Freedom and Coercion

by

Harold Demsetz

UCLA
Department of Economics
Discussion Paper # 195

January 1981

Freedom and Coercion

by

Harold Demsetz

I. Freedom as you will?

Since economics is the study of how men come to terms with scarcity by _substitution_ among competing goals on the margin, an economist may be forgiven a pragmatic view of freedom. No man long indulges _only_ his taste for freedom, or, for that matter, for food, sex, or health. Even the fanatic or saint, in the totality of his behavior, is truly only mildly specialized to the pursuit of his chosen cause.

A pragmatic view toward the scope of individual freedom is espoused by Adam Smith, that discoverer of the beneficial powers of the _freely_ moving, self-interested "invisible hand." Smith, after criticizing governmental subsidies to agriculture and prohibitions on manufacturing, goes on to describe the system of natural liberty that arises when such interventions are removed.

> All systems either of preference or of restraint, therefore, being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men .... According to the system of natural liberty, the sovereign has only three duties to attend to; three duties of great

> importance, indeed, but plain and intelligible to common understandings: first the duty of protecting the society from the violence and invasion of other independent societies; secondly, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice; and, thirdly, the duty of erecting and maintaining certain public works and certain public institutions, which it can never be for the interest of any individual, or small number of individuals, to erect and maintain; because the profit could never repay the expence to any individual or small number of individuals, though it may frequently do much more than repay it to a great society. (p. 651)

In Smith's system of natural liberty, the State is confined to those functions that he believes can be best performed by the State -- defense, administration of justice, and public works. But, by the same token, the scope of "unrestrained" private behavior is restricted to those actions that Smith believes are poorly performed by the State. Through such convenient gates many an abridgment on liberty has passed into the citadel of freedom.

Classical liberals from Locke to Spencer have always temporized their thirst for freedom by accepting the desirability for some government coercion. Their dicta required <u>law</u> for freedom to exist and a government to define law by restricting one person's freedom to protect another's. This pragmatic position is ridiculed by some Libertarians; for Murray Rothbard, "a truly free market is totally incompatible with the existence of a State, an institution which presumes to 'defend' person and property by itself subsisting on the unilateral coercion against private property known as taxation." (p.6) At the other extreme, modern interventionists push pragmatism to unexpectedly elastic limits. Socialists such as Sidney and Beatrice Webb define personal freedom as the power of the individual to buy sufficient food, shelter, and clothing. Freedom to choose is meaningless to modern liberals without the wealth that is prerequisite to a "meaningful" exercise of choice; for them no liberty exists among the impoverished. This view is espoused even by some not normally identified as modern liberals; George Stigler (1978) writes of his inability to distinguish coercion from wealth-caused limitations on actions. This variety of opinions prompts the question of concern in this essay. Are there principles of freedom that prevent a pragmatic view from degenerating to a "matter of opinion"? Can such principles be found in the alleged inverse correlation between coercion and freedom, between monopoly and freedom, or, in the alleged positive correlation, between wealth and freedom? Are they discoverable in movements to (or away from) the private property system?

II. On coercion and competition

Most discussions of freedom quickly become discussions of coercion, so it is desirable to start by examining the concept of coercion.

F. A. Hayek begins chapter one of his famous treatise The Constitution of Liberty (1960) with "We are concerned in this book with the condition of men in which coercion of some by others is reduced as much as is possible in society. This state we shall describe ... as a state of liberty or freedom." Hayek later states (p. 133) that we find coercion "occurs when one man's actions are made to serve another man's will, not for his own but for the other's purpose." In the face of coercion, although a person chooses to act (vs. not to act), his mind is made someone else's tool "because the alternatives before [him] have been so manipulated that the conduct that the coercer wants ... becomes ... the least painful [to choose]."

It is unclear how such coercion is to be distinguished from "normal" and "free" response to any incentive, such as that which is provided by the price system itself. Anticipating this difficulty, Hayek distinguishes power, coercion, and exchange.

