

IUG; No Transaction Cost

- **Market**
 - 1. Owned by A
 - 2. Owned by B
- **Common property**
- **e.g. African communal tenure.**
- **Efficiency**
 - 1 & 2. Use is same.
 - 1. A is rich.
 - 2. B is rich.
- **Inefficient**
 - 3rd parties who don't want change don't count.

IUG; pecuniary externality with price changes

- **Market**
 - No protection against Pec. Ext.
- **If B's innovation destroys A's asset value, B is not a thief. No loss if assets are mobile.**
- **Requires moral choice.**

IUG

- **Markets**
- **Internalizes Pareto-relevant externalities.**
- **Efficient**
- **Requires moral choice.**

HEC

- **Government should provide.**
- **No market failure, but unwilling riders.**
- **Requires moral choice..**

$$MC = 0$$

- **1. Government should provide.**
- **2. Differential pricing by public or private firm.**
- **P = MC**
- **but tax creates unwilling riders.**
- **2. Affects income distr.**
- **Requires moral choice.**

Transaction Costs

- **Distribute ownership to minimize transaction costs**
- **Efficient?**
- **Rich get richer**
- **Value circularity.**
- **Requires moral choice.**

Institutional **Change** Analysis:

1. IUG & technological externality
 2. Transaction costs.
- **1. Prohibit all but Pareto-better change. Assume A owns.**
 - **2. Change to inst. which minimizes trans. cost.**
 - **Prohibit rent-seek**
 - **1. Status quo.**
 - **If B's cow escapes, B is thief.**
 - **2. Realize all Pareto-better opportunities.**
 - **Requires moral choice.**

Rules for Making Rules

Agenda setting interdependencies

- **Unanimity**
- **Public referenda**
- **Govt. best which governs least.**
- **Local govt. is best.**
- **Only Pareto-better trades**
- **ditto**
- **More freedom?**
- **More freedom?**
- **Requires moral choice.**

PROPERTY RIGHTS EQUIVALENTS

If it **looks** like factor ownership/property right,
walks like a factor ownership/property right,
It **is** a factor ownership/property right,

whether the opportunities are implemented by
private property (tort liability), regulation (or
public property), or custom (status-grant).

All of the above may be the basis for market
exchange, though regulation is usually only a use
right.

One of the great popular confusions is to regard governmental regulation as freedom decreasing. Both private property and regulation are public phenomena which necessarily allocate opportunities to some and exposure to others.

“Getting the government off the backs of the people” is really just changing who has rights and who has exposures.

Remember, “Freedom for the pike is death for the minnow,” and of course vice versa.

Coase Rule: Use unaffected by factor ownership, if...

- Zero transaction costs.
- Marginal utility of money constant.
- Firms are in disequilibrium earning profits.
- No specific assets.
- No economies of scale
- These cause bid & reservation prices to differ which vitiates BCA as guide to institutions.