

REJOINDER TO BROOKS ON COASE AND DEMSETZ

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ABSTRACT: There are two Coase theorems. The simplistic one deals with the unrealistic world of zero transactions costs. The more important one addresses itself to the real world, where transactions costs are positive, and, often, larger than any possible gains that might ensue from market transactions. Demsetz and I have been having a decades-long dialogue about the first of these; to wit, is resource allocation invariant to judicial findings as to property rights. Demsetz says yes, I say no. Of late, Brooks joins the fray, finding some good, and some bad, in the position of each of us, Demsetz and myself. This paper is a response to Brooks.

KEYWORDS: private property rights, transactions costs, Coase, Demsetz

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INTRODUCTION

Brooks (2007, p. 223) is quite correct when he asserts that “for over one quarter of a century” Demsetz (1967, 1979, 1997)

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and I (Block, 1977, 1995, 2000) have been involved in a debate concerning “one small corner of the voluminous literature on the Coase theorem.”¹ While in the midst of these interchanges over the years, for me, 1977–2000, I had often wondered why no one else had jumped into this particular fray. With the appearance of Brooks (2007), I need wonder no more. I am delighted to welcome Brooks to this particular sandbox, and am comforted by his (albeit limited) support for my position *vis a vis* that of Demsetz.

In section II we offer some background material to highlight the various disputes; one, between Demsetz and me, and two, between Brooks and me. Section III offers a critique of both of these scholars.

BACKGROUND

Before commenting on Brooks’ contribution to the Block-Demsetz debate, first, a bit of background. For Coase (1960), the fountainhead of this entire debate, two things are true. One, under a regime of zero transactions costs,² it does not matter, at least for questions of resource allocation, which of two contending parties gets the nod from the court, in a property rights dispute. Suppose there is a manufacturer (M) who pollutes the fields of a farmer (F).³ There is a smoke prevention device (SPD), which may or may not be utilized (that is the resource allocation issue). This naturally devolves into four separate cases, A, B, C and D, depending upon whether the court finds in favor of one or the other, and based

¹ For an explication of this issue, see Fox (2007).

² In my view, *both* the zero and the very high transactions costs scenarios are aspects of the Coase theorem. However, I acknowledge that the second, dealing with the real world of positive transactions costs, as opposed to the hypothetical case of zero transactions costs, is by far the most important of the two. Demsetz and I disagreed on both of these Coase theorems. But, since Brooks only comments on the former, I will confine my remarks to that one scenario.

³ I was tempted to say that there was a property rights violator, the polluting manufacturer, who victimized the farmer with his trespassing smoke particles. But this would be very much out of keeping with the Coase-Demsetz ethos. For them, who is the rights violator, and who is the victim, depends totally not on property rights as conceived of by libertarians (Rothbard, 1982; Höpffe, 1993), but rather on the basis of a calculation of whether GDP will be raised or lowered depending upon which side is supported by the court. That is, these representatives of Chicago School law and economics do not accept private property rights at all.

upon the costs of installing the SPC, versus the costs to the farmer of allowing the pollution to continue, unabated. In Table I, we indicate the winner of the court case by underlining either the F or the M.

Table I

| | | |
|-----------------|--------------------------------|--------------------------------|
| A | <u>Farmer</u> | Manufacturer |
| Value | \$75 | \$100 |
| Bribe | | Yes (\$90 from M to F) |
| SPD Used? | | No |
| Wealth Analysis | -\$75 <u>+\$90</u> +\$15 | \$100 <u>-\$90</u> +\$10 |
| B | Farmer | <u>Manufacturer</u> |
| Value | \$100 | \$75 |
| Bribe | Yes (\$90 from F to M) | |
| SPD Used? | Yes | |
| Wealth Analysis | \$100 <u>-\$90</u> \$10 | \$90 <u>-\$75</u> \$15 |
| C | Farmer | <u>Manufacturer</u> |
| Value | -\$75 | \$100 |
| Bribe | | No |
| SPD Used? | | No |
| Wealth Analysis | -\$75 | \$100 |
| Both F+M | \$100 - \$75 = \$25 | |
| D | <u>Farmer</u> | Manufacturer |
| Value | \$100 | \$75 |
| Bribe | No | |
| SPD Used? | Yes | No |
| Wealth Analysis | \$100 | -\$75 |
| Both F+M | \$100 - \$75 = \$25 | |

Let us now discuss each of these four cases.

