

REVIEW ARTICLE

EARNING HAPPINESS THROUGH HOMESTEADING UNOWNED LAND: A COMMENT ON "BUYING MISERY WITH FEDERAL LAND" By Richard Stroup¹

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Richard Stroup (1988)² attempts to show that the Homestead Act of 1862 was an economic disaster, in that it led to needless misery and suffering on the part of people who settled the western lands under that program. In his analysis, homesteading encouraged the too rapid pushing back of the frontier, dissipating all or virtually all of the economic value of these lands. From these comments he draws the conclusion that government auctions of virgin lands are preferable to homesteading them, a lesson with far more than only historical interest.

I shall begin by contending that the evidence offered for his finding is insufficient; I shall then put forth the view that the theoretical underpinnings of his argument are faulty, considering and rejecting several implications of the Stroup hypothesis; I conclude that it cannot rationally be applied to problems of a similar sort facing society today.

But before we begin, a preliminary question must be squarely faced. There is some question as to whether Stroup is analyzing and criticizing the (Lockean)³ principle of homesteading, the homesteading era, or only the Homesteading Act of 1862. In my view, his remarks apply to all three, not merely to the latter. True, he begins by focussing on that piece of legislation, but his analysis is then applied to homesteading in general. Accordingly, I shall interpret his remarks as a

1. The author would like to thank the following for helpful comments: David Friedman, Gordon Tullock, Terry Anderson, W.A. Albada and, somewhat paradoxically, Richard Stroup.

2. All page references, unless otherwise indicated, refer to Richard L. Stroup "Buying misery with federal land," *Public Choice*, Vol. 57, 1988, pp. 69-77.

3. For a defense of this view, see Rothbard, 1982; for a critique, see Nozick, 1974.

critique of homesteading in general, as well as one of the law of 1862.

Economic History

What documentation does Stroup offer for his thesis of premature settlement? He only shows that the lives of these settlers was one of hardship, sacrifice and of times failure to maintain their homesteads. But this undisputed fact is hardly a necessary or sufficient condition for resource misallocation of the sort he asserts took place. After all, this was the decade of the 1860s; suffering and adversity were by no means a monopoly of these frontier farmers. Numerous other people in the mid 19th century led lives of extreme destitution and poverty.⁴

Further, what limited bankruptcy statistics that are available fail to indicate any massive increase attendant upon the 1862 law. For example, consider the 20 year period from 1857 to 1876:

Year	Number of Business Failures	Losses in Millions of Dollars
1857	4,932	292
1858	4,225	96
1859	3,913	64
1860	3,676	80
1861	6,993	207
1862	1,652	23
1863	495	8
1864	520	9
1865	530	18
1866	1,505	54
1867	2,780	97
1868	2,608	64

4. The plight of the European immigrants who landed in New York City was great; far worse was that of those who suffered from the Irish potato famine; even the gold miners on the U.S. Pacific Coast in mid 19th century are said to have lead economically unsatisfactory lives in the extreme. One can hardly deduce Stroup's case of resource misallocation or lost land rents from mere poverty; this state of affairs, unfortunately, was widespread.

1869	2,799	75
1870	3,546	88
1871	2,915	85
1872	4,069	121
1873	5,183	229
1874	5,830	155
1875	7,740	201
1876	9,092	191

Source: *Historical Statistics of the U.S.*, U.S. Department of Commerce (1975)

It is very difficult to reconcile the Stroup hypothesis with this data. In the year before the passage of the homesteading legislation, American business failures reached a high point of 6,993. But with the advent of this law, bankruptcies began a sharp decline. It was not until 1875 that the number of insolvencies exceeded the level attained in 1861. And one would have to search far ahead⁵ in history, all the way to the depression year of 1893, to exceed the level of losses that was registered in 1861.⁶

Yet another explanation of the impoverishment of these farmers – such as it was – has to do not with homesteading per se, but rather with the artificial size barriers placed upon this process by the government. In this regard states Murray Rothbard (1986):

"Destruction of the grass cover in the West in the late 19th century was caused by the federal govern-

