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PROPERTY RIGHTS IN HISTORICAL POLITICAL ECONOMY:
WHEN DO WEDGES WITHER?

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ABSTRACT

Countries are not equally developed in large part because most countries face sets of property rights that do not foster growth despite the aggregate gains that would result from changing property rights. The difference in rents to society between the extant set of property rights and some seemingly better alternative we define as a “Demsetz” wedge. We explore the forces that sustain the status quo as well the forces that prompt property rights to change.

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1. Introduction

In this chapter we are most interested in the economic property rights that individuals or groups have in political markets. By economic property rights we mean the *de facto* rights that actors hold after expending transaction costs to capture and hold onto rights. Because of transaction costs, *de facto* rights differ from *de jure* rights. Inclusive sets of property rights in terms of open entry, e.g., rights to set up a corporation or vote, have led to better outcomes in terms of economic growth and prosperity, than limited or extractive property rights (Sokoloff and Engerman, 2000; North, Wallis, and Weingast, 2009; Acemoglu and Robinson, 2012, 2019). There is sufficient consensus around this proposition that we take it as given in this review and focus instead on the corollary question that it gives rise to. If open and inclusive property rights are the path to greater welfare and prosperity, why have most countries and societies throughout history and today not pursued this path? In the early 1800s the richest countries were approximately four times richer than the poorest countries in GDP per capita. Today the difference is more than 100-fold. The pattern of growth trajectories over this period is that of a small group of fast-growth rich economies, a large group of slow-growth poor economies, and an increasingly large gap between both groups, with few historical cases of nations transitioning from one group to the other (exceptions are mostly Asian tigers, such as South Korea, Taiwan, and Singapore).

Poor countries do not reform their property rights to tap into the wealth enhancing power of inclusion and political open access because changes to property rights are always redistributive. Individuals, groups, and organizations that would be harmed by changes in property rights resist change and maintain the status quo set of property rights because they hold property rights to wealth and political power, enabling them to block change. Much work in Historical Political Economy chronicles success and failures to promote inclusion. Successful adaptation of property rights rest on bargains and side payments that make all parties better off. Can these bargains be achieved or are there impediments of any kind that drive an insurmountable “wedge” between the current property rights and those that would enhance prosperity? The wedge results from transaction costs being positive. If transaction costs are zero, then wedges would not exist. The goal of our paper is to specify the transaction costs that prevent or allow changes. Transaction costs of maintaining the status quo can change with demographic, technological, political, or other shocks that in turn affect the rents of those who specify the property rights.

2. Transaction costs of changing property rights: why we are not in a first- or second-best world

Prominent work in economics presumes that existing forces eliminate these wedges and ensure efficient outcomes or second-best approximations. The model of perfect competition, for example, does just that. It models situations where nothing stops all mutually beneficial trades from being realized, thus automatically eliminating the wedges that could prevent the optimal outcome (Arrow and Debreu, 1954). Though their work pertained to economic markets, exchanges are even more difficult in political markets where rights are less secure and less easily tradeable.

In a cross-country perspective, Convergence Theory expects the forces of mobile capital, labor, and ideas to raise the output and welfare of lagging countries leading to a world where all nations are as equally prosperous as their initial endowments allow (Barro and Sala-i-Martin, 1992). In a similar manner, Rostow's (1960) model of Stages of Economic Growth postulates that countries follow a path through five well-determined stages on route to becoming developed. Modernization Theory asserts that once countries become rich, they automatically become democratic, which is in essence a process that rearranges political property rights (Lipset, 1959). All of these authors model a world of zero transaction costs though none explicitly believed that the world works this way.

The Coase "Theorem" has been much misunderstood (Allen and Barzel, forthcoming). The Coase theorem states that if property rights are secure and if transaction costs are zero, then an efficient allocation of resources ensues (Coase, 1960). Resources will end up in the hands of those who value them the most regardless of who initially held the rights. Coase's purpose in modelling a zero-transaction cost world was to establish a benchmark that does not exist, precisely to bring our attention to bear on the importance of assigning property rights to those who would have the highest valued use given that transaction cost would prevent exchanges from lower to higher valued uses.

North (1990) coined the term adaptive efficiency to describe societies that adapt to shocks by changing institutions that promote prosperity. North does not suggest that institutions are generally adaptively efficient. Quite to the contrary he stresses the "uncertain success of institutional adaptation, and the limits of adaptive efficiencies" in most countries (North 2005: 169).

Finally, there is Harold Demsetz' (1968) influential paper *Towards a Theory of Property Rights*, which we use in this review as a guide to classify the literature on property rights in Historical Political Economy. This is the quintessential approach postulating

corrective forces for property rights. It has given rise to much debate on the extent to which such forces exist and the circumstances in which they fail to emerge. Demsetz argued that if the extant property rights were no longer capable of assuring the highest value use of a resource, then economic forces would induce a change in property rights to better exploit the resource and reduce rent dissipation.

