REJOINDER TO BERTRAND ON LIGHTHOUSES

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Abstract

Coase (1974) claimed that private lighthouses were operational in the 18th and early 19th centuries. Barnett and Block (2007) took the position that Coase's (1974) understanding of the difference between private and public enterprises was confused, and that as a result his thesis was false. Bertrand (2006) supported the position espoused by Barnett and Block (2007) vis a vis Coase and his so called private light houses. However, Barnett and Block (2009) maintained that Bertrand (2006) committed numerous analytic errors. Bertrand (2009) defends the position of Bertrand (2006) and rejects the criticisms made of Bertrand (2006) by Barnett and Block (2009). The present paper is a rejoinder to Bertrand (2009).

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In this rejoinder of ours to Bertrand (2009) we shall follow the same organizational pattern that she employs.

1. Different accounts of the lighthouse story

Bertrand (2009) in our view is compatible with our Barnett and Block (2009) assessment of Bertrand (2006): it gets the main point right,[2] but, while doing so, falls into error on a host of other issues.[3] Let us list and comment on them.

1.1 Optimal price

Bertrand (2009, 1) refers to the claim that "private enterprisers are unable to set an optimal price." There are two problems here. First, private

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[2] She took the position that Coase was in error in claiming the existence of private lighthouses, which is no small accomplishment given the prestige of this Nobel Prize winning economist to the contrary.

[3] For related material, see Van Zandt, 1993, and Barnett and Block. 2007.

enterprisers do not "set" any price, let alone an optimal one. Rather, prices are determined through the market process, via the intermediation of marginal buyers and sellers.[4] Second, optimal price is only a theoretical construct, best confined to the blackboard. In the real non equilibrium world, there is no way to discern any such thing.

1.2 Optimal quantity

Bertrand (2009, 2) says "Light dues were too high compared to what was sufficient to maintain existing lighthouses and build more; their levels and the collection procedures were heterogeneous; and many lights worked poorly." These criticisms are problematic. Prices were higher than needed in order to build *more*? How many more? How does Bertrand know the optimal number of additional lighthouses? And, why should collection procedures be homogeneous? In the modern era, some firms bill by the week, others by the month. Some accept credit cards, other do not; in some restaurants, the customer pays the waiter; in other establishments, this is the job of the cashier. Why is any of this a problem, either in the present century, or in the one under discussion?

1.3. Empirical

Bertrand (2009, 2) claims that her article (Bertrand, 2006) "is empirical, and as such they (Barnett and Block, 2009) do not disagree with my conclusions that the English lighthouse system as described by Coase was neither private nor efficient." But whether something was efficient or not is not merely an empirical issue. Efficiency transcends that limitation. Empiricism has no answer to the question: "efficient at what goal?"

2 The three types of providers of lighthouse services

2.1 Compulsion

Bertrand (2009, 2) maintains the following:

"Barnett and Block, 2009, pp, 2-3) distinguish government/coercive from private/voluntary (including charity and for-profit firms) in the English lighthouse system. They (2009, p.2) characterize the system described by Coase

[4] What about monopoly? This is indeed an exception for mainstream economists. But for Austrians, among whom we count ourselves, there is and can be no such thing as monopoly for a private enterprise. Rather, monopoly is necessarily a result of governmental grants of privilege. See on this Anderson, et. al., 2001; Armentano, 1999; Block, 1994; DiLorenzo, 1997; Rothbard, 2004

as an example of 'governmental, not market-based, supply' since compulsory levies are 'not compatible with the free enterprise system.' We can be more precise and think of a continuum between a minimum role of the State (enforcing private property rights and voluntary contracts) and a public provision of goods."

In contradistinction, we reiterate our position that "compulsory levies are not compatible with the free enterprise system." It cannot be denied that Bertrand (2009, 2-3) is correct in her claim that there is a continuum[5] between the purely private and the purely public. But this is hardly more "precise." Indeed, it is *irrelevant* to our position. Just because there are gradations, it does not mean that "compulsory levies are … *compatible* with the free enterprise system." Moreover, it would appear to be a logical contradiction to say (Bertrand, 2009, 2) "The legal statute of Trinity House, however, was private, even if the organization was not strictly private since it was mandated with a public mission and supervised by the government." How can an organization "mandated with a public mission and supervised by the government" (over and above the supervision by government of all people and enterprises, such as forcing them to obey the laws, pay taxes, etc.) be "private," no matter what the technicality of the legal status of Trinity House?

