

PSC/PPA 486**Political Economy of Property Rights**

Property rights govern the use of resources. Most societies have fairly complete sets of formal rules, sanctioned by law, that specify who has rights to use what resources for which purposes and who has the duty to respect these rights. Enforcement of formal rules, however, may not be fully effective. Informal rules, such as social norms, often play an important role in supplementing, and sometimes overriding, the formal rules. We can think of relatively stable configurations of these rules in particular societies as institutions. Our objective in this course is to gain a better understanding of the institution of property rights.

We will emphasize two general questions. First, what are the economic, political, and social consequences of specific systems of property rights? Second, what are the origins of property rights systems and how do they evolve? In attempting to answer these questions, we will be considering a specific, and important, aspect of one of the fundamental puzzles in the social sciences: If institutions are stable configurations of rules, how do they change?

Only about one-third of class-time will be lecture. The rest will be organized as discussions around readings and research topics. Course grades will be based on a short paper (25 percent), class participation and presentations (50 percent), and a final examination (35 percent).

The short paper is on a topic of your choice. It should be clearly relevant to one of the sections of the course. Please consult with the instructor well in advance of the class in which the topic will be discussed. A copy of the paper should be distributed to everyone in the class the week before it will be discussed.

Expect to make almost weekly presentations on course readings. Specific assignments will be made during the first class.

I highly recommend purchase of the following materials:

Lee J. Alston, Thrainn Eggertsson, and Douglass C. North, *Empirical Studies in Institutional Change* (New York: Cambridge University Press, 1996).

Thrainn Eggertsson, *Economic Behavior and Institutions* (New York: Cambridge University Press, 1990).

Elinor Ostrom, *Governing the Commons: The Evolution of Institutions for Collective Action* (New York: Cambridge University Press, 1990).

Tentative Schedule

1. Introduction (September 13)

Course overview

General Discussion of rights

Property rights as institutions

Characteristics of property rights systems

Ownership: private, state, common, open access.

Effectiveness: clarity of allocation, alienability, security from trespass, credibility of persistence.

2. Open Access Resources, Common Property, and Externalities (September 13 and 20)

a. Basic Theory

Eggertsson, pp. 83-91

b. Common Property in Practice

Ostrom, Chapters 3, 4, 5, and 6

Gary D. Libecap and Ronald N. Johnson, "Legislating Commons: The Navajo Tribal Council and the Navajo Range," *Economic Inquiry*, 18, no. 1 (January 1980), 69-86.

c. Externalities and the Coase Theorem

Eggertsson, pp. 101-116

d. Responses to Missing Markets: Tort and Created Property

3. Rights to Persons (September 27)

Eggertsson, pp. 203-213.

Manuel Moreno Fraginals, Herbert S. Klein and Stanley L. Engerman, "The Level and Structure of Slave Prices on Cuban Plantations in the Mid Nineteenth Century: Some Comparative Perspectives," *The American Historical Review*, 88, no. 3 (December 1983), 1201-1218.

Pedro C. de Mello, "Expectation of Abolition and Sanguinity of Coffee Planters in Brazil, 1871-

1881," in Robert William Fogel and Stanley L. Engerman, editors, *Without Consent or Contract: Conditions of Slave Life and the Transition to Freedom*, Technical Papers, Volume 2 (New York: W.W. Norton, 1992), pp. 629-646.

Burno S. Frey and Heinz Buhofer, "Prisoners and Property Rights," *Journal of Law and Economics*, 31, no. 1 (April 1988), 19-46.

4. Organizational Property Rights (October 11)

Eggertsson, Chapters 2, 5, 6, and 7

Aidan R. Vining and David L. Weimer, "Government Supply and Government Production Failure: A Framework Based on Contestability," *Journal of Public Policy*, 10, no. 1 (January-March 1990), 1-22.

Aidan R. Vining and Anthony E. Boardman, "Ownership Versus Competition: Efficiency in Public Enterprise," *Public Choice*, 73, no. 2 (March 1992), 205-239.

Anthony E. Boardman and Aidan R. Vining, "Ownership and Performance in Competitive Environments: A Comparison of the Performance of Private, Mixed, and State-Owned Enterprises," *Journal of Law and Economics*, 32, no. 1 (April 1989), 1-33.

Aidan R. Vining and David L. Weimer, "Informing Institutional Design: Strategies for Comparative Cumulation," *Journal of Comparative Policy Analysis* 1:1 (1998), 39-60.

