

PROSPECTS FOR PROPERTY IN SIOE

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Introduction

- “Property” and “property rights” have always been at the center of institutional and organizational economics.
- For analytical convenience the notion of property adopted has been a thin one.

Property?

Examples:

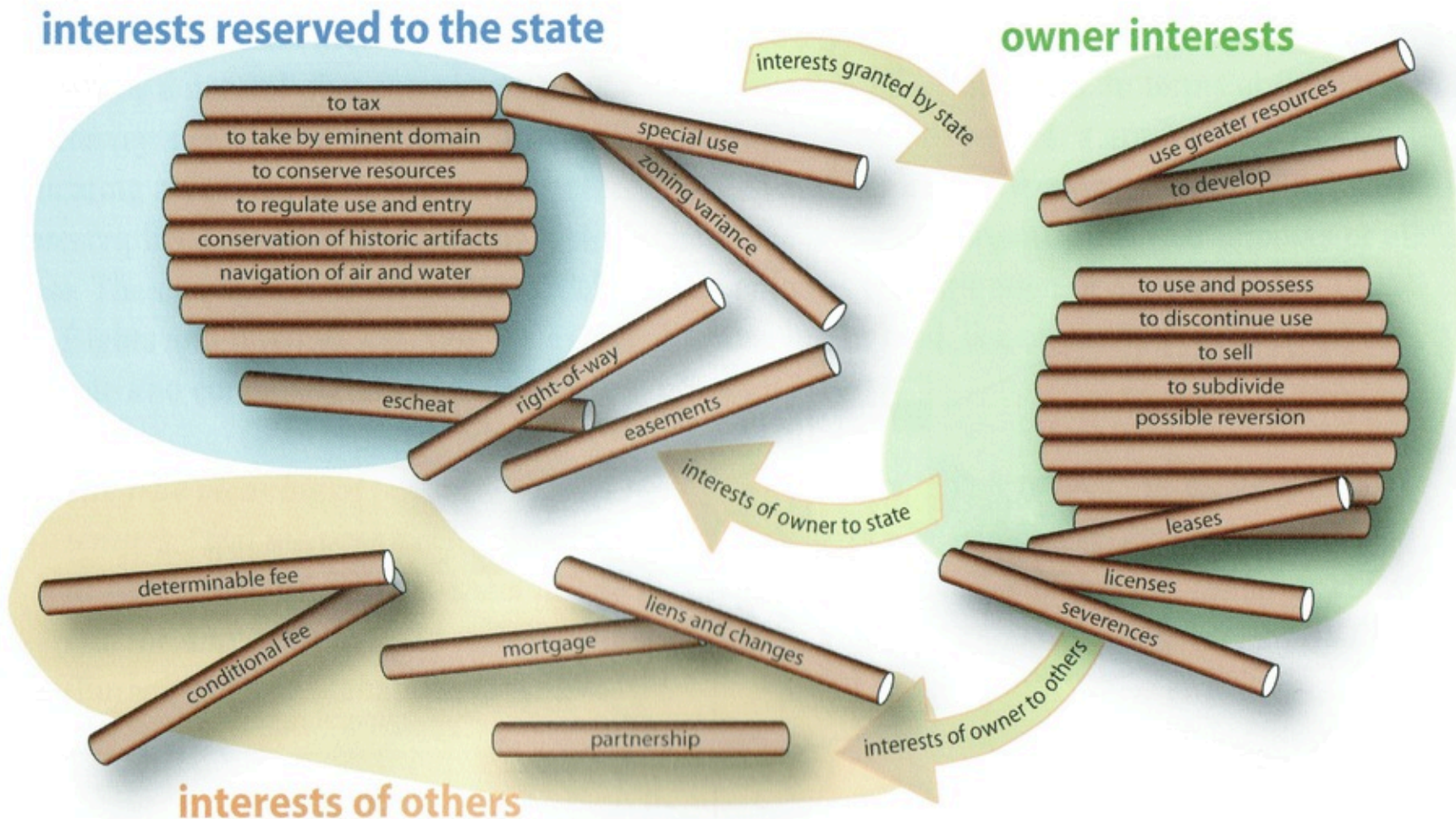
- “By a system of property rights I mean a method of assigning to particular individuals the ‘authority’ to select, for specific goods, any use from a nonprohibited class of uses.” (Alchian)
- “We may speak of a person owning land and using it as a factor of production *but what the land-owner in fact possesses is the right to carry out a circumscribed list of actions.*” (Coase)

Irony: The legal detail of property law is part of an institutional structure that is left out of the picture.

Bundle of Rights

- Coase adopted the bundle of rights picture of property, which suited his goals.
- Legal scholars since the 1930s have developed a “bundle of rights” picture of property.
- The bundle is convenient and reflects the skepticism of legal scholars in the U.S. about legal doctrines and structures.