This is akin to positing that the Fed, or Fannie Mae or Freddie Mac, or the U.S. Post Office, are really private, even though they are "not strictly private." This is all but indistinguishable from claiming the companies Krupp, Stuka and BMW were really private, although the Nazi party controlled them totally, in all important decisions. This is a position difficult to defend.

2.2 Voluntary government levies?

The next howler to fall from Bertrand's (2009, 2-3) pen is this: "Barnett and Block (2009, 3) write that their research has not uncovered 'any for-profit lighthouse providers during this era in history.' Although property rights were not strictly private (e.g., they specified a compulsory levy), the fact that private organizations and individuals embarked on lighthouse construction with a profit motive cannot be ignored."

But how can property rights be private *at all* given that they "specified a compulsory levy?" If Wal-Mart or McDonalds were suddenly allowed by law to seize money from anyone (competitors, suppliers, customers, employees, anyone at all), then it would at that precise moment cease to be purely private. It is surely a crucial distinction between a private and a public entity that the

[5] See on this Block and Barnett, 2008.

latter may legally place compulsory levies on the property of its citizens, while the former certainly may do no such thing.

Bertrand in the above quote places great weight on the "profit motive" of the supposed private lighthouse organizations. She appears to think that this motive can transform an otherwise public enterprise in the private column. Nothing could be further from the truth. If there is *anything* that the Public Choice philosophy has established (Buchanan and Tullock, 1962) over and over again, it is that when men depart the private sector and enter the government bureaucracy, they do not alter their basic motives. They bring with them the same goals and aspirations they had when they were employers, employees, entrepreneurs, etc. And, among them, we go so far as to say *chiefly* among them, is the profit motive. So, retention of profit seeking by no means serves as evidence that an ostensibly public enterprise is really private.

2.3 Private sector

Nor can we see our way clear to agreeing with Bertrand when she refuses to acknowledge that lighthouses managed by "religious orders or hermits and financed by voluntary contributions" are indeed part of the private or voluntary sector. Just because the profit motive may not be first and foremost does not preclude an entity from being part of the private sector.

2.4 Linguistic confusion?

This author seems to be confused about just what "voluntary" means in yet another context. She (Bertrand, 2009, 3) states: "... if I want to buy a car, I would have to pay for it: the exchange is voluntary, but the payment is not. In the case of the lighthouses with voluntary payments, it is not clear whether the ship owners had the choice to use the lighthouses service." Yes, the present authors join with Bertrand, and enthusiastically so, when she regrets she must pay for her purchase of the automobile. We would all like to have vehicles for free. But it is very far from the truth to say that the payment for a voluntarily purchased car is "not voluntary." This strains credulity to such an extent that we may be excused for wondering if there is a language comprehension difficulty afoot here. Let us assure Bertrand that when she, or we, or any of us, agree to buy an automobile, *both* parts of this transaction are strictly voluntary. Look at this matter from the other side of the transaction. The automobile dealer, too, would like something for free. Nothing would make him happier than if Bertrand paid for one of his products, but then neglected to drive it off his lot, leaving it for him to "sell," yet again, to someone else. Is it coercive on Bertrand's part when she demands to be given the vehicle she just purchased, to the consternation of the vendor, who was hoping for a freebie? Not a bit of it. *Both* parts of this transaction are voluntary, even though Bertrand regrets she must pay for her purchase, when receives her new car. Her supplier, equally, is unhappy that he must then part with some of his stock, after Bertrand has paid him for it.

2.5 We are not neo classical economists

We are also puzzled by Bertrand's (2009, 3) allusion to neo classical economic theory in her critique of Barnett and Block (2009). We do not consider ourselves as members of this particular school of thought, and have a long paper trail that can serve as evidence for this contention of ours. But, we welcome her acknowledgement that we three concur in the conclusion that Coase was in error when he claimed that "for profit firms with a minimal role of the State did ... exist."

