The Social Role of Private Property Rights

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Private property rights are the rights of a person to use his property in whatever way he chooses providing that he doesn't use force or fraud on any other person. One of the first economists to emphasize the importance of property rights was the Austrian economist Carl Menger. Writing in 1871, Menger noted that for most goods the quantities available were insufficient to meet everyone's needs. Potentially every consumer's interest was opposed to that of every other consumer's in the struggle to obtain some of the scarce goods:

> ...with this opposition of interest, it becomes necessary for society to protect the various individuals in the possession of goods subject to this relationship against all possible acts of force. In this way, then, we arrive at the economic origin of our present legal order, and especially of the so-called protection of ownership, the basis of property...Property, therefore, like human economy, is not an arbitrary invention but rather the only practically possible solution of the problem that is, in the nature of things, imposed upon us by the disparity between requirements for, and available quantities of, all economic goods.1

Private property rights, then, are a social institution which tends to bring about peace and harmony in a society of free people. In fact, they are one of the main foundations of a free society. There can be no personal or political freedom without freedom in the use of one's property. Limiting one type of freedom limits all freedoms. But the social role of private property rights extends far beyond this. From the early 19th century to well past the middle of this century, Americans had the highest and fastest growing incomes in the world. The major factor behind this rising standard of living was their secure property rights.

Frequently it is suggested that the reason for this rapid growth was not Americans' property rights, but the fact that the United States was more technologically advanced than other nations. However, technological knowledge tends to flow easily between countries.

Consider, for example, Britain's failure to prevent the spread of the technical knowledge needed to mass produce cotton textiles. In 1789 Samuel Slater, a mechanic, immigrated to the United States with such knowledge, and with the capital of Moses Brown and William Almy began cotton textile production using British innovations. In 1810 a Boston merchant, Francis Lowell, observed British textile machinery on a trip through England. He memorized the designs and upon his return to the United States had a mechanic, Paul Moody, construct machinery from the plans he had put to memory. Moody improved upon these designs, and the Boston Manufacturing Company, the first of the great American textile producers, was established in 1813. By 1850 the United States had become a leading cotton textile producer.

Or consider the late 19th-century steel industry. The technology developed to produce steel was no secret from producers in other countries. But the United States came so to dominate steel production that it produced more steel than the rest of the world combined. Andrew Carnegie, a Scottish immigrant, willingly tore down old steel plants to build ones incorporating the latest technology because he was secure in the knowledge that they were his property. By the end of the 19th century the Carnegie Steel Company was the largest in the world.

The Impetus to Invest

The existence of secure property rights and laws of contract provided the impetus for these and other Americans to work, create, and invest. Jonathan Hughes has written, "People were willing to make extreme sacrifices to acquire property rights, to engage in undertakings with distant pay-offs--from clearing lands to building steel mills--in the hope of personal or family gain from property ownership." As Hughes has noted the framers of the Constitution considered private contracts so important that they were given precedence over the legislative powers of the states. (It should be noted that the Supreme Court reversed this in the 1930s when it abrogated all gold clauses in contracts in order to allow the federal government to make it illegal for citizens to own gold coins and/or bullion.)

The American system of secure private property rights has given the United States greater social stability than that of most other countries. The one great struggle in the United States, the Civil War, was fundamentally due to the perception by Southerners that their "property rights" in black slaves were threatened. Of course, Southern slave holders had these "rights" only because they used the power of government to crush the blacks; rights to self-ownership.

In many countries labor unions became vehicles to promote social changes either through the political process or through revolution. Though there were always a few such groups in the United States, such as the Associationists of the 1840s, the Marxian Socialists, Lassallean Socialists, and Anarchists of the post-bellum era, and the Industrial Workers of the World after 1905, these were always minor or fringe groups.

The dominant labor unions of the late 19th and 20th centuries, the National Labor Union, the Knights of Labor, and the American Federation of Labor, generally rejected radicalism. They chose an economic agenda of improving the wages and working conditions of their members rather than becoming a political party with political objectives.

The basic reason for this was that the workers themselves were property owners with an interest in maintaining society and the existing rights to property. They had reasonable expectations of accumulating additional property. Political agendas which argued for the alteration or destruction of private property rights and contracts were correctly seen as being against the interests of most workers.

In a mobile, growing society, private property rights and laws of contract become what Hughes calls the "social bond" bringing peace and stability. Much of the unparalleled growth, prosperity, and freedom which the citizens of the United States have enjoyed for more than 200 years is due to the existence of secure private property rights and laws of contract.

1.Carl Menger, *Principles of Economics*, translation of 1871 edition by James Dingwall and Bert F. Hoselitz (New York: New York University Press, 1981), p.97
2. Jonathan Hughes, *American Economic History*, 2nd edition (Glenview, IL: Scott, Foresman, and Co., 1987), pp. 577-78

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