Demsetz did not make explicit the mechanism through which a society transitioned from one set of property rights to another. Rather he assumed that the existence of greater net benefits from the new arrangements would be enough to induce the change. This presumption of a march towards efficiency-inducing property rights was applauded by some scholars and contested by others (see Merrill 2002 for an overview of a special issue of the *Journal of Legal Studies* dedicated to discussing his approach). Critics provided both examples and mechanisms through which new inefficiency-correcting property rights could fail to materialize even when the losses due to current arrangements were large and obvious and the alternative well known and viable. In the example used by Demsetz, property rights among some Indian tribes in Canada transitioned from open access to private property in response to the increase in price of beaver pelts that was induced by the opening of trade with European settlers. Some scholars found other examples consistent with the Demsetz case, e.g. bison (Lueck, 1995); rhinoceros' horns (Allen, 2002); federal land in the U.S. (Libecap, 1993); land in Hawaii (La Croix and Roumasset, 1990; and La Croix 2019); and U.S. mining rights (Libecap 1978). However, various other examples explored cases where property rights failed to adjust, such as, land (Alston, Libecap and Mueller, 1999; Anderson and Hill, 1990; Besley, 1995; Migot-Adholla, 1991; among many others), oil fields (Wiggins and Libecap, 1985), and timber (Libecap, 1983), among many others. In some situations, the changes in property rights can take a situation from bad to worse. This was the case that Higgs illustrated with salmon fisheries (Higgs 1996).

Given that there are both examples of successful adjustment of property rights in response to shocks that alter relative prices, as well as examples where these adjustments fail to materialize, much of the literature has turned to determining the conditions that lead to one path instead of the other. For example, to what extent and how does it matter if the efforts to block or change the property rights come from elites and interest groups rather than bottom up from community-based norms? Also, do property rights always move towards private rights, as Demsetz supposed, or can they also revert when price shocks go the other way (Merrill, 2002)?

In the literature cited above, the examples were mostly of property rights over economic goods, such as land, minerals, water, and animals. Yet, the same issues of self-correcting versus sticky property rights are also valid when what is at play are property rights in political markets. It is the property rights in political markets and in particular the bundle of rights under the umbrella of open access, open entry and inclusion that are our focus in this chapter, given their centrality to Historical Political Economy. We thus organize our review by sorting between cases where the rights in political markets did and did not change to promote overall prosperity.¹

To give this organizing principle more clarity we define the notion of a Demsetz wedge.² The Demsetz wedge is the difference in the returns to owning an asset under first best efficient property rights with zero transaction costs and return from *de facto* property rights, where *de facto* property rights include the return on the asset after accounting for the transaction costs of capturing the property right.³ This measures the rents that accrue to changing the property rights and therefore the demand for the new rights (Alston and Mueller, 2008, 2014). It also measures the level of compensation that would need to be paid to those who hold the property right to change the extant distribution of rights.

Figure 1 provides a graphic representation of the Demsetz wedge.⁴ The horizontal axis measures scarcity decreasing from left to right. You could think of this as the return from having a secure title to land versus a squatted claim (Alston, Libecap and Schneider 1996). The vertical axis measures the net present value (NPV) from having the good or asset. The upper line in the graph is the NPV in a zero-transaction cost world. The lower line is the NPV under *de facto* economic property rights. In the case of land, this could include the costs of enforcing one's claim on a squatted piece of land as well as any differences in crop choices. At low levels of scarcity, property rights are not consequential for resource use. But as scarcity increases and changes relative prices, there is a wedge between what can be achieved if transaction costs were zero versus the extant *de facto* property rights. The wedge is larger the greater the scarcity. A large wedge means that there are greater losses to sticking with the status quo property rights, and thus a greater pressure for change. One could think of the

¹ We use the term property rights in political markets to rights such as voting, having voice in collective affairs, congregating, forming organizations, accessing credit, etc. The distinction between economic and political property rights are not always clear, for example the right to open a business. We recognize that the term "rights" connotes different notions to different scholars, and some prefer property rules. We stick with property rights because this is term used in the literature that we survey.

