

# Beyond Private Property Versus Public Property:

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The Solution to Douglass. C. North's Puzzle Concerning China's Household Responsibility System

*Summary of JOIE article (15 October 2021) by Simon Deakin and Gaofeng Meng, Centre for Business Research, University of Cambridge, Cambridge, UK. The full article is available on the [JOIE website](#).*

The dominant theory of property in economics views property rights as individualised and private in nature. Private property in conjunction with the free market is then equated with capitalism, and public property and central planning with socialism. This disjunction owes much to the influential work of Harold Demsetz (2002: S658), which posited the 'alternatives of private and collective ownership' as 'simply, capitalism and socialism'. Demsetz (1967) argued that communal ownership, in which the bundle of property rights is divided among the members of a group, can be expected to develop into private ownership over time because of the latter's implications for efficient cost internalization and the alignment of investments and returns (Demsetz, 1967).

Demsetz was echoing here the juridical description of property contained in Blackstone's *Commentaries* of 1766 (Blackstone, (2016) [1766]), according to which ownership is 'that sole and despotic dominion which one man claims and exercises over the external things of the world, in total exclusion of the right of any other individual in the universe'.

Douglass C. North also foregrounded the role of property rights in promoting economic growth. He cited Demsetz's theory as 'the intellectual origins' of his own approach (North and Thomas, 1973: 159). Adapting Demsetz, North and Thomas (1973) drew a distinction between developed and underdeveloped property rights. For them, it was the evolution from the 'underdeveloped' common property of the Middle Ages to the liberal concept of full ownership that underpinned the rise of the West. The feudal system was based on a form of 'split ownership' in which 'several persons had jurisdiction or held and shared particular rights to the same piece of land' (North and Thomas, 1973: 63). With the rise of the enclosure movement from the late Middle Ages onwards, the dominant conception of property rights became

one which allowed the individual proprietor to exclude the wider community from access to land (North and Thomas, 1973: 151–153).

Underpinning this development was the emergence of a state capable of defining ‘the formal economic rules of the game’ (North, 2005a: 57). In his work with Barry Weingast (North and Weingast, 1989), North identified the legal and political changes following the ‘Glorious Revolution’ of 1688, which he saw as securing private property rights against state expropriation, as the foundation for the British Industrial Revolution and, more generally, for the rise of capitalism in the West. Developing this theme, North (1990) argued for institutions with the feature of ‘adaptive efficiency’. Whether an economy was moving in an adaptively efficient direction depended on how far its institutions provided ‘incentives to encourage the development of decentralized decision-making processes’ (North, 1990: 81). Although North believed that England’s historical trajectory was distinct, he also thought that it reflected a tendency of economies across the West which was mirrored in the experience of other countries including the USA and France (North et al., 2009). The implication of this approach is that the legal-institutional model of Western economies represents the ‘end-point’ of economic development (Faundez, 2016: 373).

North applied his theory to other cases, including China. North understood that China’s system of rural land ownership, the Household Responsibility System (HRS), did not observe the model of individualised and private property rights that he saw as responsible for the rise of the West, and was ready to recognize the challenge to his own theories that it posed. He was aware that ‘China had succeeded where other countries had failed’ by avoiding ‘slavishly imitating Western institutions’ (North, 2005b: 159). China, he thought, ‘has no clearly specified property rights and it has a judicial system that is essentially arbitrary’ (North, 2004: 5), a feature of its development which he described as ‘puzzling’. At the same time, North thought that Chinese institutions could be expected to converge with those of the West over the course of time (North, 2005a).

The way to resolve North’s ‘puzzle’ lies, we suggest, in considering other theories of ownership, which may better explain the evolution of the HRS. The HRS has many of the features of what the jurist A.M. Honoré (1961) called ‘split ownership’ and, relatedly, of the concept of the common pool resource (CPR), which was developed by the political scientist Elinor Ostrom.

Contrary to North's suggestion that there are no clearly specified property rights in China, the HRS does set out the respective rights of households and communities. Individual households have the right to manage their land and to benefit from its use, but they do not have rights of alienation; the land reverts to the collective after a certain period of time has elapsed. The individual right of alienation was regarded by Demsetz (1967) as a core property right, and arguably the most important of all; Ostrom, by contrast, noted that many CPRs operated without there being a right of individual alienation, and that, moreover, its absence was often key to maintaining collective resources over time (Ostrom and Hess, 2017: 17).

A further feature of CPRs is the emergent and communal nature of the rules underpinning them. The HRS emerged out of community-level initiatives in the late 1970s before being taken up by county and provincial-level governments and eventually embedded in national legislation. The local roots of the HRS recall the observation of Ostrom and Basurto (2011, 322) that 'we must understand the process of rule change at a community level', alongside more formal legal institutions. The HRS is characteristic of the polycentric processes of rule formation which Ostrom characterized as 'rich mixtures of "private-like" and "public-like" institutions, defying classification into a sterile dichotomy' of public versus private (1990: 14).

Is China on a path to transforming itself from a planned economy to a market economy, with private property rights, in the long term? If so, would this amount to 'success'? Ronald Coase (2010) was of the view that 'economies have different systems of property rights' and that the 'common classification of private versus public property rights, the former associated with capitalism and the latter with socialism, is too simplified a view. He also thought that 'China will develop its own system of property rights'. Perhaps Coase, rather than North, will prove to be correct on this point.

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