3 The effectiveness of government and private cooperation

3.1 Libertarianism

Bertrand (2009, 3) mistakenly attributes to us the view that the lighthouse system was "public and inefficient for this very reason." Unfortunately, she provides no cite to Barnett and Block (2009) to buttress this allegation. She rejects this view, attributing it to our over use of "libertarian theory as a starting point." But, in the very next sentence she quickly reverses field and claims that she said in her earlier article (Bertrand, 2006) that government regulation was inefficient. Could it be that she herself is a closet libertarian? But then, in yet another reversal of field (e.g., logical contradiction) after saying that it "is exactly what I stated" (that government regulation as inefficient) she denies this, and asserts (Bertrand, 2009, 3) that she "did not answer that question." For good measure she tacks on the thought that "problems were actually solved by government," thus yielding her already very shaky libertarian credentials.

3.2 Marginal cost pricing

Bertrand rejects our characterization of her as anti market. By her own admission, as a good neo classical economist, she (2009, 4) sees lighthouse taxes[6] as too high, since this is an industry earmarked by "zero marginal cost." But it

[6] They are *not* "dues." This latter term implies voluntary payments. For example, you pay "dues" when you voluntarily join the chess or golf club. If you do not do so, and must pay these organizations anyway, then these payments are compulsory levies, or taxes, and not "dues" at all.

is only a neo classical economist who could take an objective perspective on costs. In the Austrian view (Buchanan, 1969; Buchanan and Thirlby, 1981; Mises, 1998), in sharp contrast, costs are subjective, and thus unknowable to third parties such as Bertrand. They consist of the next best opportunity foregone, whenever the human actor engages in economic behavior. So, Bertrand has no warrant for concluding that the lighthouse industry was earmarked by zero or any other marginal costs. Nor is there any case for assuming that prices are too high, even, stipulating, arguendo, that marginal costs are indeed zero. For with prices compulsorily set at zero private enterprise would be impossible.[7]

While we are positing zero marginal costs for lighthouses, we might as well assume the same for hotels, theaters, schools, indeed for any industry earmarked by less that 100% capacity, which pretty much means virtually *all* of them. To this list must be added still others with perishable products that can spoil if not sold, for example, tomatoes, bananas. Here, the costs, at least from an objective perspective, might even be negative, in that their owners will have to pay to have unsold merchandise carted away as garbage. The implication is that the government should compel negative prices in such cases.

3.3 Prices too high?

With regard to our disagreement 7, Bertrand is changing the topic and evading our criticism. In our critique of Bertrand (2006), we (Barnett and Block, 2009) did not even mention the compulsory fees[8] present in other countries, her present line of defense. Rather, we criticized Bertrand's (2006) claim that market prices were too high, on the ground that they were not market prices at all, but rather stemmed from governmental grants of market privilege. On the other hand, as we said in (Barnett and Block, 2009) "… given that the prices were set by the government, and the government shared in the profits, it is a reasonable assumption that they were set above the levels which would have resulted in a free market." We stand by that evaluation.

3.4 The violin maker

After sharply criticizing the quality of lighthouses in Bertrand (2006, 398) this author attributes this failure to "eccentric inhabitants who did not avail themselves of all the technical guarantees required." As an example of this failure Bertrand (2006, 398) mentions that "the first Smalls lighthouse … was built by a violin maker. In Barnett and Block (2009, 6) we charged that

[7] This is something that would not appear to perturb Bertrand greatly.

[8] Not, we insist, "dues."

"Bertrand (2006, 398) takes umbrage at the fact that a 'violin maker' constructed a lighthouse." In her 2009 article, Bertrand (2009, 4) attributes to us the view that she had said that "entrepreneurs far from the lighthouse business could not build a lighthouse." But, this is a fabrication. We did not at all say that Bertrand held the view that violin makers "could not" build a lighthouse. This is a falsehood, since a violin maker *did* build one, to wit, the first Smalls lighthouse. Rather, we said that Bertrand "took umbrage" at this fact, and indeed she did, her denial to the contrary notwithstanding.

