REJOINDER TO BOETTKE ON COASEAN ECONOMICS AND COMMUNISM

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Abstract

In the view of Boettke (1998), Coase (1960) casts lights of understanding in a myriad of fields, including, preeminently, property rights theory and the Soviet system of economics. The claim of the present author, in sharp contrast, is that this seminal article of Coase’s is a snare and a delusion. It has led economists down a mistaken path for lo this past half century, and Boettke (1998) is but one more unfortunate example of this.

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I. Introduction

There are valuable lessons to be learned from Boettke (1998). We gain knowledge of all the subjects he touches upon, as would be expected from the writings of an expert in all these disparate fields. For example, Coasean economics, the economics of the Soviet Union, the transition of such an economy to one based more on private property and decentralization. However, this is not a perfect paper, none is. The present essay is an attempt to correct some of the errors in it. Perhaps in this way our economic understanding can be developed to an even greater degree than his publication, on its own, provides.

What then are the mistakes in this paper? We cover them under the following rubrics: II. Socialism, III. The firm, IV. Praxeology, methodology, tautology, V. Suppression; VI. Coase and property rights, VII. Manager vs entrepreneur, VIII. Rent seeking; IX. Collective property, X. Transformation, XI. The fetish of transactions costs, XII. The Federal Communications Commission, XIII. Security of property rights; we conclude in section XIV.

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II. Socialism

Boettke (1998, 193) starts off on the wrong foot. He claims that Coase’s youthful disposition toward socialism was “dispelled by his understanding of economic processes.” Not so, I contend. Coase’s entire intellectual career can be best understood as a support for socialism, not a renunciation of it. Well, that is not quite accurate. Better to say, Coase’s oeuvre functions to undermine the basic foundation of one of socialism’s main competitors, laissez faire capitalism. Which bulwark? Private property rights, of course.1

III. The firm

Boettke’s (1998, 193) next error also occurs on the very first page of his essay. He asks: “If the market is so efficient and powerful in organizing our affairs, then why were there business organizations?” But this bespeaks a profound misunderstanding of markets and/or business organizations, or both. The point is, business firms, too, are part of the market. Boettke is here of course referring to Coase’s (1937, 387) famous “buttermilk” simile: “As D. H. Robertson points out, we find ‘islands of conscious power in this ocean of unconscious co-operation like lumps of butter coagulating in a pail of buttermilk.” The economy is like buttermilk: the globs represent firms, within which non market transactions, or orders without monetary exchange, take place, and the non-“globby” parts stand for interactions between different businesses, where such monetary transactions do occur.

But this is a distinction without (much of) a difference, as far as Boettke’s reliance on Coase is concerned. That is, Coase is of course correct in pointing out that within firms there are no financial transactions, and that between them, there are.2 But, neither is entitled to claim that business firms are not part of the market. Under free enterprise, “market” transactions take place every bit as much within firms as between them. Both occur, in both cases. Yes, there are short term contracts between companies: a restaurant purchases butter from a grocer. But there are also long term arrangements in such cases: the grocer can deliver the butter to the restaurant on a five year fixed term contract. Thus, there is no transfer of funds accompanying each and every delivery. And, similarly, within firms. There can be extremely lengthy contracts, as when the employees of a fishing boat are paid off only after the long voyage is completed. And there are relatively short ones, where the worker is paid weekly or even daily. The most extreme case in this direction is piece work: the employee is compensated each and every time he completes a task in


2 See, also, Hart, 2008, Klein, 1996, on this.
some cases, although, to be sure, in some cases, he is paid only at the end of the day. But, if the task takes an entire eight hour shift, there is no difference.

Do not be fooled by Coase’s (1937) emphasis on orders being given within firms, but not between them. Yes, the foreman “orders” the worker to tote that barge or lift that bale, but in terms of Kantian terminology, this is a hypothetical imperative, not a categorical one. No matter what that is actually being said might well be “Hey, Jones, lift that bale, etc.” and this sounds like an order, it really is not. There is a hidden clause buried inside this so called order. It is, “if you want to be paid,” then tote that barge, etc. But the “orders” that arise within the firm are precisely the same as those that transcend companies. When Hertz “orders” a car from Toyota it is in precisely the same manner as in which the rental company “orders” an employee to serve a car rental customer: “If you want to be paid, do so and so.”

The latter statement is ubiquitous, both within and outside of, the bits of buttermilk that comprise the business enterprise. That is, the hypothetical imperative statement, “If you want to be paid, do so and so” operates both within the company and between firms. Coase’s distinction is one without (much of) a difference. Yes, of course, there is indeed a distinction to be drawn between inter and intra firm contracts, but it is not the Coasean one. Rather, it concerns residual income claimancy status. The owner of each company is the residual income claimant of his own firm’s interactions, and not of any other firm’s, or individuals’.