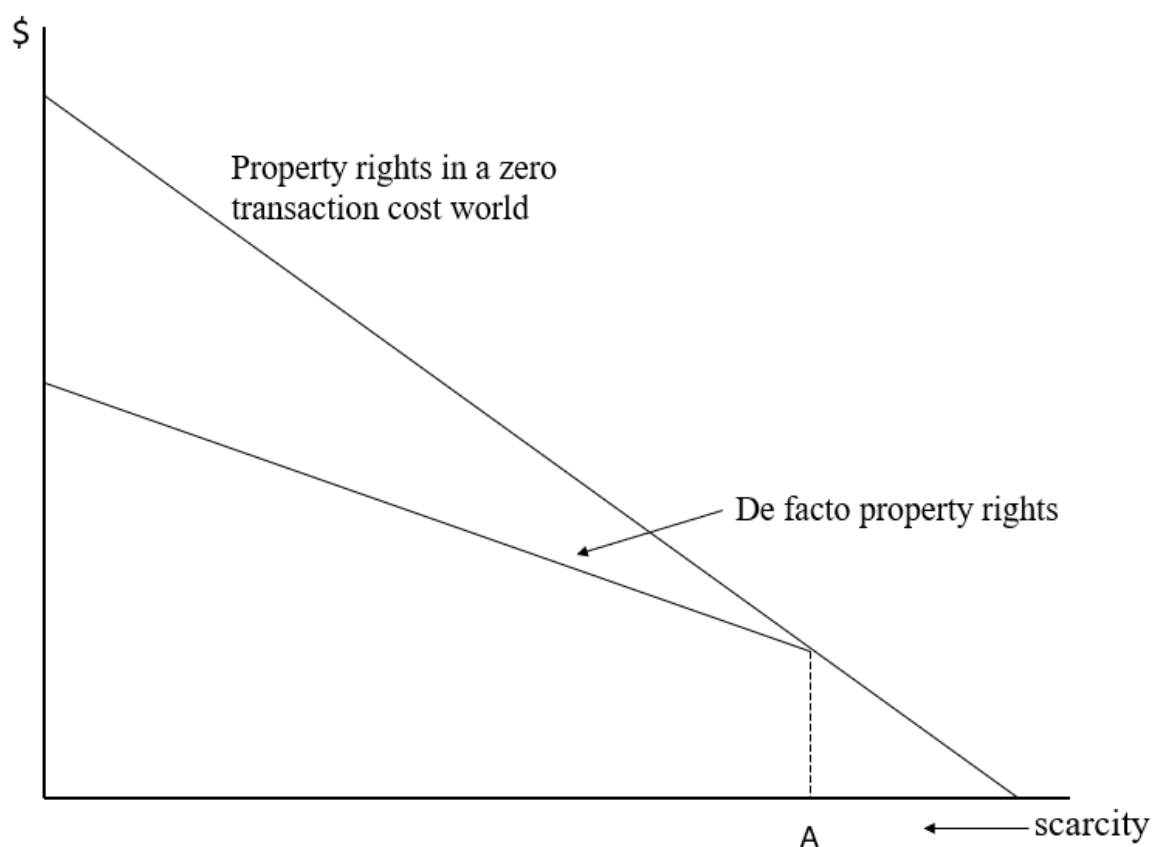
² Demsetz did not use the term wedge but we use it to illustrate the gains if transaction costs were zero.

³ For a discussion of legal rights, (de jure property rights), economic rights (de facto property rights) and natural rights see Allen and Barzel (forthcoming).

⁴ The figure was first used in Alston, Libecap and Schneider, 1996 and again in Alston, Mueller, Libecap, 1999.

wedge as measuring the benefits from having a secure legal title versus a squatted claim and a payment that would need to be made in a political market. Alston, Libecap and Mueller (1999) found that the states titled land more quickly than the federal government in Brazil. State politicians titled prior to elections anticipating voter support from those who received titles.⁵ The historical political economy literature is full of cases where large wedges existed and persisted. The central theme in this review is to discern which contexts and mechanisms throughout history induced changes in property rights in political markets and which led to their persistence.

Figure 1 – The Demsetz wedge in the evolution of property rights



3. The initial emergence of property rights

A common account of the origins of property rights is that the grand shock that initiated the progression from shared property to private property on a global scale was the transition from the Pleistocene to the Holocene 12,000 years ago, which was ushered by milder and less variable weather conditions that enabled farming. According to this view, once farming became viable it was readily ‘invented’ and quickly diffused given its superior

⁵ See Albertus (2019) for a discussion of the failure of land reform projects in Latin America and the rents that politicians received in crafting “reforms” without secure property rights.

productivity. To become viable, however, it required secure property rights, given the time-deferred nature of agricultural output and the uncertainties of storage. Also, by enabling sedentary, larger, and more complex societies new property rights had to be developed to mediate a whole new different set of conflicts.

