

Private Property and Opportunity Costs¹

The Freeman: Ideas on Liberty

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Markets promote the general interest by revealing costs while governments commonly favor special interest by concealing those costs. In this column I shall discuss opportunity costs by introducing the critical role of private property. Private property lies at the foundation of market economies because without private property, and the exchange it fosters, people would be unable to consider the full costs of their decisions.

Too Costly to Drive

Assume you win a Rolls Royce Silver Shadow, with insurance, maintenance, gas, and taxes paid. While this isn't quite as nice as winning the state lottery, the going price for a Silver Shadow is around \$250,000. That's the good news. The bad news is that you're probably not wealthy enough to drive this car. Your first reaction is likely: What do you mean I can't afford to drive it? Everything is paid for by someone else.

True, but I still predict that you will find the car too costly to drive. Regardless of how you got the Rolls Royce, the cost of driving it is the price someone else is willing to pay for it. And because the car is your private property, you can't ignore that cost. As the owner you can sell it at a price that reflects the highest value someone else places on it. So you will continue driving your Rolls only if you value it by at least as much as, or more than, what you could buy with the approximately \$250,000 that some Rolls Royce aficionado is willing to pay you for it. Most likely you will sell the Rolls, buy a perfectly nice and serviceable car for \$20,000, and have \$230,000 left over to save or spend on other things.

This story is fanciful, or course, since you are not likely to win a Rolls Royce. But it illustrates a real and important point—private property prompts people to consider the opportunity cost (the value forgone) of their decisions. Because of private property, this consideration is the hallmark of market action and explains the market cooperation that directs resources and products into the hands of those who value them most.

Cooperation Between Bird Watchers and Hot Rodders

Members of the Audubon Society are interested in protecting fragile habitat for birds and other animals. It is easy to predict how it would come down on a choice

between protecting wildlife habitat and increasing the availability of gasoline for high-powered cars, or any other cars for that matter. For example, the Audubon Society strongly opposes offshore drilling for oil. Oil companies promise to, and in fact do, take extraordinary precautions to prevent oil spills, but the Audubon Society is not convinced. Regardless of precautions, its position is: No offshore drilling—*none!*

How can hot rodders possibly communicate their desire for cheaper gas to the Audubon Society so as to convince it to accommodate them by risking wildlife habitat? In fact, they have succeeded at doing just that. Hot rodders, along with all other gasoline consumers, have convinced the Audubon Society that the value they place on gas is an opportunity cost of protecting habitat that the Society shouldn't ignore. They have done so through market communication based on private property.

The Audubon Society owns a wilderness area in Louisiana known as the Rainey Preserve. It is an ideal habitat for birds and other wildlife, but it also contains commercial quantities of petroleum and natural gas that oil companies are eager to recover. One might conclude that since the Audubon Society owns the land and can easily prevent oil companies from drilling on it, they would do so. Wrong! The Audubon Society allows oil companies to drill there.

Of course, it requires the companies to take strong precautions against oil leaks, but not as strong as it claims to be necessary with offshore drilling. Why the difference? Because the Audubon Society owns the Rainey Preserve, the money others are willing to pay for the oil represents an opportunity that would be sacrificed if it refused to allow drilling. But the Society doesn't face an opportunity cost on offshore sites because it doesn't own them. It thus has no motivation to take the interest of others in offshore oil into consideration.

Private property not only motivates the Audubon Society to cooperate with hot rodders, it also motivates hot rodders to cooperate with the Audubon Society. Their purchase of gas allows the Audubon Society to obtain and protect wildlife habitat that it believes is more valuable than what it sacrifices in the Rainey Preserve because of oil drilling. Members of the Audubon Society may despise hot rodders and hot rodders may laugh at bird watchers, but because of private property, each takes the concerns (and opportunity costs) of the other into consideration and acts to promote the other's interests.

The Opportunity Cost of Prisoners of War

European wars during the Middle Ages were often rather peaceful affairs, with prisoners typically well treated. It was not uncommon for opposing armies to count the number of soldiers on each side, before the smaller army surrendered. Such nonviolent "combat" occurred because at that time soldiers had a property right in the prisoners they captured. That legal right included the power to sell

prisoners back to their families, creating an opportunity cost for the victors if they killed their prisoners. Private organizations, some of them religious orders, began specializing as middlemen between those who had prisoners to sell and those who wanted to purchase them.

Unfortunately for prisoners of war, when long-range weapons became available and hand-to-hand combat became uncommon, it was less likely that individual soldiers would capture prisoners. Wars then became more brutal, not only because the technology of slaughter improved, but also because the ownership of prisoners shifted to the state. Because opportunity costs to individuals diminish when property belongs to the state, it became far more common to kill or mutilate prisoners. Human beings obviously should not be treated as private property. But because of the phenomenon of opportunity cost, captured soldiers are far better off as “private property” than “public property.”

Private property is essential to the cooperation that emerges from market interaction, because it ensures that people consider the opportunity cost of their actions. It is both sad and ironic that so many people blame private property for problems that exist because of the lack of private property.

Reference:

Lee, Dwight R. "[Private Property and Opportunity Costs,](http://www.fee.org/publications/the-freeman/article.asp?aid=4415)" [The Freeman: Ideas on Liberty - June 1999](http://www.fee.org/publications/the-freeman/article.asp?aid=4415). Retrieved from the World Wide Web on 15 November 2006 at <http://www.fee.org/publications/the-freeman/article.asp?aid=4415>.

¹ Slightly modified for instructors and students using Common Sense Economics (CommonSenseEconomics.com)