In case A we posit that the farmer values the pollution free air at \$75, the SPD will cost \$100 to install, and that the judge finds in favor of the farmer. The law, then, gives the farmer the right to require that the SPD be installed. However, it costs the manufacturer \$100 to do so and the farmer only benefits from this to the tune of \$75. There is room for a (costless) transaction, a bribe, here. The manufacturer can pay the farmer, say, \$90. The farmer, if he accepts, will lose the \$75 from the dirty air, but gain this payment of \$90, for a profit of \$15. The manufacturer has to pay \$90, but he gains the \$100 he would legally otherwise have to lay out for the SPD, so he also gains from the deal, in his case by \$10. So, the SPD does not get installed, even though the farmer won the right from the court to legally impose this requirement on the manufacturer.

In case C we again posit that the farmer values the pollution free air at \$75, and that the SPD will cost \$100 to install, but this time that the judge gives the nod to the manufacturer. Will resources be allocated to the utilization of the SPD? No. The farmer values the clean air, only, at \$75. It would cost \$100 for the manufacturer to cease and desist from polluting, employing the SPD. There is no way the farmer could bribe the manufacturer into using the SPD for the sake of clean air.

In cases B and D we reverse the benefits and costs. Now, the farmer values clean air at \$100 and it costs only \$75 to attain this goal for him, via the SPD. In case D, the judgment goes to the farmer; the manufacturer cannot bribe the farmer out of insisting on his right to the SPD, since it now costs less to install this device than the benefits to be derived therefrom. So resources are allocated to the SPD. In contrast, in case B the manufacturer is told by the court that he need not install the SPD. However, it is advantageous to both that a deal be consummated that will bring about that end. For the farmer values the benefits to the tune of \$100, and this is \$25 more than the costs to the manufacturer of installing this device (\$75). If the farmer pays the manufacturer to do so, even though the law does not require him to engage in this act, the farmer can pay the manufacturer \$90 to adopt the SPD. The latter will gain this \$90, minus the cost of the SPD of \$75, for a profit of \$15. The farmer will

gain \$100, the value he places on the clean air, minus the bribe of \$90, for a gain of \$10.⁴

Table II

| | | SPD Gets Used? | |
|---------------|-----|----------------|----|
| | | Yes | No |
| Bribe Occurs? | Yes | B | A |
| | No | D | C |

In this analysis, we assume, heroically and *arguendo*, that all of these figures, values, costs, are known with absolute certainty.

CRITIQUE

With this background, we are now ready to consider Brooks' contribution to the Block-Demsetz debate. It is with regard to only one of these four cases that Demsetz and I (and also Brooks and I) have any dispute: B. Here, I supposed (in Block 1977, 1995 and 2000) that the benefit to the farmer of that \$100 was not in the form of money, or objective goods that could serve as collateral, that would be sufficient to finance the bribe of \$90. Rather, I posited that this \$100 of benefit would take the form of pure subjective and psychic income. There is no objective market-based value to the farm at all. Think of it in terms of a single flower pot, or, if you will, a worthless rock (garden),⁵ which has great sentimental value to the "farmer," in that he would not voluntarily part with it for anything less than that \$100: given the contrary to fact conditional that the "farmer" were offered this amount of money for his flower pot or rock, he would have declined.⁶ While the "farmer" values his property to this extent, he cannot sell it (no one else

⁴ In Table II we indicate whether or not resources are allocated to the SPD, and whether or not a bribe takes place, in the cases A, B, C and D.

⁵ Or "pet" rock.

⁶ In the extreme, we can suppose that the "farmer" would not accept *any* amount of money for his holdings, even an infinite sum.

wants it), nor can he use it as collateral to raise the money with which to bribe the manufacturer into ceasing and desisting from his pollution activities.

