Chapter 11

Concluding Comments

Once one understands certain aspects of competitive markets, one would view many institutions that people object to in a more sympathetic light.
— David R. Henderson (2019), "Economics Works."

The quoted passage beginning this chapter underscores an important subtheme of Armen Alchian's work and, by extension, the work of the UCLA School. Scholars often see the economists of the UCLA School as ferocious defenders of free markets. They typically are. However, the claim should be qualified. Leading researchers of the UCLA School never claimed that free markets operate perfectly and always achieve textbook efficiency. As the earlier chapters in this book have shown, Alchian, Demsetz, and other members of the School acknowledged that phenomena such as imperfect information, transactions costs, and opportunism are pervasive. The critical issue that such phenomena raise, given real-world conditions, is whether a system relying upon well-defined property rights and private transactions results in more-efficient economic outcomes than a system that relies upon government proscriptions and regulations. The major contribution of the economists from the UCLA School is their careful and wide-ranging explanations and demonstrations of how and why private property rights and market competition are typically the most efficient institutional arrangement in an imperfect world characterized by scarcity.

The imperfections that characterize free market transactions do not magically disappear when government intervenes. Critics who argue that free markets are subject to "failures" that justify government interventions typically assume (usually implicitly) that the government intervention they favour will cause real world imperfections to disappear or that politicians and bureaucrats are better than market participants at addressing imperfections. The UCLA School, particularly Harold Demsetz, identified how this approach to public policy issues was misleading and mistaken. Critics should not assume just because one institutional arrangement is imperfect that it cannot be preferable to alternative institutional arrangements.

In this regard, much of the empirical research done by the UCLA economists discussed in this volume documents, across a range of industries and market activities, that government intervention in the form of antitrust policies and regulations typically results in less rather than more efficient outcomes. This is not a surprising conclusion given the importance that the UCLA School placed on incentives that property rights and freedom of exchange create. If institutional arrangements do not reward efficient behaviour or if they fail to punish inefficient behaviour, one should anticipate greater inefficiencies than if the opposite were the case. The right to claim the benefits of more efficient decisions or else suffer the financial punishment of inefficient behaviour is a strong motivator for participants in private and competitive markets. This incentive is largely lacking for government bureaucrats.

The competitive imperative to use private property efficiently results not only in better economic outcomes but also frequently in better social outcomes. This is a gratifying finding of research by Alchian and Kessel, among others. They showed that the freedom to gain financially from efficient production in combination with market competition discourages racial and religious discrimination.

The economic benefits of market competition do not depend upon market participants having perfect information or being totally rational "calculating machines." In what was arguably the first major academic contribution of the UCLA School, Armen Alchian persuasively argued that market outcomes would, over time, approximate the predictions from the first principles of economic models.

Over many productive years, the UCLA School built upon the fundamental insight that incentives matter enormously to human behaviour and that the nature and scope of property rights affect incentives in important ways. Public policies across a range of activities continue to benefit from this insight. We can say confidently that you, the reader, have benefited also.

In the last paragraph of their justly famous textbook, *University Economics*, Armen Alchian and William Allen wrote:

> And that, gentle readers and young scholars, is the end of the book. What did you expect? A pot of gold?

That was, we suspect, William Allen's famous sense of humour at work. Behind the humour, though, whether they intended it, is a nugget (pun intended) of truth. Those who truly understand the insights from the UCLA School so that they can apply them to their own lives and to their understanding of the world, may have indeed figuratively obtained a pot of gold.