> It is not power as such -- the capacity to achieve what one wants -- that is bad, but only the power to coerce, to force other men to serve one's will by the threat of inflicting harm. (p. 134)
>
> Coercion should be carefully distinguished from the conditions or terms on which our fellow men are willing to render us specific services or benefits .... If a hostess will invite me to her parties only if I conform to certain standards of conduct and dress, or my neighbor converse with me only if I observe conventional manners, this is certainly not coercion. Nor can it be legitimately called 'coercion' if a producer or dealer refuses to supply me with what I want except at his price. This is certainly true in a competitive market, where I can turn to somebody else if the terms of the first offer do not suite me; and it is normally no less true when I have a monopolist. If, for instance, I would very much like to be painted by a famous artist and if he refuses to paint me for less than a very high fee, it would clearly be absurd to say that I am coerced. The same is true of any other commodity or service that I can do without. So long as the services of a particular person are not crucial to my existence or the preservation of what I most value, the conditions he exacts for rendering these services cannot properly be called "coercion" ... unless a monopolist is in a position to withhold an indispensable supply, he cannot exercise coercion. (pp. 135-6)

Hayek's qualitative distinctions, "crucial to my existence" and "indispensable supply," provide no clear guide. If such ambiguous phraseology and subjective standards are dispensed with, his notion of coercion is neither more nor less than the imposition of a cost on a person for failing to act in a way desired by the "coercer."

This less guarded view is closer to a sensible notion of coercion once it is recognized that the coercer may impose this cost through the use of physical, psychological, or financial means. The potential for this cost to become more burdensome is greater the more monopoly power is possessed by the coercer. Nonetheless, there are at least two reasons for denying that monopoly always circumscribes freedom.

First, if freedom increases as does the range of choices among which persons may choose, then monopoly may sometimes reduce and sometimes increase the availability of alternatives. Trademark, copyright, and patent rights clearly serve to limit the extent of imitation and, thereby, the number of offerers of a given product or service; in this sense, these legal protections may raise the degree of coercion faced by those who wish to make use of such inventions and ideas. However, since the ideas and products of those who invest time and money in creative activities and in building goodwill are thereby protected from competition, especially when it is technically possible to imitate perfectly (i.e., a perfect replication of a pirated film or book), new ideas and inventions may be brought forth by such laws, innovations which would otherwise have been discouraged by fear of easy imitation. The variety of alternatives therefore may be greater than if the prospect for profit were more limited by easy imitation. The potential monopoly power created by such protection may be well worth bearing in order to provide incentives to create that which will be easy to imitate. Similarly, if scale economies lead to "monopoly," the resulting lower cost of production may increase consumer accessibility to alternatives even if the number of sellers is reduced. The "proper" definition of legal rights, from the viewpoint of increasing freedom cannot be viewed simply as that which reduces the extent of monopoly. But neither can monopoly be ignored.

Frank H. Knight (<u>On the History and Method of Economics, Selected Essays</u>, University of Chicago Press, 1963, p. 294) states the essential amibiguity well:

> About [monopoly] we can say only that it is both badly misunderstood and grossly exaggerated in the popular mind. Much monopoly in the technical meaning is not only inevitable in a free and progressive economy; it must be called positively good. The principle is illustrated by the deliberate granting of monopoly power in the patenting of inventions, and a great deal of the monopoly is essentially of the same nature, a stimulus to devising and introducing useful innovations. But much is not, and it is a serious problem to differentiate between the good and the bad ....

The ambiguity of the relationship between monopoly and freedom that Knight points to arises because of the need to provide incentives to invest in activities the results of which are subject both to uncertainty and to imitation. The provision of such incentives inevitably involves some protection from imitation, hence from competition.