For Coase, what occurs within the firm is orders from managers to workers, not markets. Buying and selling takes place only between companies. But, this is not so. Within some big businesses, divisions buy and sell to and from each other. They are free to patronize vendors completely outside of their own corporations, if they can get a better deal externally than internally.

There are also freebies. McDonalds gives out “free” straws, napkins, bathroom service, ketchup, air conditioning, etc., even to those who make no purchases. This, then, furnishes another counterexample to the thesis that between firms (or, in this case, between a company and individual customers) all interactions are those of buying and selling. Then, too, there are such things as smorgasbords and buffets. Here, no charge is made by companies for specific foodstuffs consumed. Instead, in the latter two cases there is one price paid, and then the consumer may help himself to what he wishes. These are all dealings not within a business, but between it and others.

Thus, Coase and Boettke notwithstanding, the difference between firms and non firms is not non markets versus markets. There are no market interactions when corporations offer freebies, and there are markets (purchases and sales), even within firms, as when divisions within a single company buy and sell to and from each other. No. The boundary between firms is that the owner of each is a separate residual income claimant of the actions of his own company, and not of any of the

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3 Note, I do not say GM or Chrysler; those firms no longer exist as part of the market.
Does all this amount to no more than a verbal dispute? This objection might be couched in these terms: Coase is choosing to characterize what occurs within market based firms as “non market,” and I am insisting that what takes place within a company is every bit as much “market” as are interactions between firms. I think not; I think there are substantive differences, insofar as sometime inter-firm activities take place without the intermediation of the monetary nexus, and there are counter examples, too, in the other direction: intra-firm purchases and sales. But, even if this were only a dispute over words, still, it behooves intellectuals to use words carefully.5

An anonymous critic of an earlier draft of this paper writes as follows:

“Re your Section III: I think you are misreading Coase (1937) here…. When Coase distinguishes ‘firm’ and ‘market’ he does not mean to imply, as you suggest he does, that ‘firms are not part of the market.’ He is simply distinguishing inter-firm from intra-firm market activity. By ‘market’ in this context he does not mean the market system as a whole, but specific market transactions, as one would distinguish a firm from a network of independent contractors. When we say ‘firm X has decided to produce its own widgets instead of (out)sourcing them on the market,’ we do not mean that in doing so, firm X is somehow not part of the market system We simply mean that firm X is not going to the spot market for that particular transaction. In short, I think you putting words into Coase’s mouth, so to speak. If you want to argue that Coase really does mean that firms are not part of the market as a whole, you’d better find some textual evidence in Coase to support that. (The same applies to your discussion of “suppression” in section V. I don’t think Coase … believe(s) that the firm ‘suppresses’ the market in the literal sense.)

Moreover, I think you also misunderstand Coase’s idea of managerial fiat. Again, he would not deny that when a manager ‘orders’ a worker to do something, the manager is implying ‘if you want to get paid.’ Coase is simply distinguishing among two categories of voluntary transaction: the simple, one-time, spot exchange, and the employment relationship, a more complicated type of exchange in which A agrees to do what B wants him to do, subject to certain restrictions, for a given period of time in exchange for a given payment. By managerial fiat Coase simply means that A and B do not sit down at the bargaining table every time there is a specific activity to be performed. Rather, if A has signed an employment contract with B, he agrees to let B decide what specific activities he will do each day, in

4 It behooves us to define “market” at this point. It needs to be defined sans any relationship to money, as there are market transactions in a barter economy. The definition is in terms of voluntary exchanges, and also without mention of mutual exchange in that a donation is a market transaction. As such, “markets” occur both within firms, and between them, Coase to the contrary notwithstanding. In contrast, a non market activity is one where one of the two parties to a “transaction” is coerced by the other. One would think that this elementary and crucially important distinction should be pellucid. But, as Coase (1974) demonstrates in his work on the lighthouse, this is beyond him. See fn. 7, below, for more on this.

5 For more on this point, see section VII below.
exchange for the hourly or daily or monthly wage. In short, you devote quite a few paragraphs to critiquing a position that nobody holds (and, again, without citations to specific texts to back up your interpretation).

About this, a few words. First, note how this critic goes from “Coase” to “we” in the first of the two above quoted paragraphs. This critic, in my opinion, is reading Coase (1937) far too sympathetically. The “we” parts of this paragraph are sensible; indeed, very sensible. The trouble with this interpretation, though, is that the “we” is really the critic, giving his own quite reasonable interpretation, not of what Coase actually said, but, what he should have written, were Coase’s analysis to rise to the level of my critic’s.