5. U.S. Department of Commerce (1975), p. 912.

6. To be sure, these are very rough figures. They well might not be finely calibrated enough to shed light on the Stroup hypothesis. For one thing, they apply to the U.S. as a whole; they do not distinguish between states subject to the Homestead Act, and those which were not. For another, they apply to business failures, not personal bankruptcies (I owe this point to David Friedman), and homesteader losses would be heavily weighted toward the latter. But the burden of proof should be placed on the counterintuitive premature settlement scenario; not upon its denial. As well, Stroup offers no evidence showing that the personal bankruptcy rates in the states subject to the Homesteading Act were significantly higher than those in jurisdictions where this law was inapplicable. As a result, I cannot maintain that I have empirically demonstrated that there was no great suffering; only that Stroup's thesis remains unverified, despite the evidence he presents.

ment's failure to recognize homesteading of land in large-enough technological units to be feasible. The 160-acre legal maximum for private homesteading imposed during the Civil War made sense for the wet agriculture of the East; but it made no sense in the dry area of the West, where no farm of less than one or two thousand acres was feasible.⁷

And there is a further reason to criticize the Homestead Act of 1862, but not the Lockean notion of establishing property rights in land by mixing one's labor with virgin territory: the enactment placed onerous roadblocks in the path of the would be homesteader which were not called for by the theory itself. Anderson and Hill (1983, p. 445) describe the requirements of land claims clubs and associations which functioned in the western states in the 19th century, and were run roughly along the lines called for by Locke: "It should be emphasized that these expenditures were specified in terms of labor, allowing the farmer a great deal of latitude with his investment...This is in sharp contrast to the Homestead Acts which specified the investments in terms of cabin size, irrigation ditches, and planted trees, most of which were unnecessary."

How could we put our alternative hypothesis in terms of Stroup's figure 1? One possibility would be to allow his function to begin at the origin, be coincident with the x axis until point t^* , and then continue to the right as he has depicted it. In his terminology, this would be equivalent to denying the applicability of the "farm frontier" to this particular historical epoch.

I must conclude this first section with the claim that Stroup has failed to demonstrate that the Homesteading Act of 1862, let alone homesteading per se, was the cause of excessive suffering on the part of the settlers. It may possibly be true, but it has not clearly been shown to be true. As a pure matter of economic history, the best that can be said for this hypothesis is that it remains unverified.

7. Ironically, this view is also expressed in Baden and Stroup (1988). As well, see Libecap and Johnson (1979).

Economic Theory

Even if Stroup has not shown his theory to have had application to the post civil war period, it is still a very interesting one. Could his critique of homesteading in general still be viable, and thus potentially of relevance at some other time? In this section, we shall suppose that this is so; in other words, we shall for argument's sake accept the "farm frontier" model, and thus figure 1 exactly as it appears. We now ask if there are any additional and special conditions still needed for his policy analysis to be correct.

Even if we fully accept his critique of homesteading, it by no means follows that a government auction⁸ is a preferable public policy. One need do more than demonstrate "market failure" in order to justify government intervention; one must also defend the position that public sector involvement will not bring in its wake even worse implications for economic welfare. That is, one must show that the "cure" will not be worse than the "disease." But Stroup fails to do this, implicitly assuming that his demonstration of market imperfection is sufficient to warrant the statist auction system.

One way of looking at this issue is to see that what is at stake here is the issue of privatization. Homesteading is the market's means of converting virgin land into private ownership status; the auction is the governmental counterpart. But privatization has proven economically viable in numerous contexts (Walker 1980, 1988). Thus the presumption ought to be in favor of this process as a means of promoting economic welfare.

8. Stroup attempts to justify it on the grounds that it is better that the "federal treasury absorb" the resources frittered away on premature settlement rather than that there be "no offsetting economic benefit to the nation" (pp. 71,72). But this is a pure value judgement, which cannot be supported by anything in the realm of positive economic theory. One might with equal justification claim that it is better that resources be wasted, than that they be given over to the evil government, which will use them to further solidify its pernicious hold over the economy. This, too, would be a value judgement, equally incompatible with a positive economic outlook.