But even if this "dynamic" format is abandoned in favor of static modelling of the problem there remains a second reason for ambiguity about the relationship between monopoly and freedom. Is the source of monopolistic coercion the absence of rival sellers or is it the raising of price to prospective buyers? Suppose competitive industries did become monopolies. The resulting reduction in the number (to one) of alternative suppliers of a given product certainly reduces the number of persons with whom customers may deal. If the single remaining supplier of each good were to make it available at the competitive price would freedom have been compromised? To answer yes, because buyers have lost the option of dealing with other sellers of a given good, is to admit of differences between sellers and of the desirability of having such differences available. This merely reintroduces the first ambiguity; the possibility that monopoly, read here as differences between sellers, may increase the scope of choice and thereby the degree of freedom. If the answer is no, that freedom is not reduced by monopoly if prices are competitive, then it is clear that the terms of exchange provide an index of the power to coerce, and that Hayek has erred in his attempt to separate coercion from "the conditions or terms on which our fellow men are willing to render us specific services or benefits." His statement that "unless a monopolist is in a position to withhold an indispensible supply, he cannot exercise coercion" comes to little more than a personal value judgment as to how far the terms of trade may go before "coercion" becomes the appropriate word to use.

The essential problem is the complexity of social interactions. An increase in the degree of monopoly restricts choice in some dimensions but may increase (the variety of) choice, or competition, in other dimensions; there is no ready metric for assigning "coercion weights" to these two opposing effects of monopoly. In some sense "cost minimization" is sought, but reducing the cost of exercising more choice in some dimensions of activity may require an increase in the cost of exercising more choice in other dimensions. More competition "here" is purchased by less "there." The problem of a common denominator by which to balance such countervailing tendencies, even if more freedom were our sole goal, seems unsolvable in principle. Some sort of political concensus or compromise is necessary even though some believe that freedom, as they view it, is reduced by such a pragmatic solution. The problem is made even more difficult if the sole goal of more freedom is abandoned in favor of a maximization of "utility," where, for each individual, personal utility is a function of many goods, freedom being but one of these even if an important one. Utility maximization would approve securing a great increase in real material wealth for the sacrifice of a very small reduction in freedom. Is there any way to distinguish meaningfully between more goods and more freedom, since the availability of more goods implies, for some people, a reduction in the cost of choosing certain alternatives? The most that seems possible to say is that "in this case" the additional goods (additional choice alternatives) are or are not worth the sacrifice (to whom?) that must be incurred to get them.

Moreover, there is reason to believe that some beneficial transactions will not take place voluntarily. Voluntary transactions to reduce smog levels are impractical because the benefits of cleaner air are dispersed in so uncertain a fashion over large masses of population that few would volunteer to pay others to bear the cost of installing devices to clean the air, as someone might if he were the sole predictable beneficiary of some specific cost borne by someone else to reduce air pollution. In such a case, the choice alternative of having more clean air is arguably made more costly to select than it would be if some coercive monopoly power were used. Again, the cost of exercising choice in some dimensions is reduced, and freedom increased, only through the use of more coercion, and a reduction in freedom, in other dimensions. No sure guide to increasing freedom is offered by a policy of reducing monopoly or coercion. In some situations, a consequent reduction in freedom (in some dimension) can be expected, so a policy to increase freedom is forced to attach value, or judgmental, weights to freedoms gained and freedoms lost.

III. On freedom and wealth

Similar ambiguities confront those who would correlate freedom and wealth. More wealth, where wealth is measured correctly, means accessibility to a larger opportunity set for choice, hence, in a sense, more freedom of choice. Suppose for the moment that such a correlation is accepted, and that we view an increase in wealth as an increase in freedom, wealth being a necessary prerequisite for the exercise of choice. If, now, some wealth is reallocated from one individual to another, then it could be said that the reduced freedom of the one has purchased the increased freedom of the other, but only some arbitrary interpersonal comparison can be employed to ascertain whether freedom has therefore increased or decreased generally. Countervailing and incommensurate changes in freedom accompany wealth redistribution just as they accompany monopoly creation.

This ambiguity projects itself even more severely into intergenerational freedom problems. Assume that a reward of more income is essential to provide incentives to bear risk and to work hard. Equalization of wealth among contemporaries, even if interpreted through some interpersonal comparison of freedom as maximizing freedom for the present generation, would reduce the wealth available to future generations. Because present incentives to produce are undermined, the available opportunity set in the future is smaller and choice is restricted. An interpersonal and intertemporal indexing of freedom across generations would be needed to deduce whether egalitarian policies increase or decrease freedom in general, across present and future generations. Again the analogy to monopoly is clear. More monopoly (inequality) in some dimensions may be necessary to induce more competition (greater wealth) in other dimensions.