Nor did we "suggest" (Bertrand, 2009, 4) that Bertrand contradicted herself when she (Bertrand, 2006, 399) noted that a silk mercer built a lighthouse "much more solidly." She cannot be allowed to have it both ways. She cannot both say that a violin maker is "eccentric," lacks "technical" expertise, and *therefore* cannot guilt a good lighthouse, on the one hand, while on the other hand maintaining that a silk mercer, who is just as far removed from the lighthouse industry, can do so. Nor is it acceptable that after being caught in a contradiction, she denies it, despite clear evidence to the contrary.

3.5 Invisible hand

There are difficulties with Bertrand's present position on our disagreement 8 as well. In Barnett and Block (2009, fn. 18) we claimed that Bertrand (2006) ignored Smith's (1776) invisible hand insight in taking the position that public welfare and private financial gain are necessarily at odds with one and another. As well, this author played fast and loose with a key emphasis of the Public Choice School, that men do not grow angel's wings when they enter the public sector. Her defense? Bertrand (2009, 4) claims that Smith (1776) only mentioned this doctrine once, and that he allowed exceptions to it.[9] True, all too true. But, irrelevant. Despite these truths asserted by Bertrand, it *still* cannot be denied that she failed to apply this Smithian insight in her analysis of lighthouses. It matters not one whit, for present purposes that the "invisible hand" argument was all too little used by Smith himself, nor that he allowed exceptions to it. The fact remains that as charged by Barnett and Block (2009), Bertrand (2006) failed to apply it to lighthouses, and nothing said in Bertrand (2009) gainsays this fact.

And, as for ignoring Public Choice insights, her defense is that in another context she *did* apply them. But we did not aver that Bertrand *never* employed them. Only that on that one occasion this was a serious lacunae in her (2006) essay. Bertrand (2009) acts as if the truth of her contention is incompatible with

[9] For a criticism of Smith as a fair weather friend of free enterprise, see Rothbard, 1987

the legitimacy of our critique. Not so, not so. It is as if Bertrand said that 2+2=5, and we corrected her, stating that 2+2=4, and in her defense of her first erroneous claim, she then asserted that 3+3=6. Yes, 3+3 does indeed equal 6, but this correct statement scarcely undermines our critique of her initial error with regard to 2+2=4.

3.6 Empirical argument

Bertrand's (2009, 4) defense against our criticism 14.2 is as follows: "Barnett and Block ... confuse my empirical arguments on the actual problems of, and actual solutions to, the English lighthouse system, with the general claim that all public goods should be provided by the government. Now, as a matter of fact, the problems of lighthouse services were solved by the centralization, which was not required in my mind but in the politicians... My argument is empirical and it cannot be contradicted by the assertion that the problems could also have been solved by less government."

But we did not attribute to her the view that "all public goods should be provided by the government." Unhappily, she vouchsafes us no cite to our work to buttress this charge. So it is difficult to know, precisely, what she has in mind in this regard.

As to her substantive point, how does Bertrand know that the "problems of lighthouse services were solved by ... centralization?" On what basis does she reject the contrary contention that lighthouse service problems were solved *in spite of* centralization? Her "empirical argument" is, A preceded B, therefore A caused B. This simply will not do. It most certainly can be contradicted by the assertion not only that the problem could *also* have been solved by less government, but, further, that less government is the *only* way to solve them, and, still further, that government was not a help but rather a hindrance to this solution.

3.7 Mises's insight: government intervention snowballs

Bertrand (2009, 4) takes issue with our critique of her point 14.6. We offered the Misesian (1998) analysis that government intervention leads to problems, which calls forth more such interference with the market, which eventuates in still more difficulties, in ever widening circles. She disagrees on the ground that it "is a general statement, not supported by any fact about the case debated here." True enough, it is a general statement, but that does not mean it is not supported by facts pertaining to lighthouses. By her own admission the government made errors in the lighthouse industry. These led to problems, which the state felt compelled to address in turn. It is difficult to see how Bertrand's mention of this overturns our contention.

3.8 "Better" government regulations

Bertrand (2009, 4-5) replies to our charges 11, 14.4 and 14.5 in one fell swoop. Her summary of these critiques: private enterprise is preferable to government provision of services. And her reply? Why could we not imagine better statist regulations, exactly as we imagine improved contractual arrangements between lighthouse and ship owners? There are several reason we gave (2009), and now give again, short shrift to the possibility of "better" government regulations. These explain why it is no accident that state initiatives such as social security, welfare, the post office, the Motor Vehicle Bureau, Freddie and Fannie, and the Fed are symbols of government ineptitude and mismanagement.