Second, my critic is certainly correct in claiming that my original draft did not contain the “textual evidence” to support my interpretation. I now move to make good this initial omission of mine.

Consider, then, the following, from Coase (1937, material in brackets and emphasis added by present author):

“If a workman moves from department Y to department X, he does not go because of a change in relative prices, but because he is ordered to do so. Those who object to economic planning on the grounds that the problem is solved by price movements can be answered by pointing out that there is planning within our economic system which is quite different from the individual planning mentioned above and which is akin to what is normally called (socialist) economic planning.”

Note the “quite different.” Coase, here, at least as I interpret him, is saying that the “individual planning mentioned above,” that is, the kind that occurs within the firm, is “akin” to socialist central planning.

Now consider this gem, also from Coase (1937, emphasis added by present author):

“Why are there these ‘islands of conscious power’? Outside the firm, price movements direct production, which is coordinated through a series of exchange transactions on the market. Within a firm, these markets transactions are eliminated and in place of the complicated market structure with exchange transactions is substituted the entrepreneur-co-ordinator, who directs production.”

It seems pretty clear that for Coase (1937) what goes on in the bowels of the firm is not part of the market. “Within a firm, these markets transactions are eliminated” seems definitive in establishing this claim. Were this not so, why oh why are market transactions eliminated within the firm. Why are not these a different kind of market transaction that occur when a man is transferred from one department to another? Why not? Because Coase’s understanding of what a market is, is very different from that of my critic. I go so far as to say that not only is Coase’s comprehension of free enterprise sharply divergent from my critic’s, but that Coase’s is erroneous.6

6 This failure of Coase’s to distinguish market from non market activity carries through in his work on the lighthouse. See Coase (1974). For a demonstration that in this context Coase is unable to discern
IV. Praxeology, methodology, tautology

In the view of Boettke (1998, 194-195):

“throughout his career Coase represented a style of economic reasoning which could be termed ‘economic minimalism.’ Simple economic concepts – some could be termed mere tautologies – are deployed to offer insights which are of great empirical significance. They may be tautologies, but there was nothing ‘mere’ about them. These theoretical conceptions come mainly as ‘limit theorems’ in that they demonstrate the pure logic of a situation as the starting point of the analysis. In other words, they establish what the world is not so that we get on with the task of explain (sic) the world as it is. In a world of zero transactions costs, for example, firms would not be necessary as all economic activity could be coordinated through the market.”

This is a curious way to put matters, particularly for an economist who characterizes himself as an “Austrian,” as Boettke does. First of all, tautologies confer no information about the real world at all. Rather, they ‘merely’ signify how we have agreed to use language. For example, “all bachelors are unmarried men” is a tautology. In defines a “bachelor” as an unmarried man. This is of course useful for a person interested in learning how to speak the English language, but certainly is not of “empirical significance,” certainly not of “great” empirical significance, as Boettke contends. Of course, this author cannot be read to say that all tautologies are of empirical significance, much less great empirical significance. My quarrel with him, rather, concerns the fact that the non “mere tautologies” in the Austrian tradition refer to praxeological statements, and Boettke steadfastly refuses to employ this nomenclature. It is as if a Christian were to choose not to employ the name of his Savior, Jesus Christ, while still proclaiming his Christianity. Not necessarily a logical flaw, but, still, at least more than passing “curious.”

In contrast, synthetic apriori statements seem to be what Boettke has in mind when he remarks on the ability of theoretical considerations to shed great light on the empirical reality of economics. Curiously, Boettke does not so much as mention praxeology, which is the science of employing synthetic apriori insights to help us understand economic realities. One would have thought that since praxeology is the essence of Austrianism, and Boettke characterizes himself as a member of this school of thought, that this would have been his preferred way of proceeding. But ‘twas not to be, which calls into question his Austrian or praxeological credentials.

the difference between the two, see Barnett and Block, (2007, 2009), Bertrand (2006). For the argument that Coase, in general, is an opponent of free enterprise, not a supporter, see Barnett, Block and Callahan (2005).

The essence of what Boettke is saying is that Coase, shorn of Boettke’s imprecise language\(^8\) is a praxeological or Austrian economist. Nothing, however, could be further from the truth. Rather, Coase is squarely within the neoclassical empiricist logical positivist camp (Wang, 2003; Hoppe, 1994a).

V. Suppression

Either Boettke is very, very, very careless with language or he, for some reason best known to himself, declines to distinguish between the operation of soviet style socialism and free enterprise. Consider the following statements of his (1998, 196, emphasis added):

A: “The very existence of business organizations implies that the transactions associated with market coordination are positive, and thus suppression of atomistic competition was beneficial.”

B: “… the organizational costs of hierarchy (and the suppression of markets) possesses costs that must be accounted for and place limits of the growth of hierarchy.”