What then? My conclusion then, Demsetz to the contrary notwithstanding, and my conclusion now, Brooks to the contrary notwithstanding, is that under these assumptions, this relatively unimportant Coase theorem cannot stand up.⁷

Demsetz (1979, 1997), I fear, never really understood this point. Although this must necessarily be speculative, I thought I knew why Demsetz refused to see this remarkably simple point: Coase has won the Nobel Prize, Demsetz himself is “Nobelabile,”⁸ and, in his eyes, I am now and was then a complete non-entity as far as the mainstream economics profession is concerned. Sadly, this is all too true. How, then, could I not only criticize the two of them, my clear intellectual betters, but actually succeed in showing them both to be erroneous in a claim of theirs? I must have erred, and Demsetz set out to show that this was indeed the case.

Why, in contrast, does Brooks reject my thesis? I think, although, again, this can only be speculative, that this economist does full well understand my position. He nevertheless gives several reasons for rejecting it (at least in part). Let us consider each of them in some detail, along with several other criticisms I articulate against this author.

1. States Brooks (2007, p. 227),

The Coasian [sic] position, at least in terms of the strong and the weak versions of the Coase theorem, is irreducibly a comparative static

⁷ As I see matters, the relatively more important Coase theorem pertains to the real world case of high transactions costs, where the author advises the judge to rule in favor of the party who, in the zero transactions costs world, would have determined resource allocation. I see this as a horrid public policy recommendation, subject to all sorts of weird *reductio ad absurdum*. See on this Block, 1977, 1995, 1996, 2000, 2003a, 2006; Block, Barnett and Callahan, 2005; Cordato, 1989, 1992a, 1992b; Fox, 2007; Krecke, 1996; North, 1990, 1992, 2002; Rothbard, 1982, 1990; Stringham, 2001.

⁸ “Papabile” refers to one of the cardinals of the Catholic Church who has a reasonable chance of becoming the next pope. In like manner, “Nobelabile” refers to an economist with a plausible probability of being awarded the next year’s Nobel Prize in economics.

exercise. Block's line of argument is akin to the position that one can say something about changes to a market price by just focusing on demand or supply independent of the other. And just as statements about price involve an exercise considering the twin blades of the Marshallian scissors, statements about the Coase theorem involve a comparative static exercise where the variable is the definition of property rights. If one were to follow Block and focus on strictly one such scenario then all that one would learn is that if the gardener does not have the pecuniary means to protect her (sic)⁹ property rights that the garden will wither and die. But that's not a statement about the Coase theorem in either its strong or weak form. One would still have to ask what would happen to the allocation of resources or its normative content if the property rights were allocated instead to the gardener in order to complete a statement of the Coase theorem.

There are several difficulties here. It is remarkable that a favorable reference to the "Marshallian scissors" should appear in a journal devoted to Austrian economics, without, at least, any reference to criticism from this source. This mainstream tool of analysis has been so thoroughly debunked by praxeologists,¹⁰ that it is rather cavalier to rely upon it in this or any other manner.

As to the necessity of comparative statics, I am of two minds on this. On the one hand, I wish to assert that what I have done, above, in comparing my four scenarios A, B, C and D, is nothing but comparative statics. Nor is this the first time I have put matters in this way. Indeed, Block 1977, 1995 and 2000 is based on this way of looking at this issue. My treatment in the present paper breaks no ground. It is but a reiteration of what I have said before.

On the other hand, I wish to deny that if these four scenarios A, B, C and D, do not constitute comparative statics, then there is no need for them at all. Indeed, I go further, even if these four scenarios A, B, C and D, *do* constitute comparative statics, there is *still* no need for this mode of analysis. Rather, we can focus, solely, on situation B. Here, the farmer loses the court case, and must

⁹ Hey, I was the one who started this entire line of discourse (Block, 1977). There was no "her" involved at all, throughout this entire debate, until Brooks (2007). Rather, there were two *males*: the polluter and the pollutee. From whence sprang this feminization? On this see Gelernter (2008).