Market Imperfections

A major difficulty with Stroup's argument for government auctions of virgin land (as opposed to market-oriented homesteading)⁹ is that it implicitly assumes the operation of a perfectly efficient public sector. The argument is that the market is imperfect; therefore, government intervention is justified. One may of course stipulate that if civil servants were omniscient and benevolent, and participants in the marketplace were ignorant, venal and self interested, then there would indeed be a strong economic case for supplanting the latter by the former. But the teachings of the Public Choice School, for one, are incompatible with any such presupposition. For it is a basic insight of such authors as Buchanan and Tullock (1971) that people do not suddenly sprout wings when they leave the private sector and enter the civil service. On the contrary, those who enter the public sector from the private bring with them all their human fallibilities, including ignorance and selfishness.¹⁰

The objection to Stroup is not limited to the self evident claim that state bureaucrats are imperfect. Given that the functioning of both the public and private sectors is flawed, the issue is, Which is worse? Stroup contents himself with indicating drawbacks in the market (homesteading) system. But in order to reach the conclusion he seeks, it is incumbent upon him to show that the graft and corruption usually attendant upon government operation¹¹ would not entail even more of

9. See Anderson and Hill (1983), Rothbard, (1982).

10. According to Hayek (1944) the situation is even worse, as the system of dirigisme encourages the "worst to get on top."

11. We must resist the objection that the crookedness that usually plagues government operation would not apply in this case because here the state is merely selling off virgin lands, and is not engaged in production or commerce on its own account. On the contrary, government corruption is endemic, too, in cases where it is "merely" attempting to contract out, to the private sector, activity formerly in its domain. The recent (1986) bribery scandal in the New York City Parking Violations Bureau is a case in point. Geoffrey C. Lindenauer, the deputy director of this organization pleaded guilty to racketeering and mail fraud for soliciting bribes from private firms who sought contracts with his agency. There is little reason not to suppose that this sort of graft would be and was an intrinsic part of government operation and management of land

a welfare loss than a blemished market. Even if his attack on homesteading were correct, in other words, his conclusions would by no means follow. Given that his argument is correct, he is entitled to conclude from it that both methods of property distribution (auction, homesteading) are imperfect; unless and until he can show that the former is less imperfect than the latter, he cannot logically prefer one to the other.

Perfect competition

This brings us to the basic difficulty with Stroup's theoretical work. It is that it is far too beholden to the unrealistic model of perfect competition. Our author has embraced the notion of full and perfect information with a vengeance, but it ill accords with the real world, to the detriment of the explanatory power of his model.

This is seen when we ask about the kind of world that would have to exist for his hypothesis to be useful. It would have to be one in which many people knew full well of business opportunities which might not arise for decades. How else can we explain his fears that in the absence of state organized auctions, people would be camping out for years, if need be, in order to prematurely homestead land which would only become economically viable dozens of years later. This behavior is eerily reminiscent of what occurs when a professional football team announces the sale, at prices far below market values, of superbowl tickets. Fans "camp out" on line, with their sleeping bags, thermos bottles and picnic boxes, days in advance of the announced sale.

But the real world is not often like that. Rarely is knowledge of the future given to an imperfect mankind. And the proof of this is that entrepreneurship is continually with us (Kirzner, 1972). Were there to be full information available to market participants, profits would be zero, and entrepreneurship would come to a complete grinding halt. This may be true is the never never land of most introductory economic

sales through auction. (For the view that such activity is intrinsic to the public sector, and central planning of whatever stripe or variety, see Hayek (1944).

textbooks, but as a description of the world as we know it, and, presumably, the one to which our author intends his model to be relevant, this is obviously false.

As a matter of historical fact, it was Columbus¹² who was the only one¹³ to venture to the specific area that he visited in 1492. The great bulk of the U.S. was settled by people who, when they finally reached their destinations, were few, far between, and isolated. Typically, the lands they claimed were not even economic goods: there was more and as good that was not claimed.¹⁴

This situation of land surplus in the 19th century is entirely consistent with the Austrian emphasis on entrepreneurship (Kirzner, 1972). Here, one or a few individuals, with more foresight than their fellows, take advantage of a state of affairs that only they can perceive. With regard to homesteading, only several individuals (compared with land availability) typically anticipate that a migration will result in entrepreneurial gains, or profits, for themselves.¹⁵ The scenario propounded by Stroup is completely at variance with actual historical experience. On his view, thousands and thousands of people were contending for a very limited acreage.

And on the rare occasions that reality resembles the Stroupian model, there is almost always the not so subtle hand of government interference with the marketplace at work. For example, consider the cases where people would line up in

12. This applies to Magellan, Cortez, Pizarro and other such explorers as well.

13. We ignore the possibility that the Vikings may have visited these shores several centuries before hand. They did not stay to settle and homestead, in any case.