C: “The motivating ideology of the Russian revolution was a form of Marxism which stressed that …. abolition of all vestiges of the market economy and the complete substitution of production for direct use through a unified plan, for a social system based on production for profit. Such a project ran afoul in practice due to the difficulties associated with attempting to suppress markets completely.”

The first two quotes, A and B, apply to the market system, if I read them correctly.\(^9\) The key, here, is this author’s use of the word “suppress.” That free enterprise “suppresses” explicit buying and selling, in favor of intra firm orders due to the zero transactions costs assumption would appear to be a curious way to express the matter. After all, when firm X outcompetes firm Y, and drives the latter into bankruptcy, this is due to X’s ability to satisfy consumers, suppliers, investors, etc., to a sufficient degree so as to spell the economic demise of Y. But, there is no “suppression” going on here, unless X resorts to extra market activities, for example, has prevailed upon the political authorities to give it a competitive advantage denied to Y.\(^10\)

Were this all there were to the matter, we would pass this by with little or no comment, attributing this logical lapse to something akin to a typographical error. However, two facts militated against so facile an interpretation. One, Boettke uses this curious expression, “suppression,” to describe the operation of the free market not once (A) but a second time too, (B). Secondly, this author also employs the phrase to describe the operation of the Soviet economy (C). But while it full well

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\(^8\) “Mere” tautologies indeed.

\(^9\) I say this since, I confess, I am having no small difficulty in understanding what he is saying in these two cases.

applies literally in the latter case, it does not at all pertain to either of the former two cases. In the USSR, markets were indeed “suppressed,” and with a vengeance. But to characterize a free market economy in the same way is surely ludicrous.

One of the most basic elements in all of political economy is to distinguish, on the one hand, between free enterprise, where economic freedom holds sway, and interaction is voluntary, and, on the other hand, the operation of hampered economic interaction, severely regulated as in the case of the USSR, where laissez faire capitalism is brutally forbidden. To characterize both such phenomena as “suppression” all too eloquently bespeaks a failure to make this vital distinction.11

VI. Coase and property rights

In the view of Boettke (1998, 197), “A Coasean perspective leads one to look for the underlying property rights arrangement within the actual organizational structure of an economy.”

I take a different position on this matter. This is not the time nor place for a full bore investigation of how deeply and seriously the Coasean system is a deviation from one based on private property rights.12 Suffice it at this point to briefly review the justification of this claim.

For Coase (1960), there are two possible states of the world, one, featuring zero transactions costs, and the second, the real world, with positive transactions costs. In the former case, if there is a dispute over property rights, in Coase’s view, as far as the allocation of resources is concerned, it does not matter to whom the court awards the rights in contention. If the judge rules in favor of the person who values it more, he will keep it. If to the one who values it less, the other will compensate him to transfer title.14 It costs nothing to arrange for this financial interaction, under the zero transaction costs assumption.

In the latter more realistic case, if the transactions costs are sufficiently high, as they are in many, if not most, cases it does matter to whom the judge makes the award, because the high transactions costs would preclude the rearrangement of property titles after the judicial decision is made. And what, pray tell, is Coase’s advice to the judge in such a case? It is to give the nod to the person who more highly values the disputed property in question; to the one, that is, who, in the zero transaction cost scenario, would have ended up with the property.15

11 Coase’s failure to distinguish a voluntary payment, which is part and parcel of the market system, from a compulsory tax levy, an accoutrement of the state, is most obvious in his work on the lighthouse. See on this supra, fn. 7.
12 See fn. 1, supra.
13 But not the wealth of the two contending parties
14 For a critique of this contention, see Block, 1977.
15 If Bill Gates and I are having a dispute as to the ownership of the dog that has been in my house lo these many years, I am in trouble. If the court thinks that in the zero transactions cost world Gates would have been willing to pay more for this canine than I, and I would scarcely dispute this, then he
What of Boettke’s claim? Does the Coasean “perspective” pass muster as a property rights system at all, let alone demonstrate that “A Coasean perspective leads one to look for the underlying property rights arrangement...?” It does not. If Bill Gates and I are having a dispute as to the ownership of the dog that has been in my house for these many years, that I purchased as a puppy, I am in trouble. If the court thinks that in the zero transactions cost world Gates would have been willing to pay more for this canine than I, and I would scarcely dispute this, then he can take my pet away from me even though I bought it, I brought it up since it was a pup, etc. This is not exactly justice in action. It is difficult to see how Boettke, as a libertarian, can acquiesce in any such unjust judicial decision. It is difficult to see how Boettke, as an economist, let alone a member of the Austrian School, can acquiesce in any such inefficient\textsuperscript{16} judicial decision. For, with this Coasean rule the law of the land, it would pretty much put paid to the institution of private property rights, and, with it, the generation of wealth.