¹⁰ See on this <http://www.google.com/search?q=Marshallian%20scissors&hl=en&submit.x=0&submit.y=0>

bribe the manufacturer if he wants to retain his flower pot in good order. But, he *simply lacks the wherewithal to make this payment*, even though he will benefit to a greater extent (\$100) if he could but do so, than the costs of gaining him this asset (\$75).

Let me argue by analogy. Suppose someone were to make the following claims:

E: $2 + 2 = 4$

F: $2 + 3 = 4$

G: $2 + 4 = 6$

H: $2 + 5 = 7$

I agree with E, G and H, but not with F.¹¹ Analogously, of the four scenarios I mentioned above, I agreed with A, C and D, but not B. I am at a total loss to understand why I cannot properly single out B and F, in each of these two sets, and reject, only a single one of them, alone. Why, pray tell, must I compare B to any of these others, comparative statics wise, and ditto in this regard for F? Brooks (2007, p. 227) avers that the comparative static analysis must take place with regard to the definition of property rights, by which I suppose he refers to the judge's decision regarding ownership or not, to rights to clean air. But again, why not consider scenario B, all on its lonesome, to make the claim that for the (zero transactions cost) Coase theorem to be true, it must stipulate real values on the part of the farmer, and not mere psychic ones?

2. Then there is the issue of the "strong" and the "weak" versions of the Coase theorem. I confess I was then unaware of this distinction. Now that this is no longer the case, I confess I cannot see my way clear to appreciating its importance. Let us allow Brooks to explain. He (2007, p. 224) defines the former version in these words: "The strong version of the Coase theorem states that if transactions costs are zero, then the allocation of resources will be identical irrespective of the initial assignment of property rights." Brooks (2007, p. 226) sees the "weak" version in these terms: "if transactions costs are zero, then an efficient allocation of resources will be achieved irrespective of the initial assignment of property rights." Try as I might, I cannot see any difference between these

¹¹ Who says Austrian economists can't do math?

two statements; they appear to be paraphrases of each other, and, pretty close paraphrases of each other at that. One is in the passive voice, the other not, but for all that, it is otherwise identical. I must reject any criticism of my work on this subject on the basis of this “distinction.” This distinction seems to be made up entirely by Brooks. I can find no reference to it in Coase (1960). Certainly, Brooks (2007) does not cite Coase (1960) in this regard.

Of course, Brooks uses different words for these two versions. The “strong” speaks in terms of *identical* resource allocation no matter what is the court finding, and the “weak” on the basis of *efficient* allocation of resources on this basis. But this is a distinction without a difference. Why so? It is because for the Coaseans, the efficient resource allocation is precisely the one that ensues under the assumption of zero transactions costs, no matter how the property rights are initially assigned by the judge.

3. Brooks (2007, p. 227, fn. 4) is unhappy with my distinction between *ex ante* and *ex post* income effects. He notes that “It is hard to see how the term *ex ante* income effect, which leaves out the possibility of any change in real income, will be accepted by economists, at least by those with a neoclassical bent who treat the phrase income effect as shorthand for a parallel shift of budget lines or equivalently a change in real income.” Let me just say that I am blissfully unmoved by the very strong possibility that mainstream economists will not accept this nomenclature.¹² I was led to introduce this terminology out of frustration that I could not get Demsetz, a very intelligent and creative economist, to see that I (Block, 1979) was not making the rather elementary mistake of failing to realize that Coase (1960) full well appreciated that different judicial decisions would indeed impact the wealth positions of contending parties.