14. This is in sharp and dramatic contrast to Stroup's discussion of the "winner's curse" (pp. 73-75) where he envisions as typical the situation where there are numerous potential homesteaders all seemingly poised at the starting blocks, ready for the timer's gun to go off signalling the beginning of the race.

15. Economic history is compatible with the view that these settlements were economically viable at the time they were settled. Thus, in our model they arrived after point t^* . To be sure, many of the settlers subsequently picked up stakes and moved further west. But this is not inconsistent with the view that they first took up residence at or after point t^* , for two reasons. First, others took over their leavings and were able to earn revenues above their alternative costs, as indicated by their long term occupancy. Second, the first arrivals may have been economically secure, but may have seen even greener pastures further west.

horses and wagons, and then begin the race to homestead land when the government starting gun was sounded. This is the model of homesteading popularized in novels and cinemas.¹⁶ But why did the people have to wait until the starting gun went off? It was because government had hitherto prevented land settlement!

Alternatively, assume that government today announced that in ten years time it would acknowledge ownership rights to what are now the national parks, or the radio and t.v. broadcast spectrum, if they were to be homesteaded in the interim. There is little doubt that chaos would ensue. People would avidly pursue these opportunities, while their value would be dissipated in the process. But this would be due to the fact that such an announcement would have been made a two centuries too late in the case of the land, and almost one century too late in the case of the airwaves.

Privatization?

Another problem with leaving the dispersal of the virgin territory to the government is that instead of privatizing it, as Stroup implies they will, the state may instead keep the land under its own control,¹⁷ or refuse to allow any ownership of it at all.¹⁸ Under homesteading, however imperfect, at least we can count upon the resources passing into private hands.

In some cases, there may be good and sufficient reason¹⁹ for government not to follow the implicit Stroupian advice and engage in massive property auctions. For example, there are no governments which now claim sovereignty over the oceans, seas, and Antarctica. Were any adventurous souls interested in economically developing these swatches of real estate, they could have no recourse to any nations as presently constituted.

16. And based on the experience of the Sooners ("the sooner you got there, the better") of Oklahoma.

17. The statistics of U.S. land ownership are as follows: In Alaska, land in government hands comprises 98% of the total; only 2% is privately owned.

18. A situation of "non-ownership" best describes the state of affairs with regard to the oceans, the lakes rivers and streams, and the heavenly bodies.

19. Or at least what some people might consider good and sufficient reason.

One option, of course, would be homesteading. The difficulty here is in ascertaining whether or not ones' property rights would be protected in future. Another option, this one more compatible with the public policy implications of Stroup's analysis, would be to have a super powerful United Nations, *i.e.*, a World Government, auction these properties, lest, horrors, any business firm engage in "premature" homesteading.

But the very idea appears almost ludicrous. It is painfully obvious that if even a government such as that of the U.S. – supposedly dedicated to the free enterprise system – would forebear to auction off its vast land holdings²⁰ to private owners, there is very little hope indeed that the nations of the world as a whole – most of which have fallen under the domination of abhorrent Marxist philosophies – would do so.

And what of the properties on the moon, Mars, and even the asteroids? Although perhaps premature as of the present, these resources may well become economically viable during the century which is now almost upon us. Would Stroup give over these resources to the tender mercies of a World Government – or a Solar System Government, should the discovery of other intelligent species lead us in that direction? It is one thing to entrust such entities with the protection of private property rights. This, even in the U.S. with an activist Supreme Court, is risky enough. It is quite another matter, as per Stroup, to ask such entities to first auction off land, and then to uphold the privatization.

As well, there is the difficulty that government, too, oftentimes engages in activity which fits the Stroup model. That is, the public sector can also act prematurely. If we interpret the

20. Many of which are, as I write in September 1988, in the process of being consumed by fire. Some commentators have blamed the fires now raging in Montana, Idaho, and Wyoming on the "free burning" policies of the radical ecologists who infest the U.S. Forest Service. But a more basic criticism is to be levelled at the principle of public ownership in the first place. After all, a private owner who did not protect his resources from such "natural disasters" would soon enough be forced into bankruptcy. It is only under the institution of public ownership that such erroneous philosophies can do such stupendous harm.

landing of three U.S. taxpayers on the moon in the Kennedy Administration as the first step toward colonizing the heavenly bodies, then it would appear that this was a very precipitate step. It was far in advance of what might have been called for in a more rational plan, which would have made sure that the basic technology, the development of complementary factors, etc., was first in place before undertaking such a step. But if both the public and private sector can act over hastily, then surely one does not prove the former preferable merely by pointing to this behavior in the latter.

