INTRODUCTION

"Property rights are human rights."
—Armen Alchian

"Private property is the most important guarantee of freedom."
—Friedrich A. Hayek

The importance of property is difficult to overstate. The basic unit of economics is the individual, and one of the basic mediums of economic activity is exchange between individuals. Within the nexus that occurs between exchanging individuals is a presumption of an institution which delineates who owns what with regard to the exchanged goods and services, in other words a property right. But for many years the existence of such an institution remained overlooked or at best ignored by economists attempting to understand economic behavior.

So tacit remained the understanding of property rights in economics that it wasn't largely until the New Institutional Economics revolution (led by Harold Demsetz, Douglass North and others) shined a bright light onto them that social scientists began to take notice. As Demsetz put it in 1966, "The role of property rights is not explicitly dealt with in [neoclassical economics]."[1] He goes on to write, "there must be assumed a set of social arrangements which define ownership."

But the growing interest in institutions such as property rights also brought with it the predictable complications of a closer inspection. Property rights, or as most people think of it "ownership," is not a binary concept wherein a person either owns something or not. In fact it may not refer to a single person at all, but rather may involve collective ownership of something. And what does it mean to "own" something (alternatively to have a property right in something)? At its most basic, we can think of a property right as the ability to exclude others.

But how far does that exclusion go?

Say I own a house. In practice, most people would agree that ownership allows me to keep people from coming inside – that is, my property right gives me the right to exclude others from also using my house. But does it include keeping people off my front lawn? What if the neighbor's Frisbee ends up in my yard? To whom does it belong? Can I keep people from looking at my house and yard? Can my neighbor erect a basketball hoop which casts a shadow onto my lawn? Should a jumbo jet be allowed to fly overhead?

These kinds of questions motivate a deep literature in legal academia that helps us define the institution of property rights on a micro level, as thorny and difficult to understand a concept as exists in social science. Indeed, "the definition, allocation, and protection of property rights is one of the most complex and difficult set of issues that any society has to resolve, but it is one that must be resolved in some fashion."[2] On this point, property rights, as concern policymakers and those interested in economic development, have less to do with "who owns what?" and more to do with the local norms, customs, conventions, and laws that determine ownership.

This report, however, is motivated by a macro understanding of property rights across countries. That is, we understand certain universal characteristics of property rights to be necessary for the proper (read: efficient) ordering of economic activity and the higher standards of living that follow. With that in mind, it necessary for the reader to understand the limitations of such a study to account for the innumerable variations on the theme of property rights. Using data that is both available and credible, the minutiae of ownership must be somewhat overlooked in favor of broad and definable measures. The decision to use the measures employed in this study was the result of extensive consultation with academics, policymakers, and practitioners who are familiar with property rights on both purely theoretical and practical grounds.