

THE OWNERSHIP IN DIFFERENT SCHOOLS OF ECONOMIC THOUGHT. COMPARISONS AND AN ALTERNATIVE APPROACH

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Abstract: *The paper aims to identify several major approaches used by various important schools toward the concept of ownership. And to find how they differ from each other and what benefits (and shortcomings) offer those differences to the analysis of the ownership/property. These comparisons are in order to launch an alternative approach toward the concept. The point is not to “improve” or to criticize, but to attempt to look on the category from an “outside” viewpoint.*

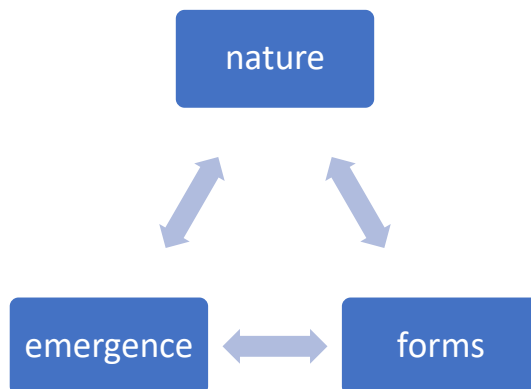
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1. Preclassical economic views on the property

The focus of the scholars was to answer 3 basic questions – What is the **nature of the ownership**? How has it emerged? And eventually what are the relevant forms it may or must take?

Figure 1. Pillars of the Ownership



Source: Author's own

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Starting from Plato and Aristoteles, it is presupposed a kind of *preceding, born by the nature* (and, to that effect, natural) state of society (and of humanity), which had led to the birth of that property. This natural state is of **divine** origin (albeit to varying degrees to different authors):

- and thus, it is **outside** the will and actions of man,
- which means that it is considered a **given, absolutely**, and
- **the task of knowledge** is to learn well and **to adjust** the society to the divine law.

That state – *unsocial* or *pre-social*, is subject of transition toward an orderly society, i.e., society which has legality and law. Within this society people are equal (Aristotle, Hobbes, Locke), if not completely, then to a great extent. And they are also free. Thus, this equality is an **equality to the goods**, which in that state are nothing more than natural. Henceforth, for the early scholars, the primary state **of ownership is common, non-divided, unindividual, and thus non-private!**

At that point, differences emerge among the authors. For some of them (Plato), this is righteous, consecrated by the gods and it is advisable that ownership in the ideal country remains so.

The opposite group of others (like Aristotle) find the private ownership more attractive. What is important, both sides highlight the advantages and disadvantages of their choice and *do not exclude* the existence of the alternative form. Moreover, they find justification for the alternative forms.

The Enlightenment reproduces the same duality in the opinions. Some of the thinkers (Hobbs) considered impossible, the existence of the private property. But others (Locke) find it adequate to the “socialized” condition of mankind. Locke is the first to deal extensively with the emergence of ownership as a result of a conscious action, a creative act of the reasonable man. This is a huge step recognizing:

- that human activity, (the labour), makes the free, common and natural goods, private ones.
- that property **arises** from the merge of human effort with natural origin.
- This logic indicates that ownership as an economic category objectively emerging in the course of action of the economy.

The fact that ownership evolves only as private launches the liberal tradition in the widest possible sense of this term



1.1. Summarizing the pre-classical views

The important thing with the pre-classical views is that, except for Locke their schemes are institutional – ownership is or it must be as it is because God (or the gods) give it that way. Or, for some authors, because the law (Roman tradition) forms it that way. So, in this sense, these approaches are **legal or normative**. Emphasizing the regulatory nature is aimed to show, that their authors do not associate them with the way economy works; early scholars do not see the ownership neither as a consequence, nor as a reason for its functioning.

And when we speak about its analysis, those authors do not put anything else in it, than the idea that there is better or worse ownership, and accordingly the more or less adequate to society they live in, or to the "ideal" state.

2. Classical Political Economy (CPE) concepts of the Ownership

Perception of ownership of the CPE was inherited from the ideas of the Enlightenment. Adam Smith laid the grounds of the liberal notion for the functioning of market and of labor value theory. That way he reproduces Locke's understanding of a person's natural right over his own labor which leads to the appropriation of property, though, Smith asserts that it happens always in specific social conditions as “[P]roperty and civil government very much depend on one another. The preservation of property and the inequality of possession first formed it, and the state of property must always vary with the form of government (Smith, 1896, p. 16). In his sense, the ownership of the individual always appears as **private** and **exclusive** one, which comprises the main concept for it in the Classicism.

Jean-Baptist Say also remains, grossly, with the early economists’ tradition – there is a primitive stage of humanity which is lacking property, but it is wild and undeveloped; he gives examples of savages from New Zealand and America who are forced to feed on worms, caterpillars, any other "creeps" chased by extreme scarcity and poverty. The land there is unappropriated (non-privatized) and no one wants to make investments because of this. For Say, things are clear - progress requires appropriation of the land (which apropos, is in everyone's interest) to overcome poverty and provide abundance. Moreover, in that logic, such "absorption" is probably advisable also for other natural forces, but he points out some difficulties, since they are non-exclusive, in terms of consumption, and "inexhaustible" as availability. Of course, such logic is an excellent contribution to the economic liberalism, and it is no coincidence that Say is his undisputed flag today, especially



given his "vision" regarding the privatization of some other "indestructible forces of nature" such as rivers, waters, etc.