Perhaps Stroup's perfectly competitive equilibrium²¹ model better fits other property which has not yet been homesteaded, but may, one day, undergo such a process. Perhaps the settlement of the American west is too onerous an historical episode against which to test its contention. After all, most people were completely unaware of the resource opportunities available to them through homesteading.

Instead let us consider the moon.²² There can be no

21. David Friedman (1973) has proposed a similar claim regarding the booty available as a result of engaging in political activity. He theorizes that the earnings from such behavior will be no higher than those which can be obtained through other lines of endeavor, and for similar reasons: the resources devoted to gaining political pull will, in equilibrium, just offset the revenues derived thereby. This is obviously true at the formalistic level: this is a correct description of the equilibrium state in which there is no incentive for anyone to change. The relevant question is, however, does the economy ever reach such a point? That it does is counter-intuitive in the extreme. It implies, among other things, that all participants in the political process are equally able in perceiving new rent-seeking opportunities; that there always exists a perfect (or at least near-perfect) allocation of resources in society. Were these conditions to hold, there would be no reward for entrepreneurship. But as we know that there is, the contention of full resource allocation must be false. If illegal activities such as those undertaken by the Mafia are interpreted as a sort of rent-seeking (and there is no reason why they should not be) the implication of the Friedman-Stroup hypothesis is that this organization never earns super normal profits. Where, then, do they get all that money for limousines? Is the Godfather a complete economic fiction? Are we to leave all our illusions broken by the perfectly competitive model?

22. We cannot, in this regard, realistically use the oceans or the Antarctic for this purpose. These entities cannot be privately homesteaded because no government stands ready to defend any such settlement and commercial exploitation. The situation with regard to the moon is perhaps equally unclear, if not more so. Nevertheless, for the purpose of discussion, we shall assume there to be no legal barrier homesteading the moon.

question but that everyone is fully aware of the existence of the moon. The U.S. moon launch in the past decade was widely publicized, so there can be no doubt that the knowledge that it is now technically possible to visit this worldlet is now widely disseminated.

Based on Stroup's analysis, we are not yet at point t^* with regard to moon settlement. As I write the cost of commercial lunar settlement would now appear to be prohibitive. That is to say were such activity to be begun at present, it might easily dissipate the present value of all future rents to be earned through settlement. According to Figure 1, we are now in a position akin to t . Why, then, have not private interests already begun, lemming like, to waste their resources through premature settlement?

Superbowl Tickets

Stroup attempts to show the economic inefficiency of homesteading 19th century land by likening this process to the sale of underpriced superbowl tickets on a first-come first-served basis in the modern era (p. 71). In both cases, he contends, below market pricing takes place. Let us take this analogy to its logical conclusion, however. Stroup advocates government intervention in the former case (a government auction of land is preferable to inefficient free enterprise homesteading), but he fails to carry through consistently in the latter. If he did, he would have called for government price controls on National Football League championship tickets, for their pricing policy – just as in the case of homesteading – creates a queue whose members pay "partly in the form of inconvenience and time lost" (p. 71). Perhaps by shedding light on the fallacies involved in urging government action in the football case (price controls) we may more easily appreciate the misconceptions which underlie the call for government action in the case of converting virgin land into private property (auctions).

It is easy to show that price controls – in all cases, and no matter how well intentioned their proponents – reduce the economic well being of at least one of the parties to the trade.