Here was another motivation of mine. Sometimes, in my classes, when I am trying to get across a difficult point (heck, *any* point), and I do not see the light bulbs going off on the top of the heads of my students, I try to articulate it in an entirely different way, on

¹² Indeed, it is a rarity that many of them even read much of Austrian output. And, when they do, it is usually in a condescending manner. See on this Rosen, 1997; Laidler, 2003. For a more general commentary on mainstream economists’ reaction to praxeological economics, see Block, Westley and Padilla, forthcoming.

the ground that if one mode of expression will not do the trick, then another might. It was entirely in this spirit that I introduced *ex ante* and *ex post* "income effects." My thought was that if I could but indicate to Demsetz that I full well saw his point, but he did not see mine, then perhaps progress could be made in our intellectual impasse. My means of doing so, *ex ante* and *ex post* "income effects," was, admittedly, contrived, but all is fair in love, war, and attempts to get that one millionth of an inch closer to the truth. I was attempting to put my point in language Demsetz would understand. I thought that "income effects" would break the ice. *Of course*, "strictly speaking, the *ex ante* concept involves no income effect at all" (Brooks, 2007, p. 227, fn. 4.)¹³ That was precisely my point. This ploy did not at all work for Demsetz, and it seems to have failed, dismally, with Brooks as well. But I am not willing to relinquish it on the basis of this sample of only two.

If Brooks does not relish my distinction between *ex post* and *ex ante* income effects (I thought it was rather clever) I react to his between the "strong" and the "weak" Coase theorems in a similar manner. To me, it is a primordial, undeniable, praxeological claim that if the farmer does not have the wherewithal with which to bribe the manufacturer in case B; if his only "wealth" consists of the psychic income enjoyment of his flower pot, then this claim of Coase's (scenario B) cannot be maintained. No twisting or turning on the part of Brooks or Demsetz can gainsay this elemental fact.

What I was trying to do, then, with my totally contrived concept of the *ex ante* income effect, was to demonstrate to Coaseans and Demsetzians that this was a null set. This phraseology constituted my attempt to demonstrate the utter failure of the (pet rock) "farmer" to bribe the manufacturer into ceasing his pollution. It was intended as nothing more than a heuristic device to that end. O.K., it failed. Demsetz did not see it, and Brooks misinterprets this as well. I am completely open to other pedagogical devices for clarifying this point.

4. But Brooks has another arrow in his quiver, the claim that there is something wrong with, or untoward about, the farmer having

¹³ Brooks, 2007, p. 227, n. 4, attributes these words to "(Block 2000, p. 69)," but my words there are not exactly the same as he attributes to me. He really should be more careful. Quotation marks are supposed to indicate exact words.

no income whatsoever. Brooks (2007, p. 228, n. 5) plaintively asks, "Just how such a poor farmer meets her [sic] land taxes or buys any inputs in the market is something of a mystery. Consequently, though the garden may not have any explicit value on the market, it is hard to imagine a farmer who cannot muster any market income from her [sic] other assets." But this is not exactly cricket. I (Block, 1977, 1995, 2000) was engaged in *abstracting* from the real world in my attempt to see if resource allocation is truly invariant to court decisions regarding property rights in the zero transactions cost world. The issue of "other income" or "realism" simply does not arise in that context. The world of zero transactions costs is, *par excellence*, an abstraction from reality. In order to provide a *reductio ad absurdum*, as I was attempting to do with regard to Coase and Demsetz, one must, perforce, accept the premises of the model. This is precisely the exercise I was engaged in. For Brooks to come along and object to the lack of realism is to drop the Coasean context I was adopting, *arguendo*.

Let me take another crack at this. Consider case A, where the manufacturer bribes the farmer who just won the court case into allowing him to pollute, despite the court decision to the contrary. The assumption here is that the manufacturer finances his bribe of \$90 out of the cost savings of not being required to install the SPD, with a price tag of \$100. "Other income" simply does not enter into the picture. It is this model that I was attempting to address, that I was *required* to address if I wanted to launch a *reductio*.