First, and most important, there is the calculational chaos engendered by lack of a price system.[10] As the state takes over more and more enterprises, there are fewer and fewer market prices. The only reason the USSR lasted as long as it did as an economic entity is that their central planners had access to western (relatively free market) prices. Without them, the bureaucrat has no idea, for example, as to whether to build row boats out of plastic, metal or wood; railroad tracks out of tungsten, steel or platinum.

A second important point was stressed by Hayek (1937). Without a free market, the economic dictator would lack the information concerning local conditions and would thus be unable to plan. Even if everyone cooperated with him and sent him information from all over the country, this would just gum up the lines of communication. And, how would the economic czar evaluate this information, separating the wheat from the chaff. In contrast, if the price of tin rises, we need not know precisely why, in order to act rationally in response. But, for this to occur, there must a *price* of tin based on the freely made commercial decisions of millions of people, something only a free market can supply.

Then there is the market weeding out system stressed by Hazlitt (1979). Under laissez faire capitalism, there will be good and bad contractual arrangements undertaken. But the former will bring profits in their train, and the latter losses. Thus there will be an automatic 24/7/365 push toward efficient economic decisions, and away from bad ones.[11] In the government

[10] See Mises, 1975, 1981; Hoppe, 1989A.

[11] This of course assumes no bailouts of failing business, something that is anathema to the free enterprise philosophy.

sector there will be good[12] and bad regulations. But those bureaucrats and politicians responsible for the former will not automatically earn money, votes, political power, etc., nor will those guilty of the latter lose them. The FDA is responsible for gross errors, in an earlier epoch for Thalidomide, in the recent past for unduly slowing down the rate of new approvals. FEMA and the Army Corp. of Engineers between them killed some 1500 people in and around New Orleans in the aftermath of Hurricane Katrina. Did these entities go broke? Did they even lose money? Did they suffer a loss of influence? No. Since they did such a poor job, *more* power and pelf was showered over them. This is why Barnett and Block (2009) do not contemplate "better" government regulations.

3.9 Voluntary payments impossible?

Let us consider the contrary to fact conditional posed in our dispute with Bertrand regarding point 14.1. First, we quote from our own (Barnett and Block, 2009, 7) paper with regard to Bertrand (2006, 401):

"... dues for 'private' lighthouse services, collected by public officers," could only be obtained with State coercion. Her case is not proven. She merely showed that dues *were* collected with State coercion, and not that revenues could not have been generated by voluntary payments. In fact, Bertrand (2006, 397) herself contradicts this point: "In the competition for Royal privileges, Sir John Clayton obtained, no less than five patents, all with voluntary contributions."

Here is Bertrand's (2009, 5) non responsive reply: "... as a rebuttal, it would be necessary to find a strictly private market for a public good that would be produced in optimal quality and quantity."

It is difficult to know how to reply to a non responsive rejoinder. Just because payments *were* forcibly mulcted does not prove that voluntary ones would not have been forthcoming. Bertrand (2006, 401) supplied evidence (Sir John Clayton) to support our contention, against her own. The assertion Bertrand made in 2006 is not rectified by her reply in 2009. How she can continue to maintain that voluntary lighthouse payments could not have been made when she herself asserts that they *were* made (in Corton, by Sir John Clayton) is beyond us.

But what of her challenge? Is there "a strictly private market for a public good that would be produced in optimal quality and quantity?" Can we point to it? In our view, optimal quantity and quality are only achievable when markets fully clear, and in the real world they never do. But this goes for *all*

[12] Please do not ask us to specify any. We are talking hypothetically, here.