If this were not so, then, presumably, there would not have been any "need" for outside interference in the first place. If both parties can gain from a change in the terms of trade, the presumption is that the marketplace will gravitate to that state of affairs. In addition, the problems of price controls – inflexibility, allocative inefficiencies – are sufficiently well known in the profession.²³

In the specific case of the Superbowl, prices are indeed set far below the level which might equate the supply, limited by stadium capacity, and the now suddenly voracious demand. But this is not due to any inefficiency on the part of the sports team, as Stroup implies. Rather, ticket prices are kept purposefully low for the same reason that the grocer does not sell milk at market clearing prices during an emergency (fire, flood, storm), nor the hardware store flashlights and shovels. All of these merchants, the grocer, hardware supplier – and the football team as well – have to deal with their customers when the abnormal demand comes to an end. If they raise their prices to market clearing levels during these extraordinary times, the general public, unsophisticated in basic neo-classical economics, will resent them.²⁴ The average consumer will feel victimized by such a peak load pricing policy. Entrepreneurs engage in short run profit maximizing behavior only at a great risk to their entire operation (see Block, 1976).

It may be objected that (minimum) price controls would in this particular case, and perhaps in no other, have a positive benefit: if the football team (the grocer, etc.) is forced to raise prices to market clearing levels, so that no queues are allowed to develop, the general public will not blame it; instead, such action will call down obloquy upon the head of the government board of price control. But this is unlikely. The state

23. Frey, et. al., report that only 5.7% of U.S. economists, and only 2.2% of their West German counterparts agreed with the statement "Wage-price controls should be used to control inflation."

24. Alternatively, one might interpret the low ticket prices as a gift on the part of the N.F.L team to its loyal customers. A minimum price control would render this gift impossible, and thus make both parties to the transaction worse off. See Kahneman, Knetsch and Thaler (1986).

habitually and successfully blames the market for its own excesses.²⁵ It would be easy for detractors of the free enterprise system to assert that government was only imposing price controls in this case because of the previous "recalcitrant" behavior of the sports teams.

Even, however, on the assumption that state activity might in this case "work," and reduce the queues of avid football watchers, there are still difficulties. For one thing, it is problematic to equate a market-clearing price with the price that would arise under a free enterprise system. Yes, in a free market, there is a tendency for supply to equal demand, for there to be no queues, but this is only a (usual) result, not a defining characteristic of the system. We must distinguish between queues that are the result of government intervention, and those that are part of the voluntary exchange system. It is clear that a queue due to a price ceiling is inefficient; at a higher price, willing buyers and sellers could have engaged in mutually satisfactory economic activity. But a private queue is a completely different matter. Here, it is patently *not* true that there are two parties to an exchange, *both* of whom are balked in their intentions. On the contrary, one of them (the NFL team, the grocer) refuses, let us suppose that this is for reasons best known to him, to engage in a trade at a price that would equate amount supplied and demanded. Forcing him to do so by coercive means would thus clearly reduce at least his welfare.

Other "Goods"

But land is hardly the only commodity which can be described by Stroup's figure 1. There are many other goods, some far more valuable than acreage, which initially yield a negative return, eventually pass through a break-even point,

25. An example that springs to mind in this regard concerns inflation. Government, and its defenders, commonly attribute inflation to private "greed," and "self-seeking" - whether on the part of consumers who buy too much, retailers who "profiteer," or union leaders who are "grasping." But as is well known by now in the profession, it is government's own (central banking) money creation which is the cause of this particular malady.

and then finally garner a positive dividend for the investor.

Human relationships, particularly romantic sexual liaisons, also follow this pattern. Moreover, at least at the margin, the utility derived from such interpersonal relationships are often far more important than land. Helen of Troy launched a thousand battleships; acreage in Athens was never even in the running for this honor. Men come to blows, even murder, over the favors of a beautiful woman; true, land is also the object of warlike behaviour, but when this occurs it is typically less passionate, personal and bitter.

If the Stroup hypothesis were correct, one would expect it to apply to the "marriage market" as well as to land. That is, one would expect it to be common behavior for adults to try to "homestead" young children who were particularly attractive, or who showed promise of developing into superlative candidates in the "marriage market."²⁶ An adult could buy lollipops for the young person, take him (or her) to the zoo, etc., in an attempt to ingratiate himself (herself) with the child.²⁷

Yet the reality is, to say the least, very different from this model. The only adults who hang around children in such manner are the perverts and child molesters whose interest is very much with the present, while their "homesteadees" are still very young.²⁸ They are not at all concerned with the

26. It must be readily admitted that this is only an imperfect analogy. In the case of land, one is virtually assured of actually receiving that which one homesteads; in the case of children, one can do no more than increase the probability that one's "suit" will be looked upon with favor when adulthood is reached. Land is inert; it must "accept" its homesteader. People make choices; thus, they may decide to reject their "homesteaders."