Moreover, relative prices are constantly changing. In a dispute between the owner of wandering cows, and the proprietor of a neighboring cornfield, at \( t_1 \), the judicial nod, under the Coasean system, may go to the farmer. But, at \( t_2 \), with the relative prices of corn/meat moving in the direction of the latter, a Coasean judge would support the “property rights” of the cattleman. A property rights system? No. More like the total abnegation of property rights.

Boettke (1998, 198, material in brackets added by present author) very properly castigates “a world where formal [property] rules are absent or defined in an

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\textit{can take my pet away from me even though I bought it, I brought it up since it was a pup, etc. This is not exactly justice in action. Coase and Boettke would surely disagree with this analysis. They would say that this “rule” ought be applied \textit{only} when a title is in question. Coase and all of his supporters would argue that the title to the dog was never in question – I had the clear title, not Bill Gates. How, in such clear cut cases, much less in more murky ones, does one establish title so that it cannot be brought into serious question merely by the filing of a court suit; i.e., any decent court would immediately throw out the suit and assess court costs and defendant’s legal fees against such plaintiffs. One might argue that a title registered with some governmental agency –or in a better world, a private agency would serve the purpose. But that would mean that one would have to register title to everything they owned – a real way to increase transactions cost, thereby making it necessary to register title to everything. But this applies to “any decent court” in the real (non Coasean) world. In the Coasean world, in contrast, there is simply \textit{no} way to determine whether or not a title is in (legitimate) question. In this system, we look forward in time to determine property rights. They are defined in terms of least cost avoiders, or maximizing wealth. We do not look to the past, for homesteading, or any other such basis for property rights. The Coasean system is as a result vulnerable to all sorts of reductios ad absurdum. For example, in any rational world, either O.J. Simpson murdered his wife, and ought to be penalized to the full extent of the law, or, he is innocent of this crime, and ought to be freed. But, the Coasean vision provides us with a third option, a splendid reductio: O.J. did commit this horrendous crime, and yet \textit{still} ought to be freed. Why? Because in the zero transactions cost world, he would have purchased his wife into slavery (he values her more than she values herself). Therefore, O.J. is the proper owner of this woman. Thus, he has the \textit{right} to kill her. For more on this craziness see Block (1996).}
\end{quote}

\textsuperscript{16} Boettke is more than a self avowed Austrian. He is also a libertarian. Yet, it is a challenge to square this viewpoint of Coase’s with the libertarian philosophy.
“incoherent manner.” However, I go so far as to say that there is no more “incoherent” property rule than that which emanates from the Coasean system: it sees judges as veritable central planners, and property titles change in a helter-skelter manner, potentially with every alteration in relative prices, and every divergence in necessarily-subjective judicial determinations as to which complainant values property more than the other.

VII. Manager vs. entrepreneur

One of the (many, many) differences between the Austrian and the neo classical schools of economic thought is that the former places great weight on the entrepreneur, and the latter on the manager. The entire MR=MC analysis of the mainstream confers a manager’s eye view of the economy. Should Q be where it now is, or slightly more or slightly less, is a question confronting the manager of a plant. Whether the factory should be built or not in the first place, and if so, to produce exactly what, be located where, be of what size, is an issue that only the entrepreneur can deal with.

How does Boettke stand on this issue? Not too well. For a supposed Austrian, and a presumed admirer of Mises (1998) and Kirzner (1973), Boettke (1998, 197) takes a strangely neoclassical position. The Soviet problem, according to Boettke, was not that there were neither entrepreneurs nor private property rights but, rather, that the managers were not disciplined by the market. True, this author advocates that the managers become residual income claimants, an important step toward entrepreneurship. But doing so, merely, for extant managers leaves the entire system in place to a great degree. What about setting up new factories, entirely new industries? Residual income claimancy is part of the entrepreneurial role: it rids us of business failures. But, it neglects to address the positive: how do new factories, plants, firms, industries, arise in the first place?

VIII. Rent seeking

Boettke (1998, 198) also falls for the “Public Choice” malpractice of characterizing theft as “rent seeking.” This, too, confuses two very different ways of generating income. Through the market there are: rents, wages, profits, interest; via the political process there are: theft, booty seeking, obtaining monopolistic privileges, etc.

It cannot be denied that here Boettke and the present author are engaged, merely, in a verbal dispute. But, verbal disputes are not always so “mere.” First, in

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17 The latter of whom has made virtually an entire career out of emphasizing the importance of entrepreneurship vis-à-vis management. See also Klein, 1999.