One mistake, perhaps, I made with Demsetz was in not trying to say the same thing in many, many different ways. Let me not make the same error, now, with Brooks. Accordingly, I now attempt to make this point using alternative verbiage. Brooks asks, how can the farmer not finance the bribe with these additional funds, given that he gains so much psychic income from the possession of the flower pot? There *must* be some other wealth available to the farmer; how else does he¹⁴ eat, sleep, breath, continue to live? This, it might be thought, is a reasonable position to take. However, it lies completely outside of the logic of the debate Demsetz and I

¹⁴ Brooks would say here, instead, "she." But I see no justification for catering to the whims of Marxist feminists. See on this Levin, 1984, 1987. I am surprised to see this sort of thing in the pages of the *Quarterly Journal of Austrian Economics*.

have entered into, if only for the purposes of discussion. Here, the means through which the bribe is to take place stems from the *benefits* to be derived by the loser in the court case, *not* "other income." My point is that if these benefits are merely psychic, not objective, then they cannot finance any rearrangements of resource allocation. Demsetz thinks I confuse this with an income effect. But *other* income on the part of the farmer never arose in our deliberations because it lies entirely outside of the scope of the Coasean model. For Brooks to raise it in this context constitutes a category mistake. It is as if two people were debating the merits of cars, and a third party interjects that a motorcycle, or better yet a sailboat, is preferable to either. Well, it may well be so; but this point lies out of the realm of the debate over rival automobiles.

However, I am grateful to Brooks (2007, p. 228, n. 5) for strengthening my argument against Demsetz by noting that for it to work I need not assume zero wealth on the part of the farmer. I could do this, instead, by "allowing the farmer's market income to be anything less than $Y_3 - Y_0$." I regard this as a real contribution of Brooks'.

5. Speaking of this way of putting the matter, Brooks (2007) places great reliance on indifference curve analysis. When I was young and foolish, I, too, resorted to this sort of thinking (Block, 1995, 2000). But, in my dotage, I have finally achieved wisdom on this subject. I now see this tool of mainstream economic analysis as a snare and a delusion. There is no room in proper economics for "indifference."¹⁵ Human action requires preferring, and setting aside. So, I leave that part of Brooks' paper for others to analyze.

6. Brooks (2007, p. 229) attempts to "clarify" my and Demsetz's position. He states: "As I wish to focus the discussion, at least for the moment on the implications of Demsetz's discussion, I sidestep Block's argument and assume the factory owner will accept as payment the farmer's psychic income."

I find this troubling. Let me say loud and clear, I am as willing as the next person to accept posits for argument's sake; I am a keen devotee of the *arguendo* ploy. I stand second to no man in my

¹⁵ See on this Block, 1999, 2003b, 2005, 2007; Caplan, 1999, 2001, 2003; Höpfe, 2005; Hülsmann, 1999.

appreciation for contrary-to-fact conditionals. However, moderate that I am on this issue as well as on all others, this goes too far. The whole point of psychic income is that by its very essence it *cannot* be used to pay other people. Psychic income is the sort of income that of necessity can only be enjoyed by its owner, not by anyone else. Thus, contemplating the farmer bribing the manufacturer by giving him some of the former's psychic income is no less than a logical howler. It is as if someone were to attempt to draw a veritable square circle, and, to add insult to injury, put it up for sale.

It is on the basis of this sort of "analysis" that Brooks (2007, p. 229) is able to conclude,

Cast in these terms Demsetz appears to be correct in claiming that Block's argument is nothing more than a playing through of the income effects: Although the final allocations differ across the two scenarios, the two different social outcomes are socially efficient. And psychic income effects can be easily incorporated into the analysis and appear as the difference between the budget constraints B2 and B1.

My response? "Appears to be correct," nothing. Why so modest? Under these assumptions, Demsetz is indeed *entirely* correct, and I am totally in the wrong. The zero transactions cost Coasean theorem is without flaw, at least it has none I am able to discern. But this devastating knockout blow of my contribution to this debate comes at the cost of *denying my very criticism*. I have said before and I now say again, if the income of the "farmer" consists of no more than his psychic income, which by the very nature of things *cannot* be used to finance a bribe in case B, then the simple Coase theorem is wrong, and subject to my criticisms of it. However, if we accept the square circle type notion that subjective enjoyment of one person can be *given* to another in the form of payment,¹⁶ then of course Coase, Demsetz and Brook are in the right, and I