5. Introduction to Game Theory and the Rational Choice Theory of Institutions (October 18 and 25)

a. Basic concepts

b. The Game Theoretic Model of Institutions

Randall L. Calvert, "The Rational Choice Theory of Social Institutions: Cooperation, Coordination, and Communication," in Jeffrey S. Banks and Eric A. Hanushek, editors, *Modern Political Economy: Old Topics, New Directions* (New York: Cambridge University Press, 1995), pp. 216-267.

Paul R. Milgrom, Douglass C. North, and Barry Weingast, "The Role of Institutions in the Revival of Trade: The Law Merchant, Private Judges, and the Champagne Fairs," *Economics and Politics*, 2, no. 1 (1990), 1-23.

6. Transaction Costs and Property Rights (November 1)

Douglas W. Allen, "What Are Transaction Costs?" *Research in Law and Economics*, 14, 1991, 1-18.

Douglas D. Heckathorn and Steven M. Maser, "Bargaining and the Sources of Transaction Costs: The Case of Government Regulation," *Journal of Law, Economics, and Organization*, 3, no. 1, Spring 1987, 69-97.

Timothy Frye, "Caveat Emptor: Institutions, Contracts and Commodity Exchanges in Russia," in David L. Weimer, editor, *Institutional Design* (Boston: Kluwer Academic, 1995), pp. 37-62.

David L. Weimer and Aidan R. Vining, *Policy Analysis: Concepts and Practice* (Upper Saddle River, New Jersey: Prentice Hall, 1999), Chapter 1, "Preview: The Canadian Pacific Salmon Fishery," pp. 1-26.

7. Origins of Property Rights (November 8)

a. Competing Theories

Eggertsson, Chapters 8 and 9

Harold Demsetz, "Toward a Theory of Property Rights," *American Economic Review*, 57, no. 2 (May 1967), 347-359.

Gary D. Libecap, "Economic Variables and the Development of the Law: Western Mineral Rights," in Alston et al., pp. 34-58.

William H. Riker and Itai Sened, "A Political Theory of the Origin of Property Rights: Airport Slots," in Alston et al., pp. 283-303.

b. Cases

Fred S. McChesney, "Government as Definer of Property Rights: Indian Lands, Ethnic Externalities, and Bureaucratic Budgets," *Journal of Legal Studies*, 19, no. 2 (June 1990), 297-335.

Hernando de Soto, *The Other Path* (New York: Harper & Row, 1989), Chapter 2: Informal Housing, pp. 17-57.

8. The Problem of Credibility in the Creation of Effective Property Rights (November 15, 22, 29)

Daniel Diermeier, Joel M. Ericson, Timothy Frye, and Steven Lewis, "Credible Commitment and Property Rights: The Role of Strategic Interaction between Political and Economic Actors," in David L. Weimer, editor, *The Political Economy of Property Rights* (New York: Cambridge University Press, 1997), pp. 20-42.

Douglass C. North and Barry R. Weingast, "Constitutions and Credible Commitments: The Evolution of the Institutions of Public Choice in 17th Century England," in Alston et al.,

pp. 129-165.

Hilton Root, "Tying the King's Hands: Credible Commitments and Royal Fiscal Policy During the Old Regime," *Rationality and Society*, 1, no. 2 (October 1989), 240-258.

Johan Torstensson, "Property Rights and Economic Growth: An Empirical Study," *Kyklos*, 47, no. 2, (1994), 231-247.

Timothy Frye, "Russian Privatization and the Limits of Credible Commitment," in David L. Weimer, editor, *The Political Economy of Property Rights* (New York: Cambridge University Press, 1997), pp. 84-108.

David Newman and David L. Weimer, "The Credibility of the PRC Commitment to a Market Economy in Hong Kong: Hypotheses and Evidence," *Economics and Politics* 9:3 (November 1997), 251-280.

Kathryn Firmin-Sellers, "The Politics of Property Rights," *American Political Science Review*, 89, no. 4 (December 1995), pp. 867-881.

9. The Evolution of Property Rights in Communist and Post-Communist Countries (December 6)

John H. Moore, "Agency Costs, Technological Change, and Soviet Central Planning," *Journal of Law and Economics*, 24, no. 3 (October 1981), 189-214.

Jan Winicki, "Why Economic Reforms Fail in the Soviet System: A Property Rights Perspective," in Alston et al., pp. 63-91.

Justin Yifu Lin, "Rural Reforms and Agricultural Growth in China," *American Economic Review*, 82, no. 1 (March 1992), 34-51.

Lorene Allio, Mariusz Mark Dobek, Nikolai Mikhailov, and David Weimer, "Post-Communist Privatization as a Test of Theories of Institutional Change," in David L. Weimer, editor, *The Political Economy of Property Rights* (New York: Cambridge University Press, 1997), pp. 319-348

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