

The Evolving Theory of Property Rights

Clearly defining the ownership of property is often thought to be necessary for the efficient operation of markets and the appropriate use of scarce resources. Specifying property rights within mature governance frameworks is relatively straightforward for traditional private goods, but it becomes more complex for common property goods such as groundwater, environmental resources, irrigation systems, forests, and fisheries.

Common property goods are often subject to overexploitation (the well known “tragedy of the commons”), and many observers argue that the sustainable use of common property can be solved simply by employing one of two alternatives: private ownership, or public ownership operating within a clear regulatory framework. The argument is that either approach can internalize externalities and reduce transaction costs.

This notion that there are only two discrete solutions—private ownership or public ownership—to promote the sustainable management of scarce common resources has proven problematic for at least two reasons. First, neither private nor public ownership has always conserved scarce resources well, as in the case of the timber industry. Second, many alternative property rights approaches have been successful in managing scarce common resources in a sustainable manner, in some cases over hundreds of years.

Examples of alternative property rights approaches include the management by farmers of irrigation systems in Nepal, by villagers of Alpine grazing lands in Switzerland and Italy, and by villagers of mountain grazing land and forests in Japan and Norway. In all of these cases, farmers owned their private agricultural parcels and also participated as communal owners of commonly held resources.

Analyses of many cases of successful common resources management reveal that specific practices vary widely and depend on underlying institutions, social norms, culture, and ecological conditions. Accordingly, specific practices are usually not transferable from one context to another.



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However, research also shows that participants in successful systems have seven elements in common: accurate information about the resource; a common understanding about the resource’s benefits and risks; shared norms of reciprocity and trust; stable group membership; a long-term perspective; decision rules that avoid either unanimity or control by a few; and relatively low-cost monitoring and sanctioning arrangements.

These systems work best when the common pool resource is in a fixed location, such as forests, grazing land, mineral deposits, and many environmental resources. When the location of the common resource is not fixed, however, virtually no single property rights approach has been very successful. This is famously the case for fisheries, where the stock of fish is mobile and its size is difficult to track. Most property rights systems applied to fisheries give property rights to the annual catch, not to the underlying stock. Many approaches have been attempted to control fish catches, and the most promising current practice uses transferable quotas, but this approach is still a work in progress.

An excellent summary of the evolving theory of property rights is available in the recent Lincoln Institute book edited by Daniel Cole and Elinor Ostrom, *Property in Land and Other Resources*. Elinor Ostrom in particular has contributed greatly to the property rights literature, and her work in this area was honored last year when she was awarded the Nobel Prize in economics.

The volume includes chapters that address the complexity of property rights and their applications to common pool resources such as air, land, water, and wildlife (including fisheries). In addition, two chapters review the self-organization of property rights practices by miners during the 1849 California gold rush and more recent gold rushes. Those authors found that very similar property rights practices emerged in other such mining situations.

For more information and to order the book, visit the Lincoln Institute Web site at www.lincolninst.edu. 