Toward a Theory of Property Rights (H. Demsetz, 1967)

… a presentation by

Kaperonis Georgios
and
King Yin Justin Lam

Concept & Role

• An owner of property rights possess the consent of fellowmen to allow him to act in particular ways, provided his actions are not prohibited in the specification of his rights.
• Relationship between property rights and externalities
• What is an externality?
  – An Externality is the impact of one person’s actions on the well-being of a bystander (1998, Mankiw, Principle of Economics).
Concept & Role

- ‘Internalizing’ the externalities.
  - *A process with a change in property rights that enables the effects from the transaction to bear on all interacting persons in a greater degree.*

- Property rights serve as guiding incentives to achieve a greater internalization of externalities.

- Example
  - Slave labour usage in a firm.

Emergence

Process

- Changes in knowledge
- Changes in productions functions, market values, aspirations
- New harmful and beneficial effects
- Emergence of new property rights in response to the desire for adjustments

In other words: Property Rights develop to internalize externalities when this becomes cost valuable.
Emergence

Example (Two Indian Tribes)

- Montagnes (Land ownership)
  - Externality: Overhunting
  - Change factor: Fur trade
  - Other factor: Forest animals
  - Result: Need for adjustments
  - So they came up with a land ownership system.

- Southwestern (No ownership)
  - Externality: Overhunting
  - Change factor: None
  - Other factor: No forest animals
  - Result: Big internalizing costs
  - The value of establishing boundaries reduced due to high cost. So the externality is not worth taking into account.

Ownership of Property Rights

Types

- Communal Ownership
  A right which can be exercised by all members of the community
  (city sidewalk)

- State Ownership
  The state may exclude anyone from the use of the right as long as it follows accepted political procedures (Flight Information Regions)

- Private Ownership
  The owner has the right to exclude others from exercising his/her rights and the community recognizes that (house ownership)
Ownership of Property Rights

Example (Land Ownership)

<table>
<thead>
<tr>
<th>Communal Ownership</th>
<th>Private Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Everyone has the right to hunt, till or mine</td>
<td>• Incentives to maximize values</td>
</tr>
<tr>
<td>• Problem: This leads to some of the people over-exploiting the land since costs</td>
<td>• Much more efficient utilization of resources</td>
</tr>
<tr>
<td>are borne by everyone</td>
<td>• Can, also, reach scale benefits by agreement with others</td>
</tr>
<tr>
<td>• Solution: Negotiate and reach an agreement about this problem</td>
<td>• Negotiation costs lower, since he has to reach agreement with fewer people</td>
</tr>
<tr>
<td>• But policing and negotiation costs are very high</td>
<td></td>
</tr>
</tbody>
</table>

What about now?

• The proposed approach to problems in property rights can also be used for a great number of socio-economic problems.

• In our case, we have the network ownership problem. This is a problem that has emerged due to advances in technology (change factor), so we can use the methodology described to face it.

• Peer-2-Peer technology (Napster, Kazaa, etc.) is also a change factor in the music property rights field.
Questions’ Time

Thank you for paying attention 😊

You can now ask us questions