What are the sticks?



Property and the Coase Theorem

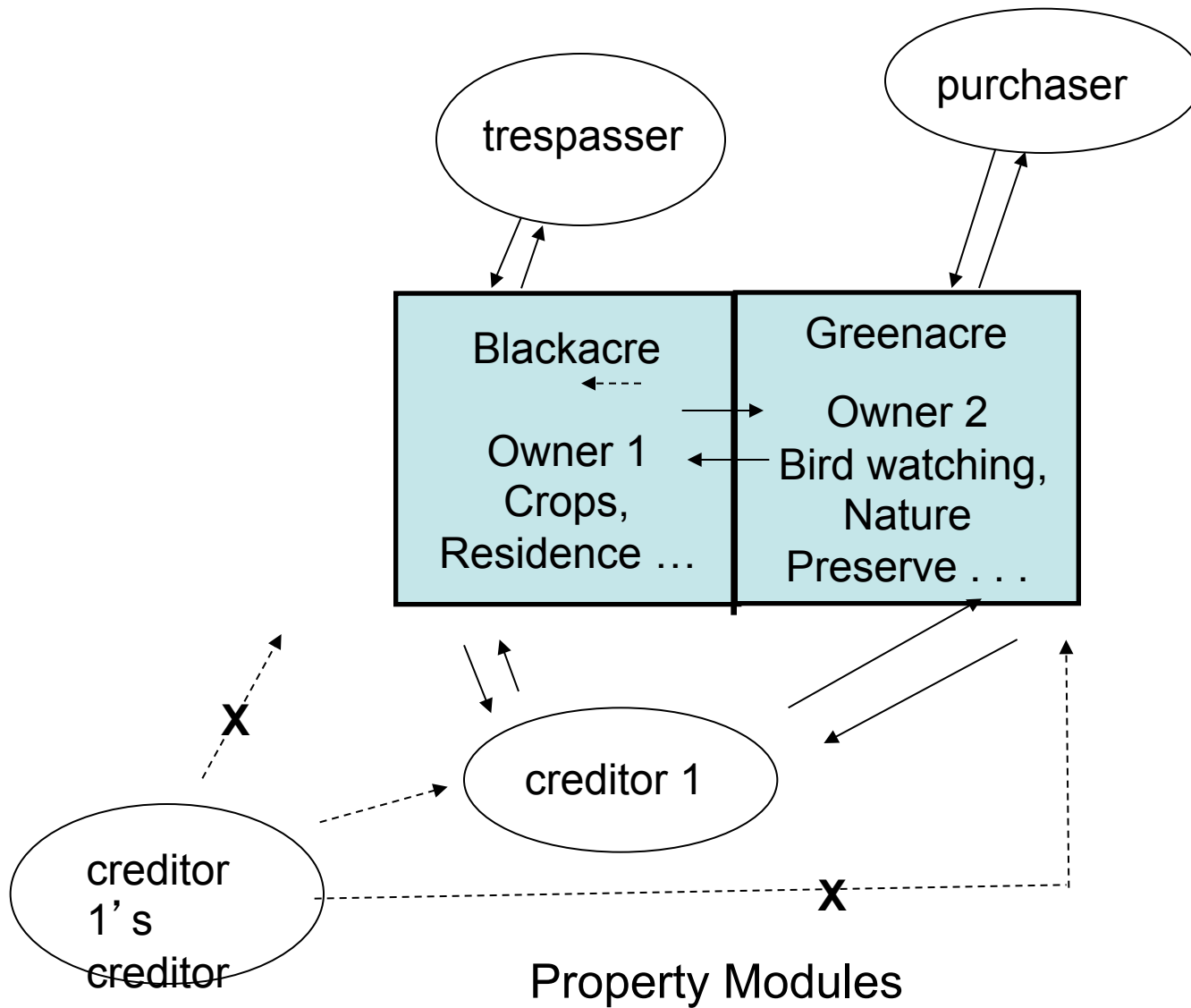
- The bundle of rights picture assumed by Coase was not necessary for Coase to show the relevance of transaction costs – taken broadly – to institutional choice.
- Coasean analysis *can be turned back on the notion of property itself.*
- Coase Theorem. “[I]n the absence of transaction costs, it does not matter what the law is, since people can always negotiate without cost to acquire, subdivide, and combine rights whenever this would increase the value of production.”

The Coase Corollary

- *Coase Corollary*: In a world of zero transaction costs, wealth maximization will occur regardless of the nature and scope of property rights.
- In a zero transaction cost world delineating property rights pairwise between actors for every use would be as costless as traditional in rem rights. This is not our world and the architecture of property does matter.
- Instead, property as a right to a thing along with much of the legal apparatus can be explained in terms of the benefits *and costs* of institutional arrangements.