Bowles and Choi (2013; 2019) dispute this standard account. They note that initially and for a long time in most places, farming was not a superior technology to foraging, having required more labor than hunting and gathering, and having led in many places to smaller stature and poorer health. These authors highlight the chicken and egg problem by noting that farming required private property rights to emerge but that private property rights could not exist in the mobile environments and fugitive perishable goods of hunter-gathers. The solution they propose is that private property rights and farming must have coevolved, in ways where advances along one margin enabled advance along the other in autocatalytic fashion. The rise of property right conventions and norms over dwellings and some crops and animals may have occurred in places where environmental conditions were right, possibly through evolutionary dynamics like those discussed above. If a sufficient subset of the population adhered to such norms, they could then enable the introduction of some types of farming, which even though less productive would have the evolutionary advantage for the group of reducing within-group conflict and lowering the cost of rearing children in sedentary rather than nomadic living. Eventually technological change would improve the productivity of agriculture leading to higher demographic growth and further spread of the new property rights. This was a protracted process that did not come in clear stages. As the authors note:

Enduring transitions occurred no more than 12,000 years ago and they were rare; in most ethnolinguistic units, the farming-cum-private property package did not independently emerge. Transitions were slow and sometimes witnessed reversals. The passage from initial domestication of one or two species accounting for a modest portion of the diet to a primary commitment to food production in some cases extended over as many as six millennia. As a result, mixed societies with substantial portions of the diet coming from both farming and hunting-gathering persisted over long periods (Bowles and Choi, 2013: 8832).

Though not a direct contradiction, this is a very different picture of the time frame to adapting property rights in response to a shock that one imagines Demsetz had in mind.

Other papers have examined the origins of property rights by looking at how settlers in previously unoccupied frontiers established their initial claims and how these changed over time. One of the most influential papers in this area is the analysis by Engerman and Sokoloff (2002) of how local factor endowments in labor, soil quality, minerals, climate, and so forth, determined the early property rights chosen by colonizing nations for their New World possessions. The initial choices led to persistent outcomes in terms of inequality in wealth,

human capital, and political power, and ultimately in long run growth. Their interpretation contradicts Demsetz's approach as early property right choices persisted over centuries, even when they clearly hinder growth. Countries whose endowments favored slavery, extraction, and narrow elite domination, followed development paths that maintained those characteristics over centuries, even though the opposite path of greater equality proved to be superior in the long run in most cases. Of course, not superior from the point of view of the elites who had the property rights over politics to change the extant property rights hindering growth. Acemoglu and Robinson (2012) bring together a series of historical cases that extend the Engerman and Sokoloff path dependence/persistence approach to other contexts. The persistence literature has mushroomed showing many examples of the early distribution of property rights/institutions and cultural traits had long lasting effects on modern outcomes (e.g., see Dell (2010) and Nunn & Wantchekon (2011)).

In a more nuanced analysis of the origins of property rights on frontiers in Australia, Brazil and the U.S., Alston, Harris and Mueller (2012) show that whether the initial rights of settlers get codified into *de jure* property rights in a smooth/peaceful or a convoluted/conflict-ridden manner depends crucially on context and political realities. The authors show that the state opted not to enforce extant *de jure* property rights, leaving the economic property rights in the hands of those with low cost of enforcement of *de facto* property rights. In early frontiers, settlers both specified and enforced property rights in a *de facto* manner. Regardless of who had the *de facto* rights, conflict was low because at first the original settlers had a much greater violence potential than the newcomers seeking to establish property rights. As such, the land remained under control of the original settlers. Over time, political pressure prompted the state to enforce *de jure property rights* of the newcomers and the state had a greater violence potential than the original settlers. This was case of cattlemens' associations in the U.S. West, squatters in Australia and coffee growers in Brazil.⁶

4. When property rights do not adjust: persisting wedges

When property rights do not adapt to a new reality, there must be something that prevents the forces that should work to reduce the wedge. In very broad terms we could just say that transaction costs alter, hinder, or prevent the agreements, contracts, trades, negotiations, and other interactions that are necessary to realize the change to more "optimal" property rights.

⁶ Allen and Leonard (2021) find that land use in 2012 on land that was homesteaded from 1862-1940 was less developed than land purchased. The reason for the difference is that land homestead had to be worked whereas land purchased could be used for subsequent commercial uses, e.g., stores, railroad depots, *inter alia*. In short, a wedge persisted for a long period of time.

Among others, the property rights literature has covered cases where the nature of the adjustment-hindering transaction cost is related to politics, commitment problems, the cost of collective action, culture, identity, religion, ergodicity, rent-seeking, free-riding, social and public choice problems, disorder, informational asymmetries, poverty, inequality, and leadership. In this section we discuss just a few examples related to politics, commitment, and culture.