¹⁶ There is of course a poetic sense in which the manufacturer can be paid off via the psychic income of the "farmer": if the former enjoys the enjoyment of the latter. Or, to put this in neoclassical terms that would be appreciated by Coase, Demsetz and Brooks, if the psychic enjoyment of the "farmer" enters into the utility function of the manufacturer, in a positive direction. But this has *nothing* to do with my criticism of the zero transactions cost Coase theorem, nor with my long running debate with Demsetz. There, the bribe of payment consisted of something of *objective* value, namely money.

am in the wrong. It is as if I am arguing with someone over simple mathematics. I claim $2 + 2 = 4$. The other person defines 2 as equal to 3. Then, *of course* I am wrong. The correct statement is then $2 + 2 = 6$. The statement (Brooks, 2007) "The maximum amount of psychic income that the farmer is willing to pay, to avoid the loss in utility from the destruction of the flower garden..." is a *non sequitur*. Much more sensible is Brooks' (2007, p. 230) view "In the absence of cold hard cash the factory owner will not install the equipment and the garden will wither and die." And, as can be imagined, I am in entire accord with Brooks' (2007, p. 231) declaration that "Block is entirely correct in mounting his claim that Coase's argument falters when the lack of wealth intrudes on the ability to bargain in the market for property rights." However, left unsaid is how someone can "bargain in the market for property rights" in the absence of "cold hard cash," when one has only psychic income.

7. I now arrive at what I consider Brooks' (2007, p. 231) best contribution. It is so good that I take the liberty of quoting it in full:

It is perhaps instructive to ask how the opponents in the debate may have been misled in their handling of the(ir) analysis.... There is a long and valid tradition in demand and supply analysis that, in the absence of any marginal external effects, it is not efficient to allocate resources to those individuals whose demand lies to the right of the market equilibrium quantity. Over such quantities the amount individuals would pay for the goods at the margin is less than what it would cost the collectivity to produce and provide them. It is worth reminding ourselves that a demand curve is, of course, an instantiation of willingness to pay that is backed by purchasing power. The marrying of willingness and ability to pay is so ingrained in the language of economics that one often hears statements just about willingness to pay—it being understood that that expression of desire is synonymous with how much the individual is able to pay. In doing so economics is the discipline that marries the passions and preferences of individuals—the world of philosophy—with the limits of just what is feasible—the stuff of engineering and science. Seen in this light it is perhaps not surprising that Demsetz would respond that Block's psychic income case was nothing more than an income effect and did not represent a new challenge to the Coasian [sic] position at least in its weak guise. If the farmer did not have enough effective purchasing power to convince the factory owner to install the pollution equipment, then just as individuals with demand to the right of the equilibrium quantity should not receive goods, the farmer should not receive the right to acquire a garden.

But the important policy lesson underlying Block's argument is that it can be a meaningful exercise to decouple willingness to pay from ability to pay....

I concur enthusiastically. This is a far better explanation of Demsetz's unwillingness or inability to see my point than the one I had long entertained: intellectual arrogance. I am very grateful to Brooks for enabling me to see this matter so clearly, at long last.

CONCLUSION

According to Brooks (2007, p. 232): "The reality is that when the farmer *has* a garden but no pecuniary income to protect that garden then the actual use value of the garden will be destroyed when the property right is assigned to the factory owner." This is as good as a summary of my entire contribution to my debate with Demsetz. Brooks agrees. I thank him for this support.

Of the two Coase theorems, the one dealing with the zero transactions cost world, and the one addressed to the real world, the latter is by far of greater importance. But the former, too, offers great interest to the economist. Demsetz and I have strived mightily to determine whether this one is correct or not. The present paper has examined Brooks' contribution to this literature. My claim is that there is nothing in my previous contribution to it that has to be revised because of this new entry. I continue to maintain that when psychic income is taken into account, it by no means logically follows that in the made up world of zero transactions costs, the judicial decision will not determine resource allocation. It will, and not because I have failed to take into account the income effects mentioned by Coase, *a la* Demsetz. Nor, even, because I have not utilized comparative statics, as claimed by Brooks.

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