Institutional Problems

- Property problems involve many actors and potentially many interactions.
- Resultant complexity needs to be managed.
- Which techniques are appropriate?
- “Middle n” problems, between micro and macro: Too large for purely analytical methods. What about averages and statistics? . . .
- Often there are feedback effects: dynamic analysis includes actors’ response to the rules.



Organizations? – Entity property vs. nexus of contracts

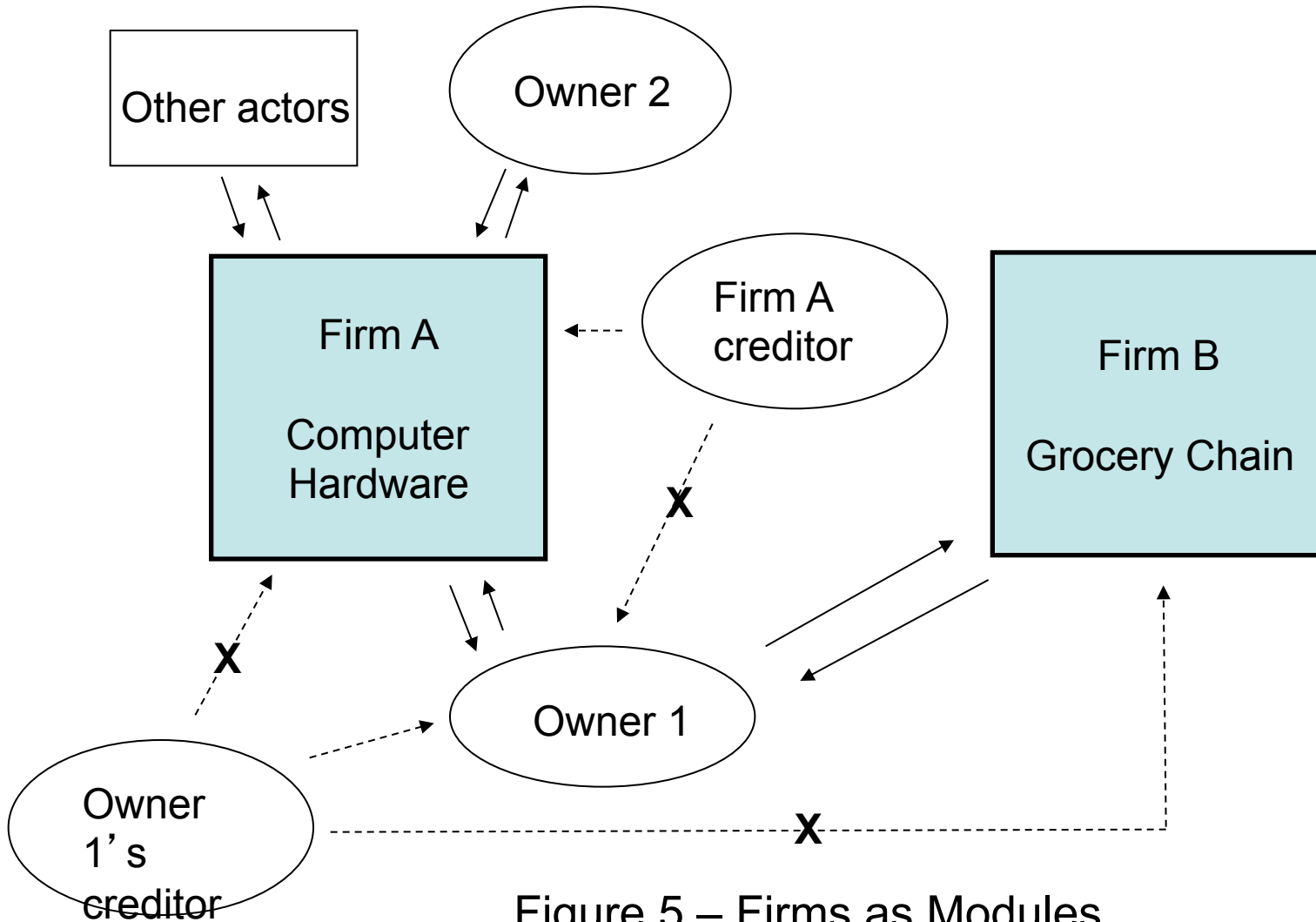


Figure 5 – Firms as Modules

Property Institutions and Systems Theory

- Middle level is domain of systems theory.
- Institutional analysis is methodologically open ended.
- Modular property institutions.
- Devices to deal with feedback effects, including strategic behavior and opportunism.