goods, both private and (supposedly) "public." Assuming away this complication, arguendo, let us attempt to meet this challenge. We claim that the number and quality of lighthouses is now, and always was, optimal. Does Bertrand have any proof that we are in error in this claim of ours? Does she have a criterion for optimality she is not sharing with us? The burden of proof, it seems to us, rests with those, such as Bertrand, who maintain that the market (theoretically, when it fully clears) is *not* optimal regarding price, quantity, quality, location, whatever. The presumption we hold is that if the market is not optimal in this sense, then there will still be unrequited trades to be made, that is, we have not yet achieved a market clearing status. We can deduce that when a trade takes place in the market, both parties gain in the ex ante sense. Bertrand is attempting to prove that when trades do *not* take place (e.g., there are too few lighthouses to suit her tastes) we can demonstrate that welfare *would have increased* had they but occurred. Fine. Let her prove this contrary to fact conditional.[13]

3.10 Calling for overcoming market failures

In Bertrand's (2009, 5) replies to points 10 and 12, she has occasion to assert: "I was not calling for anything." This seems singularly problematic, in that Bertrand (2006, 2009) was patently supporting government ownership, management and/or regulation of lighthouses, since they are in her view a public good, and public goods are a market failure, and it is a neoclassical shibboleth that it is the duty of the state to overcome such failures.

3.11 Corporate welfare

Bertrand (2009, 5) charges that the present authors "misunderstand my conclusion that the lighthouse service was made profitable by the actual regulation, interpreting it as saying 'that without government favoritism lighthouses would have been unprofitable (Barnett and Block, 2009, p. 10)." We have no doubt that government regulations can render an industry more profitable than would otherwise be the case. We do not at all buy into Rand's

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[13] For a critique of the "public goods" as market failure literature predicated upon considerations of rivalrousness and excludability see: Barnett and Block, 2007, 2009; Block, 1983, 2000, 2003; Cowen, 1988; De Jasay, 1989; Holcombe, 1997; Hoppe, 1989B; Hummel, 1990; Osterfeld, 1989; Pasour, 1981; Rothbard, 1985, 1997; Schmidtz, 1991; Sechrest, 2003, 2004A, 2004B, 2007. Rothbard's (1997, 178) reductio absurdum of public goods is as follows: "A and B often benefit, it is held, if they can force C into doing something. . . . [A]ny argument proclaiming the right and goodness of, say, three neighbors, who yearn to form a string quartet, forcing a fourth neighbor at bayonet point to learn and play the viola, is hardly deserving of sober comment."

(1993) claim that business is government's most persecuted minority. The situation is far more complicated. Yes, government often hurts the corporate sector. But there is also such a thing as "corporate welfare," and it surely predates the Bush – Obama bailouts of automobile and financial corporations that are supposedly "too big to fail." That this would also include the lighthouse industry in this earlier time should occasion no surprise.

In the view of Bertrand (2009, 5) in order to successfully contradict the claim "that without government favoritism lighthouses would have been unprofitable" we would have to "provide the example of a profitable and strictly private lighthouse." This is not strictly true. We now claim that without government favoritism a new product, the zilch (we just made this one up) would be profitable. We are not logically required to point to an actual profitable zilch firm. For we are making a contrary to fact claim: if the zilch existed, which it does not, *then* it would be profitable with no government subsidy. But returning to the real world and accepting Bertrand's false premise, the present authors need not "provide the example of a profitable and strictly private lighthouse" for Bertrand has already done this for us! The cases of the private religious and hermit lighthouses fit this bill precisely. They were profitable (at least in the sense of psychic profit), otherwise these people would not have provided them, and the government did not subsidize them.

3.12 Efficiency

Bertrand uses "efficiency" as a stick with which to beat down our (Barnett and Block, 2009) claims that a private lighthouse industry could have been viable. She says the following:

"Barnett and Block prefer a private lighthouse system and the main appeal of free market is, in their view, that it is 'free.' Consequently, most of their contentions against my article come from the fact that they evaluate the English lighthouse system in terms of freedom, whereas I used, as Coase and standard microeconomics, the economic efficiency criterion.

"Barnett and Block imagine a lighthouse system that would be strictly private, but they do not prove that the level produced would be efficient, therefore, not refuting the neoclassical theory."

Unhappily for her position, she nowhere offers any criterion for her "efficiency." Perhaps she will not object if we supply one for her. We offer the Pareto welfare criterion: a system is efficient in this sense if and only if there is no change in the economy that would make at least one person better off, without making at least one person worse off. That is, we cannot wrest any welfare gains out of the system for anyone without reducing the situation for at least one other person.