We have been dealing with ambiguities that arise from contradictory movements in wealth across different individuals, but there are other perhaps more fundamental contradictory movements. For example, the freedom to try to do better than others is definitionally comprised by egalitarianism. If equality is thought to increase freedom insofar as wealth distribution is concerned, but nonetheless reduces the freedom of some to do better than others, we are again left without a general index of what happens to freedom under egalitarian policies.

Of course, there are some difficulties in adopting wealth as an index of freedom quite aside from these "countervailing-incommensurate" problems. First, freedom is a social relationship related to rules by which people live and work together in an interdependent society, but wealth is not (necessarily) a <u>social</u> relationship. Two Robinson Crusoe's on separate islands, one barren and the other fertile, are endowed with different wealth positions, but do they exercise different degrees of freedom?

Secondly, wealth variations in at least some cases seem unconnected to freedom even for multi-individual societies. Poor weather causes crop failures and these translate into a reduction in wealth; it seems somewhat of a strain to identify this as a reduction in freedom rather than simply as a reduction in wealth. Moreover, the same reduction in wealth brought about through the employment of government coercion to reduce farm output would ordinarily be thought of having embedded in it a greater reduction in freedom than would weather-caused crop failures.

There is some increase in wealth sufficient to compensate for a loss of some freedom of action, so that a wealth value can be attached to freedom of action; but the fact that wealth can be used to measure the value of freedom does not in itself lead to an identity of wealth and freedom. The two may be distinguished by limiting freedom to a right to act without tying freedom to the scale of action taken. Persons may have the right to purchase milk, cigarettes, or mariguana without thereby specifying the quantity of such goods their budgets will allow them to purchase. If all inputs and products were fully divisible, like apple sauce, so that products could be produced in arbitrarily small units at no cost penalty, then no poor person would be prevented by his income from purchasing <u>some</u> of everything that a rich person may purchase. Limitations on wealth would prevent him from purchasing as much of <u>everything</u> as could be purchased by a wealthy person, but this says no more than that the one is poorer than the other. Poverty becomes more of a tax on specific rights of action, and seems more like a restriction on freedom, when indivisibilities in the production of goods are important. If the unit cost of purchasing a quantity of goods increases the smaller is the quantity purchased, then poverty turns the terms of exchange against the poor and possibly precludes the purchase of even a small quantity of a good, much as would a tax on purchases of only the poor. Divisibilities are always greater than is supposed. Inability to purchase a Mercedes does not preclude the rental of one for a sort period of time. Even so, wealth restraints and restrictions on freedom become increasingly similar as indivisibilities become more important.

IV. Freedom and the property right system

Little can be said in a detailed way about what constitutes the property right system that at one and the same time makes appropriate pragmatic concessions to other goals while reducing restrictions on freedom. Partly this difficulty stems from difficult trade-offs, but, also, it reflects the difficulty of separating freedom from other goals. The classic concessions to a coercive role for government in the supply of a legal framework, a "minimal" police force, and an appropriate national defense and foreign policy appeal to most proponents of a free society. In some dimensions these uses of coercion increase the freedom of action available to many, if not most, citizens. To these concessions may be added stubborn problems of the provision of other collective goods, such as standards for air quality, when these goods are important and when their collective characteristics make it too costly for them to be supplied in adequate amounts without some government coercion. Of course, the government may err in the use of such coercion, and it may use these bases of coercion to extend its use into other activities more properly handled by individuals operating from a private property right base. The possibilities for such abuse of power are so real that it is wiser to let many of these problems remain as they are rather than to create more difficult ones through a governmental attempt to coerce a solution into being. But having said the obvious about the government, I would now like to examine certain more subtle aspects of the problems of coercion in the context of a pure private right system.