But this distinction can easily be overdrawn. Nothing in the future is for certain in this world. There is no *guarantee* that the homesteader of land will actually receive it. As Stroup (p. 71) himself reports, "hardly more than a third of the homesteaders (of land) before 1890" actually succeeded in their quest.

27. Arranged marriages, such as occur in India, are not relevant to our concerns. These are devised by two sets of parents for similarly aged children, usually at birth. What we are here considering is the case of adults queuing up in line, waiting for children to grow up, prematurely anticipating them, as it were.

28. One searches in vain for real world counter examples; literary ones are hard to come by as well. However, one such does exist: Robert Heinlein (1973). I owe this point to

future, when these children will have achieved adult status, and thus be no longer attractive to them. Indeed, it smacks heavily of the ludicrous to even entertain the notion of healthy adults queuing up in line to await the maturation of children in this way. Nor is this somewhat bizarre notion obviated by any analogy to a government auction for young children.

Research and Development

But all this is highly speculative. We do not have to resort to such fanciful counter-examples in order to refute the Stroup hypothesis. Were it true, other more mundane results would occur, which do not actually take place. Consider scientific and technological research and development, for example. This, too, is a direct analogue to the homesteading of virgin land. Just as in that case, and initial investment is made, in the hope that it will bear fruits in the long run. Assume, then, that the R&D investor faces a horizon depicted as in Stroup's figure 1. The ideal time period for him to make his discovery would be at t^* . But, just as in Stroup's analysis of the homesteader, our investor may fear that others will steal a march on him, beat him to the punch, and discover the new process before he. So, he will be lead by the invisible hand of competition to begin undertaking his investment long before the optimal point t^* . He will start, just as his homesteading counterpart, at t . Why? "An individual whose view coincided with Figure 1 would be willing to (begin research) as early as time t , calculated to be the time at which the negative value of the time spent between t and t^* would just equal, in present value, the sum of future positive values to be captured by the (investor). If he believed other (competing investors) to have similar views, he might indeed (begin research) at time t , thus destroying by premature (investment) an amount of wealth equal to all the present value of future rents believed to exist in (discovery of the new invention)."²⁹

If Stroup is correct, then, in advocating government land

David Friedman

29. Paraphrase of Stroup, pp.73, 74. Material in brackets inserted by present author

auctions instead of private homesteading, on the ground of wealth maximization, he must also consent, and for the same reasons, to an analogous public sector "sale" of the benefits of scientific R&D. For only in this way may the economic horrors of premature research investment be precluded.

Can Stroup argue that there is a disanalogy between land and technological development? That on the one hand the land to be homesteaded is well known to all and sundry, but that on the other hand the results of research are all but unknown at the outset, and that further there is great risk that any given experiments will fail?

Were this reply to be attempted, it would only expose the argument, all the more, to the charge that it is truly mired in the perfectly competitive assumption of full information for land. But it is simply not true that all potential homesteaders know full well of all opportunities open to them; that homesteading is a riskless exercise.³⁰ On the contrary, entrepreneurship, as we have seen, pervades every nook and cranny of the real world economy. Yes, it pertains to research and development; but it also applies to the settling of new lands.

A further distinction needs to be made. It is undoubtedly true that there will be less risk with regard to the *existence* of lands potentially to be homesteaded than with regard to their future economic viability. But only the latter is really relevant to the decision to engage in homesteading. And the latter is, on a par with R&D, fully susceptible to risk and uncertainty.

Conclusion

I must conclude that despite presenting a dramatic challenge to the institution of homesteading, Professor Stroup fails in his attempt to undermine it. There may have been a case of overoptimistic homesteading in the 1860s; if so, our author fails to demonstrate it. Nor does he show how "economic logic" (p. 76) suggests that people would prematurely settle virgin lands. His the-market-is-imperfect-therefore-government-ac-

30. Stroup's own comments about the economic hardships suffered by 19th century settlers bears eloquent testimony on this matter.

tion-is-justified argument has a long pedigree, and Stroup deserves every credit for adding to it in a creative manner. I venture to think that his challenge is easily as profound as the monopoly, externalities or depressions-are-intrinsic-to-the-market arguments. But like them, ultimately it cannot rigorously be maintained.

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