

Virtual Barbed Wire

By Fred E. Foldvary and Daniel B. Klein

In Iraq, clear and secure property rights are sorely lacking. Hernando de Soto explains in *The Mystery of Capital* that a big problem in the Third World is the fractured and uncertain state of land rights. Much land is owned by everyone and no one. How can progress occur when no one can alter the surface or customary uses of the land? Or when no one can taste the profit of the new enterprise he builds on the land?

Even under the most enlightened regimes it is sometimes hard to establish clear property rights. Indeed, government regulators often justify government interventions as corrections of ill-defined property rights or "market failure." To ensure clean air or good roads, it's too costly, they say, for markets to collect payments from those who enjoy such benefits. As such, it is easier to fund them through taxes.

But the costliness of transacting depends on the nuts and bolts of exchanging money for services. New technology is making it easier to transact, undermining the reasons for many government interventions. An enlightened regime would periodically reassess its policies in light of new technology.

Technology has long altered conventional thinking about public policy and property rights. Americans got wired for the first time not with the telephone but with barbed wire. Prior to 1870, the American West found itself abundant in rangeland and devoid of fencing materials. It was too costly to mark property boundaries and prevent trespass. A common practice was to let livestock roam and intermingle. But in the 1870s the spread of barbed wire, an inexpensive and effective fencing material, lowered the cost of delineating, protecting, and enforcing property rights. New technology changed institutions and policy for the better.

That same dynamic has great potential in areas of public policy today. Consider policy debates surrounding automobiles:

Motorways. Traditionally, motorways have been financed by taxation and provided by government. Old methods of toll collection involved inconvenience for motorists and significant costs of toll collection. Though a portion of motorways are toll roads, most of Europe's and North America's motorways are still run along strictly socialist lines -- government ownership and taxpayer financing. But electronic toll collection eliminates the old difficulties of charging motorists. They can pay tolls as easily as they pay a monthly phone bill, strengthening the case for full retro-fitting the motorways with tolls and for privatization. It now makes no more sense to pay for motorways with general tax dollars than to pay for movie theaters that way. But policy hasn't kept up.

Automobile Air Pollution. Monitoring and controlling air pollution from cars has seemed such a perplexing problem that few have advocated a property-rights solution. However, exhaust-sensor technologies have changed that. The sensors can be placed at roadsides and monitor the exhaust of passing automobiles. If the sensors are coupled with electronic license plate readers, the system can identify polluting motorists and send them "pollution bills." Such an approach targets the actual polluters, a fairer and more efficient program than traditional command-and-control methods such as smog check programs, alternative-fuel requirements, electric vehicles, and mandates on automakers.

Although remote sensing is a program for regional governments to undertake, it is nonetheless a property-rights approach to the problem. It protects the public air from violation and leaves non-violators undisturbed in the use of their own automobiles. It is like protecting public buildings from graffiti by setting up video surveillance, rather than by placing restrictions on who can buy spray paint at the local hardware store.

Parking. The inconvenience and unsightliness of the early parking meters helped justify "free parking." But modern parking meters no longer require motorists to pay with loose change for limited periods of time. For instance, multi-space meters, now prevalent in parts of Europe, issue a paper dashboard permit, so you don't need coins and you pay for as much time as you need. Better still, however, are new in-vehicle meters with LCD displays that eliminate the schlep to a meter, charge only for the time a car occupies a parking space, vary the rate according to parking conditions, and can directly pay the parking space owner. Anyone with curbside space to rent could do so without even erecting parking meters. Such developments strongly argue for turning on-street parking space over to private entrepreneurs or adjoining landowners.

Some might argue that, just as technology enhances the capabilities of the private market, it enhances that of public-spirited regulators and officials to do a better job regulating. True, governments can become more effective by virtue of technology. Government agencies, too, can run highways as toll roads.

However, if both free enterprise and the government are technically capable of, say, producing tomatoes, Adam Smith's logic of incentives and local knowledge argue for leaving the activity to private owners interacting voluntarily. As Milton Friedman says, we spend money most carefully and to best effect when it is our own money and we spend it on ourselves. The government, on the other hand, lacking such incentives and local knowledge, usually fails to match the market's capabilities.

In many areas of public policy the old rationales for government intervention are obsolete. Today's policymakers ought to pursue a policy regime in which institutions can keep up with technology.

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