There can exist no social arrangements for allowing productive interaction between individuals without some (all) individuals possessing some ability to impose costs on others, and, therefore, without some ability to coerce others. Complete absence of coercion is impossible even conceptually in situations in which resources are scarce. The degree of coercion is limited by competition from other owners of other (closely) substitutable scarce resources, but it can never be reduced to zero. This is true, first of all, because we do not possess perfect foresight. Suppose an employer threatens to fire an employee. Since that employee would need to bear the cost of searching for an acceptable alternative employer, he would be willing to bend slightly to the wishes of his employer rather than become disemployed. Similarly, should an employee threaten to quit, i.e., to "fire" his employer, then his employer would need to bear the cost of searching for an acceptable alternative employee, and the employer would be willing to bend slightly to the wishes of his employee before seeing him quit. Only if such actions could be foreseen or if perfectly substitutable employees and employers are available at zero search cost (a denial of scarcity), only then would there be no potential, however slight, for coercion. In all real markets there are costs of learning about available alternatives and costs of adjusting to unanticipated decisions by others with whom one cooperates. Only in a few markets do these alternatives look anything like close to perfect substitutes, and even in these there are interpersonal interdependencies that carry some potential to impose cost on others. The decision by a farmer to reduce his output of wheat imposes virtually no cost on consumers of wheat products because his decision, for all practical purposes, will not increase price. Other farmers will be motivated to expand output to offset any incipient price increase. Therefore, no single farmer can coerce consumers of wheat products. Consumers are protected by the broad availability of near perfect substitutes. But this is not true for the owner of the local grain storage facility; his business fortunes may be very much affected by the planting decisions of farmers in his region, and their fortunes in turn depend on his decisions to increase or decrease storage space. In microcosm, the potential, however slight, for imposing costs on others, exists. This potential is recognized in the institutional arrangements, primarily contractual arrangements, devised to reduce or to compensate for unexpected changes in commitments.

Resource scarcity implies a minimal amount of coercion for reasons other than unexpected changes in implicit commitments. If persons have the right to smoke in movie theatres, they impose costs on others in the audience who find inhaling smoke offensive if not unhealthful; if enough people are smokers, non-smokers will be coerced into staying away from movie theatres. But if persons have the right to breathe air free from cigarette smoke, then costs are imposed on smokers who would like both to attend the theatre and to smoke; some smokers will be coerced into staying away from theatres. Since theatre air is scarce, or since it is costly to build two substitute groups of theatres, one for smokers and one for non-smokers, there is no way to resolve the conflict without creating the potential, however slight, for some to coerce others by threatening to exercise their rights when sitting next to someone who would prefer that they did not exercise their rights. A choice of who may coerce whom is implied by whatever definition of property rights is used. In a multi-person society, complete freedom, in the sense of there being no coercion potential or no costs which others may impose on an individual, is possible only in the absence of scarcity. Which is to say, it is impossible.

Once this is recognized, it is clear that the issue is not simply one of centralization of power vs. decentralization, or of the state vs. the market, although there should be no doubt that the state has avenues of ocercion not easily used by individuals. The problem seems to be misunderstood even by leading students of market processes. Murray Rothbard relies on volunteeristic interchange in markets to define the absence of coercion. For Rothbard (p. 11), ocercion and intervention, in contrast to the free market, are cases in which one set of men gains "<u>at the expense</u> of other men." (Rothbard requires a free interaction to be voluntary in its totality. Thus, although when a blackmailer returns an incriminating photo upon receiving a sum of money from the <u>victim</u>, both gain from the immediate exchange or one would refuse to consummate the exchange, in its totality the whole episode yields a loss in utility to the victim. The victim certainly would not have chosen to experience the blackmail.)

But an exchange in the free market affects parties other than those agreeing to the exchange. Consider a firm that introduces a new brand and wins customers from competitors. The producer of the new brand and his customers both benefit from their exchange, but this producer's competitors and their employees suffer as a result. It simply is not true that the operation of free markets leaves everyone unharmed, and there certainly is a potential for a new product producer to coerce his prospective competitors by offering to refrain from introducing his new product if they will do what he wishes. It is in the nature of the cost-benefit calculus in such situations that it will not generally be as profitable to do this as it would be to produce the new product, but the potential for coercion is nonetheless present. Rothbard's distinction between state intervention and the operation of the free market fails for this reason.

