

# Theory of Property Rights

# 1. Property rights and their dimensions

*“Who owns what?”*

Property theories:

1. Individualistic philosophy of property

The doctrine of natural rights (David Hume,  
Thomas Hobbes)

2. Social philosophy of property

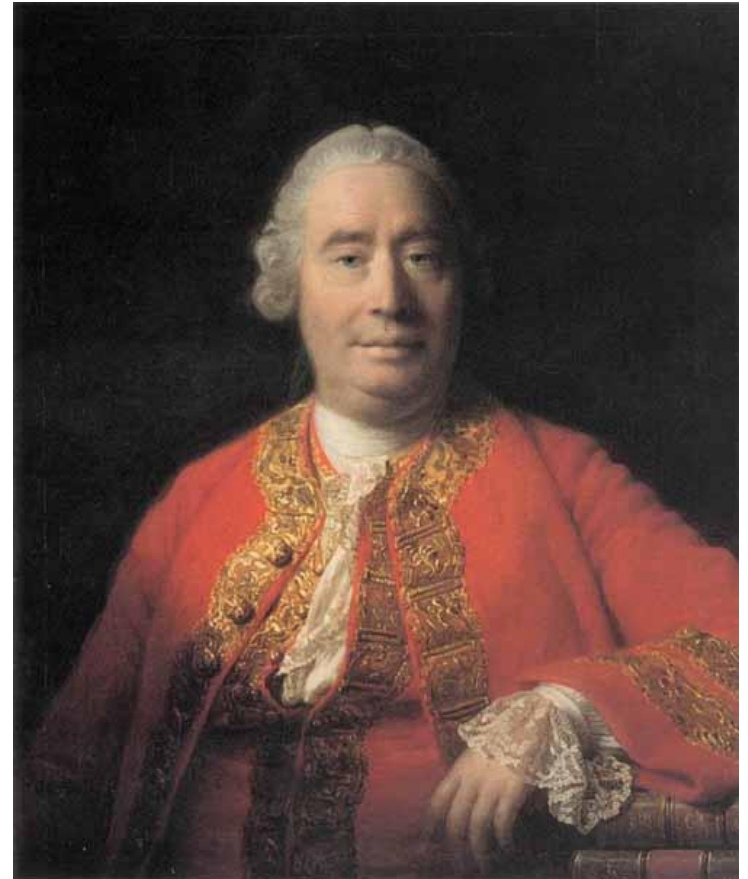
Marxian political economy

# Doctrine of natural rights

David Hume (7 May 1711 - 25 August 1776)

*No one can doubt, that the convention for the distinction of property, and for the stability of possession, is of all circumstances the most necessary to the establishment of human society, and that after the agreement for the fixing and observing of this rule, there remains little or nothing to be done towards settling a perfect harmony and concord.*

**“A Treatise of Human Nature” (1739)**



# *Bellum omnium contra omnes*

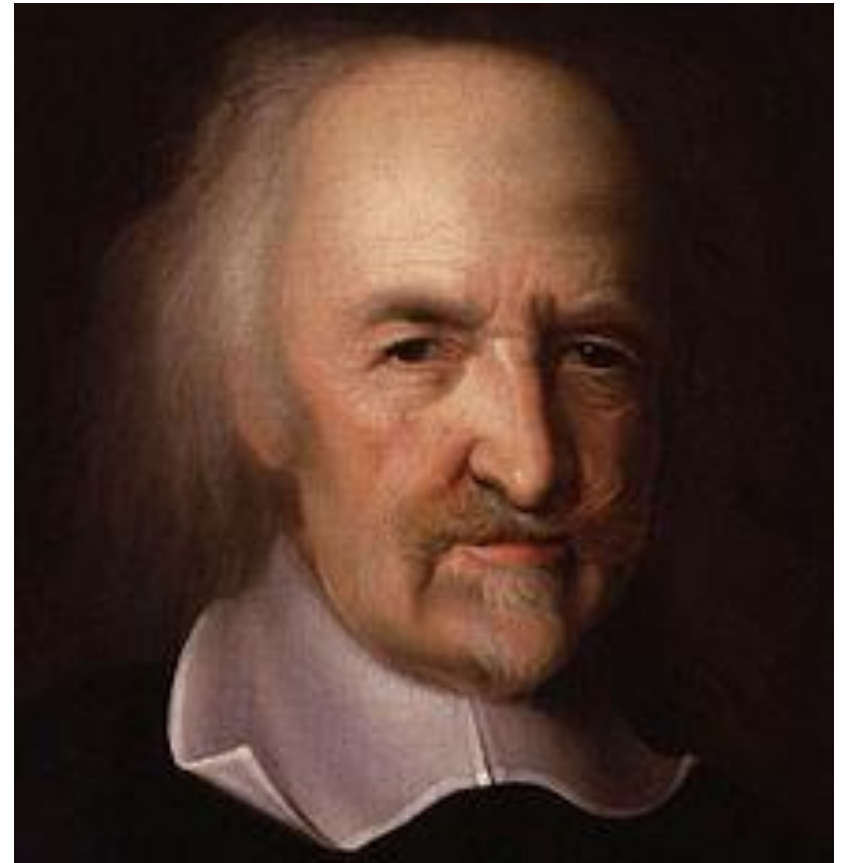
Thomas Hobbes (5 April 1588 – 4 December 1679)

Nature hath made men so equal in the faculties of body and mind...

From this equality of ability ariseth equality of hope in the attaining of our ends. And therefore if any two men desire the same thing, which nevertheless they cannot both enjoy, they become enemies...

The condition of man is a condition of **war of every one against every one**, in which case every one is governed by his own reason, and there is nothing he can make use of that may not be a help unto him in preserving his life against his enemies

“Leviathan” (1651)



# The property rights approach: some basic concepts

*Property rights are rights of individuals to use resources by any unprohibited means*

«Bundle» of property rights:

1. right to use
2. right to earn income
3. right to alienate

Property regimes

Private ownership

State ownership

Communa  
|  
property

Common property

## 2. Property rights and economic efficiency

Coase theorem:

1. Whatever the assignment of rights turns out to be, if zero transaction costs are assumed, individuals will trade some of their rights away until a Pareto-efficient allocation of resources has been realized
2. The initial assignment of property rights or legal entitlements makes no difference to efficiency because identical Pareto-optimal allocations will emerge regardless of whether the party generating an adverse externalities does or does not bear legal liability for the damage he or she causes to others.

# 3. The Tragedy of the Commons

price of a cow = \$ a

number of cows = c

value of the milk = f (c)

value of the milk per cow (average product) = f (c)/c

1. private ownership

objective function:

$$f(c) - a \cdot c \rightarrow \max$$

$$f'(c^*) = a$$

2. common property

$$f(c^{**})/c^{**} - a = 0$$