18 He does not mention these; instead, in the last three sentences but one of Boettke (1998, 197) the word “managerial” or “manager” appears five times.
every case, it behooves a careful writer to use words accurately. Imprecision in language renders communication less effective than it would otherwise be. But, second, in this particular case, lack of precision is fraught with all sorts of dangers: a bias in the direction of statism, in that what the government is doing has nothing to do with “rent,” and everything to do with unjust enrichment by some at the expense of others. Why paper over this vital distinction? The task of the libertarian, one would have thought, is to highlight the distinction between market and non market activities. What is Boettke doing here?

IX. Collective property

According to Boettke (1998, 199) “The idea of collective property is incoherent.” This must be rejected as a vestige of Randoidism. For Ayn Rand, the idea of anything collective is anathema. But, we need not be unduly influenced, as perhaps Boettke is, by this prejudice. Not only is collective property not “incoherent” we find it all around us, and it plays a vital role in our economy. Every partnership, whether in business or in the home (marriage) every corporation, every condominium development, every housing co-op, every time share arrangement, is an instance of “collective property.” Nor is this form of ownership an “ambiguous arrangement” (Boettke, 1998, 199), as is state control, which is subject to legal whims, or Coasean “property” which is inherently unstable.

Why is this an important issue, one not merely a verbal dispute? This is because perhaps the most fundamental distinction in all of political economy is that between voluntary actions based on legitimate property rights, and those that are not so based, e.g., coercive ones.

According to Oppenheimer (1926, pp. 24–27):

“There are two fundamentally opposed means whereby man, requiring sustenance, is impelled to obtain the necessary means for satisfying his desires. These are work and robbery, one's own labor and the forcible appropriation of the labor of others. . . . I … call one's own labor and the … exchange of one's own labor for the labor of others, the ‘economic means’ for the satisfaction of need while the unrequited appropriation of the labor of others will be called the ‘political means.’ . . . The State is an organization of the political means.”

Only imprecision of language, something that seems to victimize Boettke from time to time, or philosophical confusion, could lead someone to fail to distinguish between collective property, a market phenomenon, and property that is under government control. It is imperative that the distinction between the political and economic be drawn. “Collective” property is not “incoherent.” If in the economic

19 It does not logically follow that if Boettke holds the same view of collective property as Rand, that his position derives from hers. Boettke might have come to this perspective in a different way. However, as a historian of economic thought, this is indeed my guess.

20 At least for those families operating with common property.
means, it denotes a partnership, or some other form of group ownership. If in the political means, the state owns it, and does with it as it wishes. In neither case is it “incoherent.”

X. Transformation

In the view of Boettke (1998, 199):

“The path from ‘here to there’ requires then not only an idea of the ‘there’ intended, but also the ‘here’ from which one is starting, before an appropriate strategy for the path can be determined. With regard to the question under examination (i.e., the transfer of ownership) the steps required for the divesture of property from some owners, the legitimization of property held by others, and the establishment of conditions for the attainment, use, transformation, capitalization, and transfer of assets for new owners are the focus of attention. The appropriate policy path is necessarily multi dimensional, and grounded in the previous historical pattern of ownership.”

Boettke (1998, 200) rejects an egalitarian division of property rights in the USSR for the post-communist society on several grounds, all of them specious.

First, “it fails to recognize the existing property rights structure in Soviet-type economies.” But why should we be guided by the “here” in terms of previous property rights? By stipulation, the old regime was an unjust one, and if, presumably, the goal of the transformation is to promote fairness, would we not be better off completely ignoring the status quo ante, except, perhaps, for incarcerating some of the more egregious rights violators?

To be sure, the usual libertarian perspective on reparations of property maintains that “possession is nine tenths of the law” and that therefore all extant property titles are considered just, and the burden of proof rests with those who would overturn them. But, surely, in a vast kleptocracy such as the USSR, this should

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21 The anti fractional-reserve banking system literature, to which I have contributed, makes the point that more than one person cannot have full title to the same good. I define “collective property” so as to exclude, inter alia, fractional-reserve deposits. For more on this see Bagus, 2003; Barnett and Block, 2005, 2008, forthcoming; Block, 2008; Block and Caplan, 2008; Block and Garschina, 1996; Block and Humphries, 2008; Block and Posner, 2008; Davidson, 2008; Hoppe, 1994b; Hoppe, Hulsmann and Block, 1998; Huerta de Soto, 1995, 1998, 2001, 2006; Hulsmann, 1996, 2000, 2002a, 2002b, 2003, 2008; Reisman, 1996; Rothbard, 1975; 1990, 1991, 1993

22 What were the “existing property rights?” My understanding was that virtually the only property rights individuals had was to some consumers’ goods. The nomenclatura, because of their positions of power in the state structure, had de facto titles to the various capital goods, including all real estate. Does Boettke mean that these “rights” should be recognized in the “here.” This would be difficult to reconcile with any notion whatever of libertarianism. I cannot believe this of him. And yet, he takes no pains to distinguish his own position from such a claim.