> If we allow ourselves to use the term 'society' to depict the pattern of <u>all</u> individual exchanges, then we may say that the free market 'maximizes' social utility since everyone gains in utility. (p. 11)
>
> [But] even if the State intervened nowhere else, its taxation would remain. Since the term 'social' can be applied only to every single individual concerned, it is clear that, while the free market maximizes utility, no act of the State can ever increase social utility. Indeed, the picture of the free market is necessarily one of harmony and mutual benefit; the picture of state intervention is one of caste conflict, coercion, and exploitation. (p. 13)

This substantially misrepresents the operation of the free market. A major advantage of using the market to resolve allocation problems is that it is an institution that brings about ("desirable") reallocations

<u>even</u> when some are harmed; measured in its own terms -- the prices people are willing to pay to affect reallocation -- the market imposes harmful effects only when the value of the gain exceeds the cost that results. It thus provides a filter through which the only reallocations allowed to pass are net beneficial when measured through the market calculus.

Even that great bulwark against coercion, the voluntary transaction, ultimately rests in some small measure on the right to coerce. How does one communicate his desire to enter into a voluntary transaction without first using some technique ultimately based on coercion to attract the attention of other potential transactors? A word spoken without their permission, an advertisement so placed that it is difficult (costly) to avoid seeing it, or some such other coercive communicative device is essential to get voluntary transactions under way. In the final analysis, some degree of coercion is required to communicate about transaction possibilities.

Some ability to impose costs on others is necessary because someone ultimately must possess the right to take <u>unilateral action</u> to use resources if anything is to get done. No social system can avoid the necessity of assigning or delegating such rights. The <u>complete</u> politicization of action is too cumbersome to tolerate and even it presupposes a unilateral right to act politically, the right to vote for example. Even a political system that requires political unanimity before resources may be put to particular uses necessarily assigns a right to impose costs on others -- those who refuse to agree to an action (unless adequately compensated!) possess the ability to impose a cost on those who desire to take such an action. There simply is no way to avoid the assignment of a right to impose costs on others.

But if some coercive power is necessary, and, therefore, desirable, it may be even more desirable to keep the totality of coercive power within fairly narrow limits. Some decisions with regard to the ownership of private rights, while they alter the identities of who may impose costs on whom, carry no clear increase in the totality of coercion that exists. A definition of private rights that allows people to insist on quiet after midenight allows those who would sleep to impose costs on neighbors who prefer to party through the night; a definition that allowed partying allows neighbors to impose costs on those who prefer to sleep, but neither definition of rights clearly involves greater coercion in total than does the other definition. In the one case, those who would party need to "purchase" permission from neighbors; in the other case, those who would sleep need to purchase quiet from neighbors who desire to party. Such negotiations tend to bring about a resolution of conflicts in resource use that maximizes the value derived from the resource. In some cases quiet will prevail -- cases in which would-be sleepers value quiet more than would-be partyers value noise. In other cases, where there is the reverse ordering of valuations, partying will prevail. A system of state regulation, for example, one that prohibited all partying after midnight, involves a degree of coercion greater than that implied by assigning to would-be sleepers the right to control decibel levels after midnight. The private assignment of rights at least allows those who wish to party to pay would-be sleepers for permission to do so. Both parties are made better off for the exchange than they would be with an outright prohibition on partying.

Government is unique in its ability legally to prohobit voluntary agreement from taking place, and this higher degree of coercive power is exacerbated by government's monopoly powers. Such powers are weaker when the cost to citizens of moving to other legal jurisdictions is low; local communities and states within the Union enjoy less monopoly than does the Federal government. In general, however, government, and the majority coalition it represents, especially at the Federal level, exercises stronger monopoly than do private individuals or their institutions.