Acemoglu, Johnson and Robinson (2005a: 413) note that the existence of inefficient institutions raises the question: why not a political Coase Theorem? This is like asking why doesn't the Demsetz wedge wither? Society could simply choose the most wealth-enhancing property rights and then establish compensating payments that make the deal acceptable to all. Those with the power to block the change would rationally choose not to do so and the society would thrive.

The authors dismiss some explanation for why such adjustments do not happen, and then submit a social conflict view that puts commitment issues as the key change-impeding transaction cost. They reject: 1) a first best efficient institutions view that assumes efficiency considerations can be separated from their effect on distribution; 2) an ideology-based explanation where leaders or societies choose property rights based on their beliefs; and 3) an incidental institutions view where property rights are not explicitly chosen, but rather result from historical contingencies at critical junctures and their effect persist through time.⁷ Instead, they favor a social conflict view that focuses on political power, that is, those who are in a position to change property rights do so with their own rents in mind, and the result generally will not coincide with what is best for society as a whole.

The key to the social conflict view is specifying the impediments to making the intertemporal political transactions that are necessary to adjust property rights. These transactions require commitment to future action. This is hard to do in the absence of impartial third-party enforcement. For one there are hold-up problems: once property rights have changed who assures that the compensating payments will be made and maintained? More importantly, political elites may fear that the new property rights will undermine their future political power, so may opt instead to keep things as they are rather than risk an uncertain bargain:

Thus poor economic institutions, here lack of property rights and hold-up, persist in equilibrium because to solve the problem, holders of political power have to voluntarily constrain their power or give it away. They may increase the security of property in society and increase incentives to invest, but it also

⁷ In later work, Acemoglu and Robinson (2012) argue for the importance of critical junctures.

undermines the ability of rulers to extract rents. They may be better off with a large slice of a small pie (Acemoglu, Johnson and Robinson, 2005a: 437)

According to this view North Korean leaders don't adhere to institutions, property rights and policies that promote economic growth because of ideology or because there are no viable alternatives, but rather because their own rents in other viable scenarios are dramatically worse than what they currently enjoy.

Another example of politics and social conflict hindering the adjustment of property rights is given by the comparative performance of the Atlantic traders in the Rise of Europe after 1500. Acemoglu, Johnson and Robinson (2005b) argue that it was not the direct inflows of resources from colonial trade that caused England and the Netherlands to achieve faster economic growth in the subsequent centuries while Portugal and Spain lagged. It was rather that trade was dominated by merchants and companies that were independent of the Crown, while in the Iberian nations the trading activities were a monopoly of the Crown. Thus, colonial trade enriched and empowered groups in England and the Netherlands that opposed and checked the monarch, leading to more inclusive institutions that in turn led to greater economic growth. In Spain and Portugal, on the contrary, colonial riches strengthened the monarchy and entrenched extractive institutions that would be a drag on growth in the following centuries.

It would be hard to imagine any compensating scheme through which the Portuguese and Spanish Crowns could be convinced to relinquish their hold on the colonial enterprise. Besides the effect this would have on the political equilibrium, a further impediment to adjusting property rights can come in the form of the coevolution of institutions and culture. Mueller and Leite (2020) show how medieval Portuguese culture of state-centric patrimonialism and honor through war and violence were well-suited for promoting the conquest of a sea-route to Asia which they dominated for nearly 100 years before any other nation could follow. Yet those very same cultural traits favored a violence-based enterprise in Asia in which principal-agent problems between the Crown and its agents dissipated a large share of the potential profits. In contrast, when the British and Dutch managed to reach Asia, their much more commerce-friendly cultural beliefs led them to quickly take over trade. Mueller and Leite show how the Portuguese Crown eventually realized the nature of the losses inherent in the centralized and violence-ridden nature of the organization of their enterprise in Asia and tried to reform and even emulate the English and Dutch, for example, by creating a Portuguese East India Company in 1628. Yet the impact of mismatched culture ultimately undermined the attempt to truly alter the nature of those new institutions and

property rights. The Portuguese Company never managed to attract private subscription and failed within a few years.

In many cases the clearly “inefficient” property rights are not mistakes, unintended effects or afterthoughts, but rather they are “constrained efficient” and purposefully designed to create rents that keep natural states from descending into violence (North, Wallis and Weingast 2009). These rents are monopolies, exemptions, favors, special access and other privileges that are distributed to social groups and organizations that have the capacity for violence. The distribution of these rents forms a grand deal in which each party voluntarily refrains from violence, thus enabling an environment of peace in which economic activity can thrive, while the coalition lasts. Viewed narrowly the property rights that enable these rents are inefficient. But in the context of natural states, they are the crucial wedges that sustain greater – yet still limited - prosperity by warding off the threat and use of violence which destroys resources.