It is a bit harsh to apply this to *any* industry, which has not achieved full market clearing; for, in the real world, none ever does. Of course, when neoclassical blackboard economics is applied to reality as a welfare or efficiency criterion, the latter comes off a distant second best, but this applies to *all* industries, not only to lighthouses. In other words, her criticism is "too good." Not only does it show that the private lighthouse industry is "inefficient," it demonstrates that they all are. But, if so, that is, if the lighthouse industry is no different than any other in this regard, this service can hardly be singled out for special treatment as a "public good."

3.13 Public goods and monopoly

Bertrand's (2009, 5) next sally against our thesis concerns our supposed failure to "overcome the problems of non excludability and non rivalry and of bilateral monopoly." But a careful reading of Barnett and Block (2007) indicates that we have done just that. Just because the inefficient government cannot exclude non payers does not mean that private entrepreneurs would have this difficulty. As for non rivalrousness, anytime there is a business operating at less than full capacity (hotels, theaters, apartment houses, schools), there is a lack of full rivalrousness. Should all such industries be nationalized? This would appear to be the logical implication of Bertrand's critique, but it is surely a recipe for complete socialization of the economy. As for monopoly of any kind, bilateral or not, this is necessarily a product of government interference with the free enterprise system, and *cannot* obtain under laissez faire capitalism.[14]

3.14 Marginal cost confusion

We are also grateful to Bertrand (2009, 6) for pointing out our confusion regarding marginal costs: "The authors avoid handling the zero marginal cost problem (disagreement 6), arguing that there is no such thing – they actually confuse the marginal cost of an additional vessel using the service and the cost of turning on the light to deliver the first unit of service." We promise to never again make this particular mistake. We would be even more grateful to her if she would point out precisely where made this error in the present case. Perhaps a quote of what we actually said in this regard might point us in the

[14] See fn. 3, supra.

right direction. In fact, we beseech her to do so. How else are we to learn from our many errors?

And, while she is at it, instructing us as to our oversights, we would also ask how she (Bertrand, 6) comes to the view that we "interpret this Coase's study as pro-market." We were under the impression that we were criticizing Coase for his *anti* market stances.

4. Conclusion

We agree with Bertrand's (2009) criticism of Coase (1974). We applaud her for taking this unpopular stance, given the eminence enjoyed by that author. Coase (1974) claimed there were private free market lighthouses in operation in that early epoch, and Bertrand (2006) showed this was simply not so. Bertrand's analysis on this point is certainly compatible with our own Barnett and Block (2007). However, in the course of writing that masterful debunking of Coase (1974), Bertrand (2006) committed numerous errors that we addressed in Barnett and Block (2009). Her (2009) rejoinder that that critique of ours, gives us no reason to alter our assessment.

Bertrand's emphasis on "empirical" matters is really an attack on economic theory per se, not merely normative or libertarian perspectives as she supposes. It is a throw back to the views of the German Historical School.[15] Here, there were only "facts." Theory was an irrational will o the wisp.

But it is more than passing curious as to the precise "facts" adduced and relied upon by these empirical "economists."[16] They never attempt to quantify the number of dogs who barked in any given year or the proportion of workers who are left handed nor the number of grains of sand on the beach in their analysis of the business cycle, for example. Why not? Because behind every supposed "empirical" economist there is a theoretician, yearning to break free. In a word, the *theory* of these presumed empirical economists is such that these considerations are irrelevant to their concerns, and on *theoretical* grounds. It is much the same with Bertrand. Notice, that she, too, in this "empirical" tradition, totally ignores such considerations as the number of waves in the sea, or the temperature of the water in that epoch. Why? As a *theoretician*, she (correctly) deems them unimportant, indeed, irrelevant.

[15] Hildebrand, 1848; Knies, 1853; Roscher, 1843; Schmoller, 1910, 1984; Sombart, 1915, 1937; for an Austrian critique, see Hildebrand, 1848; Knies, 1853; Roscher, 1843; Schmoller, 1910, 1984; Sombart, 1915, 1937; for a critique, see Menger, 1871; Bohm-Bawerk, 1890-1891; Mises, 1981, 1984

[16] A later follower in their tradition was Mitchell, 1903, 1908, 1913, 1927, 1951

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