Ricardo does not have a specific analysis of the ownership, but he has an extensive treatment of the rent. According to him, *the worse soil* yields more expensive corn than the better one. And the price is set by the former, because the constant demand for labour drives the population growth. Expansion of the population requires cultivation of *poorer and poorer lands*. Paradoxically, here Ricardo accepts **Malthus' point** on the fast-growing population. The result: more labor is needed to produce the same amount of grain as before the poor-land cultivation. This ensures a continuous growth in the grain prices, which in turn provides for a continuous rent growth: "The wheat does not have a high price because the rent is paid, and the rent is paid because the wheat has a high price..." (Ricardo, 1981, 80). Hence, there is no rent when the good-quality land is abundant. Thus, "[R]ent is that portion of the produce of the earth which is paid to the landlord for the use of the original and indestructible powers of the soil" (Ricardo, 1981, p. 74).

That treatment of the rent indicates on his sense of ownership. It occurs naturally in the course of effort to ensure a *fuller* (and *better*) *use of the "productive powers"* of the soil. This resembles physiocrats' "*produce of nature*", or Say's "*powers of nature*", (encompassing those of earth, water, and even of the sun)! But the point is different; Ricardo's "*powers*" increase the quantities of produced goods (e. g. of corn) but never – its value! And, Ricardo goes much further in his analysis of ownership, as an economic category. Showing with numerous examples, that, when unlimited and good-quality land is present, rent will not arise (and hence all the severe consequences of delayed accumulation of capital and poor socio-economic problems of workers), it essentially highlights an entire class – the landlords – not only as parasitizing, but also as holding back the progress of capitalist society in its early industrial era.

The views of J. S. Mill are deeply influenced by the Bentham's principle of "chasing more happiness". They exhibit a strong predisposition towards equality in ownership. The main thing about Mill's understanding of ownership is that it regards existing property as imperfect compared to its general principle: "The laws of ownership have not yet been consistent with the principles on which the justification of private property is based", (Mill, [1848] 1909, p. 208). This is the main reason why he deals with the *soft* principles of distribution, targeting them through the prism of the individual property, as it should be, according to him.

And here they are Mill's "specifics," which seem rather contradictory within the liberal classic line of economics. For him, the ownership (often non-exclusive) must be subject to restriction (when inherited), and even to progressive taxation. His opinion is sharpest for the ownership on land – it



is not as "sacred" as other objects of property, and "no one has made it", but is the primary heritage of all beings. Then: *its appropriation is wrong*, since it gives exclusivity (exclusive rights) to the owners, thus preventing others from acquiring them in the same way. Interpreting the ownership on land as *an exclusionary* (exclusive) category adds stroke to the Locke's view. Locke had assumed that, in the free state, anyone could acquire *goods in so far as she applies labour*, provided goods remained enough and of the same quality for others. Thus, Locke did not postulate the original *scarcity* of wealth, including land (at least it did not separate it from the general case), whereas Mill's treatment of property as an exclusive right already means that he *introduces* the principle of scarcity, although still only regarding the land.

One can clearly see the two strands of ownership analysis in CPE - while Mill's direction is closer to the normative treatment that we will later find vividly embodied in the neo-institutional approach, then the analysis that Ricardo makes of ownership, (and especially of one particular form of it), is an economic analysis that postulates it (for the first time in theory) as an economic phenomenon.

2.1. *Marxian Political Economy (MPE) point of view.*

MPE is usually classified as a radical one, due to his emphasis on the revolutionary change of the society. Nevertheless, his economic findings follow CPE tradition which he led to a logical end assuming that part of the labour is unpaid to the worker, and it is therefore a source of the profit, which is accumulated in capital. Its contributions on the ownership are multidimensional. Marx distinguishes the category of private property from the pre-existing forms of personal dependence (slavery and serfdom). Marx asserts, that capitalist production needs employees to be free and deprived from any productive property in order to sale their *labour power*.

Marx defines for first time the private property, not just as opposing the common possession in the "natural" state of society, but also as a *characteristic* of the *individual*, as a full-fledged subject, who has a control of the objects of his property and enter into relations on an equal basis, with other individuals possessing same characteristics. Which means that, ownership is ***a social relation***, an objective, material, not legal and normative one.

Thus, this is no longer *just a private property*, which, as belonging to its principal, gives him/her an opportunity for an immediate use (or of its fruits), but is also a self-growing and self-sustaining value that expands and multiplies its base. That makes it a ***capitalist*** property, which works in the same legal regime, but with new features and new agents.



