soviet life and the collapse of the Soviet system demonstrated in the late 20th century that without clearly defined and enforced private property rights, advanced economic development is not possible.<sup>27</sup>

Wealth creation is reduced when coerced redistribution is imposed. Providing unearned benefits to people destroys their incentive to become productive and makes them dependent upon government. Likewise, taking increasing amounts from producers destroys their incentive to produce. Redistribution makes a country poorer. Economies that do not create wealth cannot improve the quality of life on any sustainable basis.<sup>28</sup>

The main cause of poverty in countries throughout the world is the lack of economic freedom embodied in policies these countries have imposed on themselves.<sup>29</sup> The dire economic experiences of progressive/socialist states have proven the fallacy of economic central planning, as elucidated by Nobel Laureate economist Milton Friedman. Progressives and socialists believe that rights are not God-given and inalienable, but are granted by the state.

In the less developed world of Latin America and Africa, insecurity of ownership and the constant threat of predation by public and private entities has destined millions of people to live in squalor and poverty.

Economist Hernando de Soto has stressed the vital importance of recognized private property rights for unleashing the entrepreneurial talents of the poor throughout the less developed world.<sup>30</sup> In the former communist countries, where less than one percent of the agricultural land was held in private plots, these private plots outperformed the collective farms.<sup>31</sup> It is not the redistribution of wealth, but rather, the strengthening of economic freedom and private property rights within the countries of the less developed world that will lift people out of poverty.

### **American Renewal**

In the United States, where we have always benefited from private property and free enterprise, our biggest threat to continued prosperity lies in the slow erosion of the respect for private property by government through taxation and regulation.<sup>32</sup> Throughout the world and throughout history, the less regulatory the state, the more prosperous.

John Adams stated, “The moment the idea is admitted into society that property is not as sacred as the laws of God, and that there is not a force of law and public justice to protect it, anarchy and tyranny commence.” He also stated, “Property must be secured, or liberty cannot exist.”<sup>33</sup>

Fifty-eight percent of millennials would prefer to live in a socialist, communist, or fascist nation, rather than a capitalist one, according to a 2017 YouGov study.<sup>34</sup> Overall, 59 percent of all respondents would prefer to live in a capitalist nation. Millennials now make up the largest generation in America. It is easy to say one prefers to live in a socialist nation, while enjoying and living in the benefits afforded by a capitalist nation. The people starving for food in Venezuela, Cuba, and North Korea, likely would not share the views expressed by America’s Millennials.

Most of the infringement on private property rights by progressives stems from the belief that something is so morally right that they must impose this belief on others, such as environmentalism or redistribution, and that they must force the rest of America to value what they value, through the use of coercive power and control.

“Of all tyrannies, a tyranny sincerely exercised for the good of its victims may be the most oppressive.” – C.S. Lewis.<sup>35</sup>

“Necessity is the plea for every infringement of human freedom. It is the argument of tyrants.” – William Pitt, British statesman.<sup>36</sup>

Nobel Laureate economist Ronald Coase, critiquing an intellectual progressive leader, pointed out that many of the ‘externality’ problems used to demonstrate the pervasive nature of ‘market failures’ were the result – not of market failure – but rather of court or legislative action. When, environmental values forced their way into the national consciousness, most were unaware that rather than markets failing, we had failed to allow markets to evolve.<sup>37</sup>

The progressives ignored the newly developing voluntary environmental organizations – groups that were already working to protect wildlife or scenic areas.<sup>38</sup> These groups held values largely

unappreciated at the time, but they were already illustrating the ways in which ecological values might be advanced absent the government.

More efficient use of land, materials, and energy lightens humanity's impact on the planet, yet economic efficiency without economic freedom is impossible. The record is clear – the freer the market, the more dramatic are environmental improvements. Resources that are owned are more respectfully treated. For example, in the reunified Germany when the Berlin Wall came down, it was not the more affluent and consumptive West Germany, but rather communist East Germany that faced a crisis of pollution.

Private landowners can exercise collective self-control. History is filled with examples of private associations and agreements to act collectively for the common good. Much common good could be accomplished by voluntary association without the heavy hand of government bureaucrats or corruptible politicians.<sup>39</sup>

Like Venezuela, America needs to abandon socialism, interventionism, and redistribution, and strengthen private property rights and free market institutions.

Nobel Laureate economist Robert Mundell writes that the less people are forced to contend with meddling by governments and the more they are allowed to plan securely and keep the proceeds of their own work, the more innovative and productive they will become, and the more prosperous the world will be.<sup>40</sup>

The enduring American principles of inalienable God-given rights, property, the rule of law, freedom to make one's own way without undue interference, and the ability to hand down things to one's children and grandchildren, will continue to serve America and restore America's prosperity and social harmony.<sup>41</sup>

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<sup>1</sup> *The Heritage Foundation*, "2012 Index of Economic Freedom," <https://www.heritage.org/index>.

<sup>2</sup> *Forbes*, "Are Property Rights Human Rights?," February 18, 2013, <https://www.forbes.com/sites/davidmarotta/2013/02/18/are-property-rights-human-rights/#201ae2cb3c21>.

<sup>3</sup> *Adam Smith Institute*, "The Wealth of Nations," <https://www.adamsmith.org/the-wealth-of-nations>.

