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The Allocation and Exchange of Property Rights as a Way to Understand Comparative Economics Systems and Managerial Economics

- **Economic systems are described by the manner that property rights are allocated to individuals, to the government, or to interests groups**
- **Property rights entail control of use of assets, claim on the net income from an asset, and transferability of the previous two**
- **How they are allocated characterizes an economic system (e.g., capitalism, socialism) and determines its success or failure**
- **A related analysis is important to understanding the success or failure of business organization, e.g., the corporate and non-corporate form, franchising, and employee compensation methods**

This paper analyzes comparative economics systems and managerial economics with a unifying theme of the allocation and exchange of property rights. It is argued that all economic systems, e.g., capitalism, socialism, and so on, are understood as different ways in which three basic aspects of property rights are allocated. Additionally, we discuss how the allocation of the same three aspects of property rights are at the core of much of managerial economics.

Section II of the paper describes the three aspects of property rights: control over use of assets, claim on the net income (or enjoyment) from the assets, and transferability (alienability) of the previous two. Section III of the paper examines a number of economic systems and shows how each is described by the manner in which property rights are allocated. So, for example, in a capitalist system, each of the above noted aspects of property rights are held predominately by individuals (or their designees). With socialism, these rights are largely held by the government. In welfare states, such as those in the Scandinavian countries, these rights are divided, where the government (through taxation) holds much of the rights to income. In part A of section IV, the importance of the private ownership of property is discussed, with focus on how it enables unifying decision-making rights over how assets are used on one hand, with incentives and relevant knowledge on the other.

Part B of section IV works through a number of examples on how private owners may divide the three aspects of property rights. Examples include corporations, franchising, and employee compensation. Each organizational form divides property rights differently and the nature of the division characterizes the organization. Each has its benefits and costs and, in a competitive market, those that are most efficient survive and thrive. This further illustrates the importance of private ownership of each aspect of property rights, with competition among different styles of organizations.