23 Perhaps I am speaking incautiously here. Maybe that is not the goal; perhaps it is some notion of Coasean efficiency. As a devotee of Coase’s, we cannot rule this out in the case of Boettke.

24 Alston and Block, 2007; Block, 2002; Block and Yeatts, 1999-2000
almost be turned on its head. That is, the limousines and dachas of the nomenclatura should be seized from them forthwith, at the very outset of the process. Membership in the middle and upper reaches of the Communist Party should, in the absence of proof to the contrary, render property owned by such people as null and void.

Second, Boettke (1998, 200) opposes adding up the “aggregate value of assets in the economy” and then dividing that number by the size of the population. He does so on the ground that “the proposal is caught in the following trap – it presupposes that we can assess the asset value of the economy, when in fact the purpose of creating the market in the first place is to find out the appropriate values of assets. In other words it presupposes what it hopes to attain.” But we not at all need know the asset value of that which is to be distributed in order to effectuate that division. If it is impossible to determine who are the rightful owners of state property, one possibility is to give everyone any reasonably large but equal number of tokens, and then hold an auction, in which people can bid these tokens for the various shares in the wealth of the country. An alternative is to divide the entire wealth of the nation – land, buildings, roads, factories, whatever – into, say, 50,000 corporations, and then give each citizen 1/n shares in each one of them, where n equals the entire population. If one simply gives away in such an equal manner all Soviet property to its citizenry, there is no need to presuppose knowledge of property values, contrary to Boettke.

Nor can I see my way clear to agreeing with Boettke’s (1998, 200) assessment that “If an accurate asset value was available to economic decision makers prior to marketization, then, in fact, there would be no need for marketization.” There are three main critiques of socialism in the calculation debate. Boettke does indeed mention the most important of these, the one stressed by Mises (1981): accurate asset evaluations, based upon market appraisement. But there are two others that go unmentioned. The dispersion of knowledge as stressed by Hayek (1945), and, also, the incentives issue. But we should not be too harsh on Boettke in this one instance. As Hoppe (1989A) explains the first of these encompasses the other two. As long as there is private property, markets will arise. And with markets comes prices, which provide not only information, but incentives too.

However, the main reason to disagree with Boettke on this point is with his “If…then….” With his “if” he assumes a logical impossibility, much as positing a square circle. The key point of Mises (1981) was that you can’t have accurate asset values absent private property in capital goods. Boettke’s statement would have been

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25 My presumption is that membership in the lower orders was occupied by victims, not victimizers.
26 We are here assuming the justice and reasonableness of dividing the assets of the USSR equally among its population, strictly for the sake of argument.
27 Minus, of course, those guilty of imposing communism on the remainder of the populace; they would, in the just society, be in jail, paying off their debts.
28 See also Salerno, 1990, 1995
29 However, he offers no cites to this literature.
correct had he said, instead: “If an accurate asset value was available to economic decision makers, then, in fact, there would be markets.”

XI. The fetish of transactions costs

Thanks to Coase (1960) transactions costs have been imbued with portent that would seem to be, in the vast majority of cases, far greater that warranted by reality. Transactions costs have “outcompeted” other cost considerations such as resource costs indeed, virtually all alternative costs. Boettke falls into this trap. He (1998, 201) goes so far as to say: “Absent transactions costs and neither the business firm nor the law would be important components of everyday economic life.”

This is highly problematic, at least insofar as the law is concerned. Even Coase himself would not agree with this misunderstanding of his views. Remember, for Coase, in the zero transactions cost world it does not matter for resource allocation what the law says; who the law will force to build the fence to stop the wandering cows; or who will be legally responsible, the railroad or the farmer, for the flying sparks, etc. But as far as wealth effects are concerned, the judicial decision is of great moment. Will the cattleman have to bribe the corn grower, or the reverse? Will the railroad be forced to install the smoke prevention device, and if so, who will pay for it? These are matters of importance for the wealth position of the contending parties. So, to say that “absent transactions costs” the law would not be important is to turn Coase on his head, surely not Boettke’s intention, given his otherwise hagiographic treatment of Coase. It is to say, in effect, that one’s wealth position would not be among the “important components of everyday economic life.”