Nonetheless, it must be recognized that a decision with regard to who must pay whom is not completely neutral with respect to coercive ability. In the decision as to which party owns the right to control the use of some resource, one party may be in a better position to exercise monopoly than is the other. If it is more costly for would-be sleepers to seek alternative locations or different times for a night's rest than it is for parties to be relocated or rescheduled, then a decision that awards to neighbors the right to party after midnight will create a greater potential for coercion that would the reverse assignment of rights. And if private rights are quite generally concentrated in only a few hands, the level of coercion can rise to that which is normally exercised only by governments. (It would be well to remember at this juncture that monopoly in some dimensions for most persons not only may be worth small sacrifices of freedom, but, also, that it may be necessary to provide a wider scope of choice than otherwise would exist.)

The two points that deserve emphasis are (1) that problems of coercion are more severe when private rights are converted or transferred to the state, and (2) that the problem of coercion does not disappear even in a pure private right system. Coercion is as permanent a feature of any social system as is scarcity. Both can be made less burdensome, but neither can be eliminated completely.

V. Coercion, freedom, and competition

If freedom is defined in terms of the right to choose, then freedom for any one individual is necessarily limited by the right of others to choose. Resource scarcity inevitably brings these choices into conflict, so that some method, necessarily involving a degree of coercion, is required to resolve potential conflicts. The private right system is one such method, political control another. A plausible case can be made that a private right system generally resolves these conflicts with a smaller degree of coercion. It accomplishes this because of its greater propensity to create wealth and to make available more numerous alternative choice tactics. But the words freedom, coercion, and private rights cloak value-laden beliefs that had best be brought into the open before completing this essay.

The right to offer some good for sale, even when it is known that this act will result in harm to competitors, is a private right consistent with most persons' notions of a free society. The rights to harm one's competitors by damaging his production facilities, his reputation, or by threatening his customers are not generally recognized as consistent with a free society; indeed, they are thought of as coercive acts. Why are such distinctions in perception prevalent? Why is competition that is carried on in one way the exercise of a legitimate act of a free person while competition that is pursued in another way an illegitimate act of coercion against a free person? It is not simply that physical violence is sometimes employed in the "coercive" act, for physical violence is sometimes endorsed as a legitimate act (of self-preservation, to make way through a mob to save some innocent victim of a fire, etc.) and some "coercive" acts involve no violence (the pursuit of extortion by threatening to release compromising information).

Many of the distinctions between acceptable and unacceptable forms of competition, between rights to act and illegitimate acts, both of which are coercive to a degree, are consistent with a generally accepted cost-benefit calculus that enforcing those acts likely, on average, to yield a net beneficial effect and censuring those likely to do the reverse. A seller has a right to offer for sale a product that is likely to harm his competitors because the value of the gains to him and to his customers will exceed the cost to his competitors if the product succeeds, and if the value gains do not exceed the costs the product will fail. The same seller might also compete by waging a successful arson campaign against his competitors, but his success in such an effort is only evidence of his efficiency in destroying assets, not in creating net benefits. Persons in the community, through their revealed preferences, define the benefits and the costs. The division of acts into those that are rights and those that are prohibited reflects in large part such value judgments. The distinction between benefits and costs is not an exogenous standard, but is a reflection of the community's values. Consider the problem of forced animal labor. The tying of the mule to the plough and of the horse to the wagon are acts of free men although they clearly are harmful to the animals (setting aside the "compensation" of shelter and food that generally is accorded such animals), and who can say that the net benefit "summed" over man and beast is positive? Animals simply are not accorded full membership in the community. And this attitude is reflected in the greater protections accorded domestic animals, especially pets, who are viewed as being partial members of the community, than is accorded to wild animals.

