Property rights (economics)

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Property rights are theoretical socially-enforced constructs in economics for determining how a resource or economic good is used and owned.[1] Resources can be owned by (and hence be the property of) individuals, associations or governments.[2] Property rights can be viewed as an attribute of an economic good. This attribute has four broad components[3] and is often referred to as a bundle of rights:[4]

1. the right to use the good
2. the right to earn income from the good
3. the right to transfer the good to others
4. the right to enforce property rights

In economics, property is usually considered to be ownership (rights to the proceeds generated by the property) and control over a resource or good. Many economists effectively argue that property rights need to be fixed and need to portray the relationships among other parties in order to be more effective.[5]

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Property-rights regimes

Property rights to a good must be defined, their use must be monitored, and possession of rights must be enforced. The costs of defining, monitoring, and enforcing property rights are termed transaction costs.[6][7] Depending on the level of transaction costs, various forms of property rights institutions will develop. Each institutional form can be described by the distribution of rights.

The following list is ordered from no property rights defined to all property rights being held by individuals[8]

- **Open-access property** (*res nullius*) is not 'owned' by anyone. It is non-excludable (no one can exclude anyone else from using it) but may be rival (one person's use of it reduces the quantity available to other users). Open-access property is not managed by anyone, and access to it is not controlled. There is no constraint on anyone using open-access property (excluding people is either impossible or prohibitively costly). Examples of open-access property are the upper atmosphere (navigable airspace) or ocean fisheries (navigable waterways).

  > Open-access property may exist because ownership has never been established, granted, by laws within a particular country, or because no effective controls are in place, or feasible, i.e., the cost of exclusion outweighs the benefits. The government can sometimes effectively convert open access property into private, common or public property through the land grant process, by legislating to define public/private rights previously not granted.
  >
  > — Kevin Guerin, [9]

- **Public property** (also known as state property) is property that is owned by all, but its access and use are controlled by the state or community. An example is a national park or a state-owned enterprise.[9]
- **Common property** or *collective property* is property that is owned by a group of individuals. Access, use, and exclusion are controlled by the joint owners. True commons can break down, but, unlike open-access property, common property owners have greater ability to manage conflicts through shared benefits and enforcement.[9]
- **Private property** is both excludable and rival. Private property access, use, exclusion and management are controlled by the private owner or a group of legal owners.

Property rights and the environment

Implicit or explicit property rights can be created by regulating the environment, either through prescriptive command and control approaches (e.g. limits on input/output/discharge quantities, specified processes/equipment, audits) or by market-based instruments (e.g. taxes, transferable permits or quotas).[9]

It has been proposed by Ronald Coase that clearly defining and assigning property rights would resolve environmental problems by internalizing externalities and relying on incentives of private owners to conserve resources for the future. At common law nuisance and tort law allows adjacent property holders to seek compensation when individual actions diminish the air and water quality for adjacent landowners. Critics of this view argue that this assumes that it is possible to internalize all environmental benefits, that owners will have perfect information, that scale economies are manageable, transaction costs are bearable, and that legal frameworks operate efficiently.[9]

Property rights literature

In 2013 researchers[10] produced an annotated bibliography on the property rights literature concerned with two principal outcomes: (a) reduction in investors risk and increase in incentives to invest, and (b) improvements in household welfare; the researchers explored the channels through which property rights affect growth and household welfare in developing countries. They found that better protection of property rights can affect several development outcomes, including better management of natural resources.

Property rights approach to the theory of the firm

The *property rights approach to the theory of the firm* based on the incomplete contracting paradigm was developed by Sanford Grossman, Oliver Hart, and John Moore.[11][12] These authors argue that in the real world, contracts are incomplete and hence it is impossible to contractually specify what decisions will have to be taken in any conceivable state of the world. There will be renegotiations in the future, so parties have insufficient investment incentives (since they will only get a fraction of the investment's return in future negotiations); i.e., there is a hold-up problem. Hence, property rights matter, because they determine who has control over future decisions if no agreement will be reached. In other words, property rights determine the parties' future bargaining positions (while their bargaining powers, i.e. their fractions of the renegotiation surplus, are independent of the property rights allocation).[13] The property rights approach to the theory of the firm can thus explain pros and cons of integration in the context of private firms. Yet, it has also been applied in various other frameworks such as public good provision and privatization.[14][15] The property rights approach has been extended in many directions. For instance, some authors have studied different bargaining solutions,[16][17] while other authors have studied the role of asymmetric information.[18]

See also

- Alienation (property law)
- Common ownership
- Commons
- Economic system
- Intellectual property
- Land tenure
- Land titling
- Law and economics
- Means of production
- Natural and legal rights
- Open-access
- Personal property
- Public property
- Private property
- Property income
- Right to property
- Social ownership
- State ownership
- Taxation as theft

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