5. When property rights adjust: wedges that wither

In the North, Wallis and Weingast (2009) framework it is possible for countries to eliminate the rents and not fall back into violence, yet this must be done by expanding access to the creation and functioning of organizations to more members of society. That is, the rents cannot just be removed, rather they must be dissipated by competition in economic and political markets. This transition from limited access to open access societies is a difficult process that only a small subset of 25 to 30 countries have managed to achieve.⁸ It is, therefore, harder to find examples of property rights that successfully adjust than cases where they persist despite their negative impact on overall prosperity.

Perhaps the most notable case of virtuous property rights adjustment in history is the evolution of constitutional arrangements in England following the Glorious Revolution in 1688. The classic treatment is by North and Weingast (1989), who interpret the rise of representative government and institutions constraining arbitrary government behavior (i.e., Parliament) as the key change in property rights that enabled greater access of the Crown to debt and enabled Britain to defeat the French. Parliament constraining the crown ultimately paved the way to the Industrial Revolution. This followed centuries of opportunistic and coercive Crown behavior that stifled the creation of wealth and innovation, as happened in all other absolutist regimes at the time. The new institutions that followed the Glorious

⁸ Rather than “open access” we prefer the term open entry. Open access in natural resource economics typically connotes dissipation of a resource.

Revolution worked by creating a credible commitment that the Crown would no longer violate property rights, unleashing the productive and creative potential that initiated the Great Divergence. This interpretation of the Glorious Revolution puts it as a dramatic example of property rights adjusting in an efficient direction. Despite (or maybe because) of the prominence of this interpretation, it has been forcefully questioned by subsequent authors (Allen, 2011; Cox, 2012; Hodgson, 2017; McCloskey 2010; Pincus & Robinson, 2011; Stasavage, 2002; Sussman and Yafeh, 2004). We highlight it because of the use of the concept of credible commitment to ensure bargains.

One of the criticisms some of these papers make is that the Glorious Revolution was not so revolutionary, as property rights in Medieval England were already reasonably secure. So, if we are willing to accept for this section examples where property right adjusted in the right direction, yet did so only gradually, several other examples are better suited. Acemoglu and Robinson (2000) argue that the gradual march in many Western societies during the 19th century towards extended voting rights, greater inclusion and democracy was not so much an ideological choice as it was a series of reactions by elites to unrest and the threat of revolution.⁹ Incrementally extending rights and franchise is a credible way to dissuade conflict and violence because instead of simply ceding goods and resources that can later be reclaimed, they change the political equilibrium by giving voice in future decisions. Thus, in countries where the masses were more politically organized, political property rights adapted slowly through a centuries-long sequence of crises and defusing responses by extending the franchise. We have chosen to put this example in the section for adapting property rights, but one might just as well hold it up as an example of how property rights are slow to respond to change.

So far, we have laid out forces that can wither wedges, but our analysis has been silent about individual leaders who can play a role in changing the beliefs about the extant set of property rights and make the necessary side payments to move to a new set of property rights. The move in the U.S. from the Articles of Confederation to the U.S. Constitution represents changing beliefs about weaknesses of the Articles of Confederation and the ability of the U.S. Constitution to address the weaknesses (Alston, Alston, Mueller Nonnenmacher 2018; and Alston 2017). The Second Continental Congress passed the Articles of Confederation 1777 and they stayed in place until nine states ratified the Constitution in 1788. The colonies won

⁹ Allen (2011) credits reductions in measurement costs to leading to many of the changes in the 19th century that brought prosperity to Great Britain.

the War despite weaknesses in funding stemming from being a Confederation. Nevertheless, there were not major forces pushing for change immediately following the war. The weaknesses included: a unanimity rule to change provisions in the Constitution; disputes across states on who should pay the state debts from the War; and inability to engage in foreign treaties at the national level; an inability to raise taxes at the federal level; and a fear that the U.S. could not continue to defend its borders in the future.

Despite the weaknesses, there were many proponents of the status quo, including most of the Governors of states who perceived that they would lose power. George Washington who felt the lack of funding for the war was an early proponent of a larger role for the federal government. Alexander Hamilton was the most vocal proponent and in 1786 called for a Constitutional Convention to be held in May 1787. In late 1786, Congress agreed to send delegates. Before the convention, Washington, Hamilton, Jay, and Madison all played major roles in promoting a new constitution. Washington, once convinced to attend, brought moral authority; Hamilton brought incredible imagination in getting the convention to materialize; Jay brought his experience as diplomat at the Peace conference following the Revolutionary War; and Madison was an amazing strategist who drafted a new Constitution prior to the Convention, and this quickly became the focal point.