A community that views imported black Africans as outside its membership is more likely to judge the right to use black labor as if it were animal labor than as if it were human labor. A private right to use slave labor _is_ essentially the private right to use animal labor. Both sources of labor can be put to work, and both are fed and sheltered. In neither case could it be said that a net benefit criterion is satisfied "summed" over _all_ interacting parties, domestic animals, slaves, and masters, but in neither case is such a global summation required by the community's values. This question of values of course extends to acts by government, and to whether these are judged to be coercive or not. Volunteerism (externalities and "free-rider" problems aside) at least provides a test of whether the net-benefit criterion is satisfied, (whereas government regulation often is designed to avoid this test), but the values of the community circumscribe the group fully entitled to the test of volunteerism. In the not too distant past blacks were denied the test; today, blacks enjoy full privileges of volunteerism, but animals, children, criminals, and those judged to be incompetent are denied the test of volunteerism.

The question of values extends beyond the issue of full-fledged membership in the community to the issue which goods are "good" and which are "bad." For full-fledged members of a community the test of volunteerism is endorsed for the production and exchange of products and services deemed to be goods according to the community's values, but every community refuses to accept volunteerism as the full test for the production of those things that it believes devoid of redeeming value. The most devoted advocates of private rights refuse to endorse the right to act violently towards one's fellows because they view the recipient of such acts as an unwilling sufferer. Similarly, there is a refusal to endorse acts imposing external costs on others, for these are viewed as coercion against those who bear these costs. At the other extreme are those who feel that they suffer from such acts of others as the use of alcohol, drugs, or the act of prostitution; some purport to suffer when others enter into commerce on Sunday. All of which would be judged as victimless acts, and therefore legitimate, by many of those who at the same time believe that smoke from a neighbor's factory is an invasion of the rights of those upon whom the soot descends. A substantial part of the conflict derives from differing values as to which actions are believed to contain significant external effects and which not. The libertarian, believing that smoke in the air as an involuntarily imposed cost on third parties, and therefore is unwilling to accept a private right to put smoke into the air, is nonetheless unwilling to accept a judgment that (opium) smoke in the smoker's lungs imposes a cost on others who wish to live in a society in which their lives (and those of their children) are "unpolluted" by the knowledge that such actions are present, tolerated, and available.

The question of which rights to act are consistent with a free society and which are not becomes in the last analysis a question of values.

The debate over what constitutes the free society in its attention to government, private rights, coercion, and wealth distribution, tends to cloak the value core of the disagreement. Coercion and freedom become inextricably involved in judgments about fair or proper prices, and, ultimately about ethically acceptable methods by which wealth may be acquired. Judgments about freedom require a prior agreement about the higher ethic that is to be used to determine "fair" and "proper." Knight (Freedom and Reform, Harper, N.Y., 1947, pp. 6-7) says this clearly, although perhaps he lays too great a stress on the effect of wealth distribution on values. There is greater uniformity of cultural values across income classes than is suggested in the following quotation, but there may be greater differences of values across religions and age.

> Under 'perfect competition' it is theoretically true that the income share paid to the individual who furnishes any unit of productive service is equal in market value to the share of the social product causally imputable to that unit of productive service as its contribution to the total. But is there anything ethical about these equivalences? In order to give them ethical significance, two assumptions have to be made .... In the first place, the ethical claim of the owner of any productive service to its contribution to product can be no better than his ethical claim to the 'ownership' of the service itself.... In the second place, ... the value-scale by which products and contributions are measured is itself a reflection of the existing distribution of ultimate purchasing power.

The debate about freedom has taken place as if a constitution of liberty could be written on the basis of abstract principles relating to coercion, private property, etc. That is a serious error. Everyone, or almost everyone, favors more freedom and less coercion, but not everyone shares a common set of values. Agreement on the proper methods of competing, the proper scope of limiting competitive imitation, the proper methods by which to acquire wealth, the proper scope of externalities is required before it can be concluded that a particular institutional change is promotive of freedom. The debate on freedom is first of all a debate on ethics. Principles of freedom, if they exist, are not to be found in purely political or economic considerations. They are the province of ethics. Should externality claims of the smoke variety be legitimitized while externality claims about assorted "blue law" problems are not? Principles of freedom require prior principles of ethics. When is it appropriate to act in ways not approved of by others? Presumably the free society would reply "very often," but would it replays "always"?