<sup>4</sup> Julian L. Simon, "The Ultimate Resource 2," October 14, 1996, *Princeton University Press*, [http://www.juliansimon.com/writings/Ultimate\\_Resource](http://www.juliansimon.com/writings/Ultimate_Resource).

<sup>5</sup> Peter Boettke, Ph.D., *Virginia Institute*, "The Role of Private Property in a Free Society," April 2005, [http://www.virginia institute.org/viewpoint/2005\\_04\\_2.html](http://www.virginia institute.org/viewpoint/2005_04_2.html).

<sup>6</sup> *Ibid.*

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<sup>7</sup> James Madison, “Property,” *The University of Chicago*, The Founders’ Constitution, Chapter 16, Document 23, March 29, 1792, Papers 14:266—68, <http://press-pubs.uchicago.edu/founders/documents/v1ch16s23.html>.

<sup>8</sup> Frédéric Bastiat, “The Law,” *Bastiat.org*, [http://bastiat.org/en/the\\_law.html](http://bastiat.org/en/the_law.html).

<sup>9</sup> James Madison, “Property.”

<sup>10</sup> Thomas Jefferson, “First Inaugural Address,” March 4, 1801, <http://www.presidency.ucsb.edu/ws/index.php?pid=25804>.

<sup>11</sup> William Bradford, “Of Plymouth Plantation,” 1623, *Early Americas Digital Archive*, <http://eada.lib.umd.edu/text-entries/of-plymouth-plantation>.

<sup>12</sup> *Ibid.*

<sup>13</sup> George Santayana, “The Life of Reason,” 1905-1906, *Project Gutenberg*, [http://www.gutenberg.org/ebooks/15000?msg=welcome\\_stranger](http://www.gutenberg.org/ebooks/15000?msg=welcome_stranger).

<sup>14</sup> *Forbes*, “Venezuela's Failed Socialist Experiment,” July 24, 2016, <https://www.forbes.com/sites/ivonaiacob/2016/07/24/venezuelas-failed-socialist-experiment/#9161b5f41ddb>.

<sup>15</sup> *Investor's Business Daily*, “What Caused Venezuela’s Collapse Is No Mystery – Except To Economically Illiterate Journalists,” May 4, 2017, <https://www.investors.com/politics/editorials/what-caused-venezuelas-collapse-is-no-mystery-except-to-economically-illiterate-journalists>.

<sup>16</sup> *The Heritage Foundation*, 2022 Index of Economic Freedom.

<sup>17</sup> *StarTribune*, “Venezuela, once South America's richest country, continues to spiral,” January 30, 2017, <http://www.startribune.com/venezuela-once-south-america-s-richest-country-continues-to-spiral/412209203>.

<sup>18</sup> *Investor's Business Daily*, What Caused Venezuela’s Collapse.

<sup>19</sup> *AFP*, “Venezuela’s hyperinflation at new dizzying high,” June 11, 2018, <https://www.yahoo.com/news/venezuelas-hyperinflation-dizzying-high-210340144.html>.

<sup>20</sup> Theodore Cangero, “Venezuela: Socialism, Hyperinflation, and Economic Collapse,” *American Institute for Economic Research*, March 1, 2017, <https://www.aier.org/research/venezuela-socialism-hyperinflation-and-economic-collapse>.

<sup>21</sup> *Independent*, “How Venezuela went from the richest economy in South America to the brink of financial ruin,” May 21, 2017, [http://www.independent.co.uk/news/long\\_reads/how-venezuela-went-from-the-richest-economy-in-south-america-to-the-brink-of-financial-ruin-a7740616.html](http://www.independent.co.uk/news/long_reads/how-venezuela-went-from-the-richest-economy-in-south-america-to-the-brink-of-financial-ruin-a7740616.html).

<sup>22</sup> *The Wall Street Journal*, “Venezuelans Flood Into Colombian City to Buy Food and Medicine,” July 17, 2016, <https://www.wsj.com/articles/venezuelans-flood-into-colombian-city-to-buy-food-and-medicine-1468780323>.

<sup>23</sup> *Reuters*, “Venezuelans flood Brazil border in 36-hour grocery run,” August 10, 2016, <https://uk.reuters.com/article/uk-venezuela-brazil/venezuelans-flood-brazil-border-in-36-hour-grocery-run-idUKKCN10L1KE>.

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<sup>25</sup> *The Washington Post*, “A historic exodus is leaving Venezuela without teachers, doctors and electricians,” June 3, 2018, [https://www.washingtonpost.com/world/the\\_americas/a-historic-exodus-is-leaving-venezuela-without-teachers-doctors-and-electricians/2018/06/03/8c6587a8-62d7-11e8-81ca-bb14593aaa6\\_story.html?noredirect=on&utm\\_term=.ef421ae98051](https://www.washingtonpost.com/world/the_americas/a-historic-exodus-is-leaving-venezuela-without-teachers-doctors-and-electricians/2018/06/03/8c6587a8-62d7-11e8-81ca-bb14593aaa6_story.html?noredirect=on&utm_term=.ef421ae98051).

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- <sup>30</sup> Peter Boettke, Ph.D., *Virginia Institute*, The Role of Private Property.
- <sup>31</sup> Ibid.
- <sup>32</sup> Ibid.
- <sup>33</sup> John Adams, “The Works of John Adams, Second President of the United States,” Online Library of Liberty, <http://oll.libertyfund.org/titles/adams-the-works-of-john-adams-10-vols>.
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