The convention ultimately passed the Constitution, but it needed to be ratified by two-thirds of the states. The major architects of the Constitution went on a media blitz and produced the Federalist papers, 85 essays published in NY papers. The Governor of NY was an opponent of the Constitution. There were competing essays arguing against the Constitution, but they were for naught. The arguments that won the day changed the beliefs about moving property rights over some matters from the states to the federal government, but it took leadership to make it happen. Side-payments had to be made to get some states to go along. Abolishing slavery was off the table as the South would have resisted any changes. States voted to ratify but many wanted amendments in the form of guaranteeing their personal liberties. John Jay convinced others that to increase the acceptance of the Constitution the U.S. needed a Bill of Rights. Madison heeded the advice and drafted a bill of rights which became the focal point for bargaining in the first session of Congress following the ratification of the Constitution.

The Constitution and the Bill of rights codified a new belief in federalism over supreme states' rights. The belief was not held by all, but overtime became more dominant with institutional deepening on other margins, which entailed subsequent actions in legislation or deeds that strengthened the original set of rights. For example, early on the central

government: paid for the War debt; established a National bank; and put down the Whiskey Rebellion which showed the ability of the federal government to tax. The Supreme Court, under John Marshall, voted for judicial review of legislation of the states. Institutional deepening continued reaching its peak with the Civil War to prevent secession (and end slavery). The lessons from this episode show the importance of leadership seizing a window of opportunity (the perceived weaknesses of the Articles of Confederation) to change beliefs about the extent of property rights held by the states versus the federal government. Windows of opportunity generally emerge following a diminution in the rents that actors receive because of a shock. Alternatively, some leaders can frame an issue such that those who win from a change in property rights outnumber those who currently benefit from the status quo.¹⁰

Another prominent set of examples of property rights that adjust to induce more efficient resource use comes from the work of Elinor Ostrom (1990) for understanding common property resources. These are group-level property rights where members can exclude outsiders from accessing the resources, but within-group there is the problem of open access. Before Ostrom there prevailed a consensus that only private property rights or direct state control could avoid the tragedy of the commons (Hardin 1968; Scott 1955). Ostrom showed that common property rights have often emerged in a wide variety of contexts in a bottom-up way that successfully dealt with problems of collective action, free-riding and opportunistic behavior. In many cases these collective arrangements can be superior to private property rights by tapping into traditional knowledge and community values. Ostrom's research trawled through large numbers of cases where these arrangements worked and where they didn't, to come up with a list of design principles that can guide the crafting and adaptation of property rights to shocks (McGinnis and Ostrom 1996). This approach can be understood as an effort to find the conditions under which property rights adapt to changing circumstances, especially in cases where resorting to private or state property is not desirable or possible, as in the looming crises related to global commons that humanity is currently facing.

6. Comparative cases of changes in property rights

Most of the examples examined so far focused on a single unit or country and analyzed whether a shock led to an adjustment of property rights. A different approach is to analyze

¹⁰ In the case of the U.S. constitution, state governors who held powerful rights stood to lose from the U.S. Constitution that shifted rights to the Federal level. Expected winners included citizens at large and members of Congress.

how two different yet comparable societies react to a similar shock. This allows a means to identify whether a treated society was differently impacted by the shock in its subsequent development compared to the control society where property rights did not adjust. In this final section we review a small sample of research that followed this strategy.

Greif (2006) compares how two different societies involved in pre-modern Mediterranean trade, the Maghrib traders of the 11th century and the Genoese traders of the 12th century, got round what he calls the fundamental problem of exchange, that is, how to realize the gains from trade that is sequential in time, spread out in space and often done with strangers. His focus is on how the culture of these two groups managed to deal with these problems first in the context of local impersonal trade, and subsequently as the commercial revolution expanded trade to a larger set of markets, partners, and opportunities.

Maghribs were characterized by a collectivist culture that rested on strong kinship ties and personal relations, relying on reputation, and with had an ingrained suspicion and distrust of strangers. This cultural package led to institutions, norms and property rights that promoted within-group trade to overcome the fundamental problem of exchange. Individuals who cheated or violated contracts were punished by all members of the group and not just the individual directly harmed. If a given agent chose to employ an agent who had cheated another, other agents were free to cheat him without punishment. These property right arrangements were well-suited for local and short-distance trade and enabled a modicum of prosperity. But, due to their reliance on personal relations and restrictions to engage only with in-group members they precluded the Maghrib from more fully taking advantage of the re-emergence of Mediterranean and European long-distance trade and the much greater long-term prosperity it enabled

The Genoese, on the other hand, had developed in the previous centuries an individualistic cultural set of norms, based on the smaller nuclear rather than the extended family. In an individualistic society an individual is not beholden to get involved and to punish others who have cheated third parties in their dealings. Rather than rely on a network of personal connections, these societies had to create a system of institutions and property rights to overcome the fundamental problem of exchange, including laws, codes, courts, police, and property rights innovations such as merchant guilds and family firms based on permanent partnership. These institutions and property rights formed the springboard that enabled the take-off of considerable trade across some regions in Europe.