30 Rothbard (1982) states: “The love of the farmer for his orchard is part of a larger difficulty for the Coase-Demsetz doctrine: Costs are purely subjective and not measurable in monetary terms. Coase and Demsetz have a proviso in their indifference thesis that all ‘transaction costs’ be zero. If they are not, then they advocate allocating the property rights to whichever route entails minimum social transaction costs. But once we understand that costs are subjective to each individual and therefore unmeasurable, we see that costs cannot be added up. But if all costs, including transaction costs, cannot be added, then there is no such thing as ‘social transaction costs,’ and they cannot be compared…”

31 For a critique of this point, see Block, 1977. The argument here is that the ability to make a bribe, the wealth necessary to do so, is an entirely different issue than which contending party will end up owning the disputed resource, and that this is ignored by Coase. That is, there are not one but two phenomena that might be characterized as “wealth effects” in play, and that Coase ignores one of them.

32 Firms would still arise absent transactions costs, because different people have different attitudes to uncertainty, and thus to a willingness to be a residual claimant, save that in extremis (of the firm) everyone, even labor, may become a residual claimant.
XII. The Federal Communications Commission

Next, we consider Boettke’s (1998, 201) views on the Federal Communications Commission (FCC). Here, our author takes the position that the Coase theorem explains airwave problems in terms of the “failure to assign broadcast rights.” But this is erroneous. The (1960) Coase theorem is unjustly famous not for its insistence that property rights be assigned; rather, it is infamous for insisting, at least under zero transactions costs conditions, that (as far as resource allocation is concerned) it matters not one whit how they are allocated by law or courts. No matter which way, they will end up in the hands of the person who values them more. If they are given to this person initially, by judicial decision, he will keep them. If they are awarded to his legal opponent, he will purchase them from him.

Yes, Coase (1959), not Coase (1960) does indeed come out in favor of what may best be characterized as traditional property rights in the airwaves; he opposed the alternative FCC regulatory institution, insisting that property rights, traditional ones, that is, not Coasean (1960) ones, could indeed function in this arena, and would be more efficient than government control. The point here is that there is all the world of difference between the main burden of Coase (1959), and that of Coase (1960). The latter articulates the Coase theorem, the former is mainly concerned with applying traditional property rights to an area that previously had not benefited from them, radio and television. Yes, there is a complication that Coase (1959) was historically Coase’s first articulation of his theorem (Moss and Fein, 2003), that he would fully articulate in 1960. But that is no justification for conflating the two publications, as does Boettke.

XIII. Security of property rights

Perhaps the most astounding misunderstanding of Coase in this entire article arises when Boettke (1998, 203) attributes to Coase emphasis on the importance of making “property rights secure over the long run.” Yes, of course, this is the sine qua non of economic development. When property is not secure, the advantages of saving, of investment, of owning goods, factories, etc., pretty much evaporate, and with that, most chances for improving the underdeveloped economy. But to attribute to Coase the idea that property rights must be secure is utterly fallacious. If there is anything that Coase (1960) stands for it is the very opposite of long run security of property rights. Remember Coase’s advice to the judge: in making a finding, do not look to the past, to the history of property, to documents such as bills of sale, contracts, agreements. Rather, be guided by the future. Ask of any judicial decision, will some measure of wealth such as GDP be maximized in the future. Will A or B, the disputants over a piece of property, value it more, and thus contribute more to national wealth, if they are given the award. In the real world of high transactions costs, post judicial bargaining will not enable resources to be allocated to their most important valuable use; rather, the judge will have to take on this role.
But given that continually changing relative prices will lead to a victory in court from one type of plaintiff today, and the very opposite one tomorrow, this is anathema to property rights security. At time $t_1$, the nod will, say, be given to the cattleman; at time $t_2$, however, when the corn price rises relative to that for meat, the court determination will go in the opposite direction. Now, the owner of the cows will be responsible for the fence. This is security of property?

It cannot be denied that Coase (1960) focused mainly, or, indeed, only, on actual court cases. In reality, the Bill Gateses of the world do not demand ownership of other people’s puppies. But they could, based on a strict reading of Coase (1960), and how else are we to read this document? Loosely, as Boettke does?

**XIV. Conclusion**

Boettke (1998) constitutes an attempt to stuff a round peg into a square hole: to reconcile Coase (1960) with an emphasis on the importance of property rights in economic development in general, and on the USSR case in particular. No odder couple than this can possibly exist. Coaseanism is practically 180 degrees away from, for example, property rights stability. I do not blame Boettke for failing in this impossible job. Rather, I take him to task for trying to do so in the first place. One might as well attempt to show that Ayn Rand was a believer in socialism, or that the pope is an atheist.

Why would Boettke engage in such a futile undertaking? Our answer here, dependent as it is upon motives, can only be speculative. But one thread running through Boettke’s oeuvre is an attempt to reconcile his supposed Austro libertarian approach with that of mainstream economists who reject this economic and political perspective. The attempt of his now under analysis can possibly be understood along these lines.

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