The distinction between the collectivist culture package, which has prevailed throughout most of humanity, historically and today, and the more recent individualistic

package often associated with WEIRD societies (western, educated, individualistic, rich, and developed) refers to norms, beliefs, psychology and other cultural attributes, but they also come with distinct property right components (Henrich, 2020). These cultural characteristics of societies have been found to have first order effects on economic growth and prosperity, innovation and effectiveness of institutions (Gorodnichenko & Roland 2011; Mokyr 2016). So how did individualism arise in only some societies and not in others?

Schulz et al. (2019) and Henrich (2020) have argued that it was the undermining by the Western Church of intensive kin-based institutions in the Middle Ages that set the change in motion. The Church's marriage and family program banned cousin marriages and polygynous marriage that were standard in collectivist cultures, reformed inheritance rights, dowries, and bride prices, pressured for independent residence after marriage, and favored individual ownership of land instead of collective forms of ownership. By 1500 agenda had profound effects on culture, beliefs, attitudes, and psychology of the societies exposed to it, which became "more individualistic and independent, less conforming and obedient, and more inclined towards trust and cooperation with strangers" (Shulz et al. 2019: 707).

There is a thriving literature that attempts to measure cultural distance or divergence across societies using a wide variety of data and proxies, from surveys to genetic markers, languages to geographic location of population, blood donations to lost wallets returned, among others. This literature has given rise to numerous classifications beside collective-individual cultures, such as tight-loose cultures, cultural value orientation, personality classifications, among many others. In the end they all correlate closely to WEIRD and non-WEIRD cultures (Muthukrishna et al. 2020). WEIRD cultures have distinctively higher GDP per capita, innovation and are more democratic. The property right component of WEIRD cultures appears to be more individualistic and better suited to modern market economies.

To the extent that many of these outcomes are desirable, one may wonder whether individualistic or WEIRD institutions will eventually disseminate to most other countries and dominate the globe. Mueller (2021) found that even in non-WEIRD countries younger cohorts have systematically more individualistic beliefs and attitudes than older cohorts, indicating a global shift in that direction over time. One is tempted to interpret such a change as an erosion of the Demsetz wedge that held maladapted beliefs and property rights in place.

A final example of a comparative analysis of the effects of different property rights arrangement is Rubin (2017) who investigates why the west got rich and the Middle East did not, despite the Middle East being further ahead economically, technologically, and scientifically before 1200. He finds that the reversal of fortune which ensued as Western

Europe eventually overtook and left behind the Middle East is not due to culture or religion directly. Rubin's analysis focuses on which legitimizing agents were key in each region historically. Legitimizing agents are groups who can bolster the beliefs of subjects in the ruler's right to rule. They are often crucial elements of a political equilibrium. It was not Islam as a set of beliefs that obstructed the continued progress of the Middle East, but the political role played by Islamic religious authorities as legitimizing agents. The reason, according to Rubin is that, in general and not only in the Middle East, religious authorities as legitimizing agents make governments less able to adapt to change. Religious beliefs are often burdened by doctrine which makes them less flexible, impeding adjustments to property rights and institutions when shocks or opportunities hit a country, e.g., technological change.

Although the Church also served as legitimizing agents in Western Europe initially, overtime that role was undermined by a conjugation of factors such as the Reformation and the emergence of national kingdoms, leading instead to economic elites increasingly playing a role in politics. Economic elites, contrary to political authorities, are better able to adapt to changing opportunities as doing so is often in their own interest. In the long run, even small differences in this ability to adjust institutions and property rights, leads to a great difference in prosperity.

7. Conclusions

In genetic evolution, maladapted design is quickly outcompeted. In cultural evolution, suboptimal design can persist for extended periods even when better ways of organizing things are known and available. We called this dislocation from optimal design a Demsetz wedge, as an illustration of the expectation that extant property rights that do not induce the highest value use of resources will change with relative prices or other shocks, e.g., demographic, or technological. In this brief review of property rights in Historical Political Economy we showed that the experience with property rights covers the full set of outcomes. While there typically are many forces pushing for property rights to change to internalize externalities and induce the most productive and valued use of resources, there are also all sorts of transaction costs preventing those changes. Especially when it comes to political property rights, the intertemporal, collective transactions that are involved in achieving new property rights arrangements are often overwhelmed by transaction costs so Demsetz wedges can endure indefinitely. The status quo, with respect to political property rights has a heavy hand.

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