And the least, Marxist understanding of private property defines it as developing historically, starting from a very simple common forms in primitive societies (e.g as in Indian community), passing through slavery, feudalistic and bourgeois societies and ending by its abolition. The main difference here is that MPE explains it as a social rather than a natural process.

2.2. Summarizing the views of classical political economy

CPE concept of the ownership embraces three approaches:

1. The liberal (and major) one:

- Property results from the appropriation of wealth from the nature by individual's own labor in a specific social condition.
- So, it always appears as a private and exclusive one, which is its **main feature** in classicism (Smith)
- Ownership occurs naturally to ensure a better use of the "productive powers" of the earth, (Ricardo's rent theory).

2. The one based on Bentham's principle for "chasing happiness":

- It is predisposed towards **equality** in ownership, so the appropriation of the land is wrong, since it gives exclusive rights to the owners, preventing others from acquiring them in the same way. (J. S. Mill)
- Roughly, Mill introduces the principle of scarcity, though still only in relation to the land.

3. The radical one:

- It understands the property as a historical category, emerging as a communal one, evolving as a private one, then as a **capitalist one** and ending through its abolition, (Marx).
- Private property is not just an opposite to the common possession in the "natural" state of society, but also is a characteristic of the subject, who has a control of the objects of his property and enter into relations, on an equal basis, with other individuals possessing same characteristics.
- It sees it as a **social relation** rather than a natural process; an objective, material, not legal and normative one.



3. The Neoclassical concept

Neoclassicism does not offer any special analysis of ownership. In fact, it is removed from its set of categories. Moreover, Neoclassical paradigm acknowledges absence of the ownership as a desirable rather than a problematic fact.

Deprivation of the analysis of social dimension, however, deprives economic objects also of the institutional one. And the ownership is exactly such a phenomenon – regardless of the opinions of the theoretical schools, the view that it characterizes the economic system qualitatively stands out. Hence, it is important to say that depriving the analysis of an institutional incision impoverishes it and ultimately schemes it, moving it away from reality.

In the few occasions, where ownership is dealt explicitly, the analysis is reduced, pretty much like in the Roman legal tradition, only to the material objects, sending it, this way, back to the pre-classic notions, (see Menger, 1950). The ownership is stated solely as *attached* to the individual, i.e., just as a private one. Menger himself did not use that term, and when he thought of any change in ownership, he linked it to the impossibility of its separation from the socialized economy itself. In principle, this is the general approach to the ownership of the neoclassical school, although it is defended with different harshness. Reducing goes together with a highly declarative manner of the statement - "[T]he Program of Liberalism... should be read as *property*, i.e., *private property*... “; (Mises, 1985).

Neoliberalism seeks to re-establish the principles of freedom of competing economic agents, considering, however, the existence and influence of monopolies. Particularly, this is the neoliberalism of the German "ordo"-school, to point out the views of Walter Eucken. For him, as for the entire neoclassical track, private property is the absolute basis of the competitive markets. Though, this is no longer enough; in the context of a monopolistic structure of the economy, private property has changed its characteristics. Eucken, therefore, considers that conditions must be made to combat cartelization and hindering of free competition. The concept of "social market economy" developed by him and the other scientists of the Freiburg School became the basis of the post-war reconstruction of the German economy. The latter in the German neoliberal school is associated with the widespread distribution of shareholder property and, more precisely, its diffusion through folk shares to create and strengthen the middle class, a "nation of owners".

The neoclassical lack of institutional structure provides us with the opportunity to make a *challenging hypothesis*: Abandoning of the ownership in the explanation of the economy appeared



possible because of the introduction of *scarcity*; a category, which economic sense simply means that goods are not free, not available, and not accessible to anyone who would like to take advantage of them. They are limited, scarce, etc. because they are not free, just as this is postulated in classical economic theory.

4. The ownership in the Neo-Institutional Economics (NIE)

Considering the fact, that the production, in addition to the transformation of materials, is also a transfer of rights, the NIE "complements" the notion of the neoclassical economist with the thesis that agents "maximize their objective functions, subject to the constraints of organizations and institutions", (Eggertsson, 1990, p. xi). That, essentially, constructs the neo-institutional paradigm as an epistemological attempt to revise the neoclassical economics, directed against assumptions and hypotheses of its "protective belt"² in several points: to introduce the transaction costs and to account for the incompleteness of information.

Thus, in NIE, institutions and organizations (as long as they are different), come up as additional restrictions in the construction of the optimizing functions of economic agents. And the *property*, (set as property rights *structures*), is a factor constructing institutions in one way or another. And already, "the idealized structure of property rights (PR) in the neoclassical model is used only as a benchmark for comparison", (Eggertsson, 1990, p. 6, *i.m. P.T.*). That perception, in fact, confines ownership itself simply to an element of the rules and contracts which 'rule exchange'. Summarizing, Eggertsson concludes that the neo-institutional economist is "ultimately interested in the impact of different ownership rights structures on the wealth of nations" (Eggertsson, 1990, p. 12).

Shortly, the existence of transaction costs (TC) makes the assignment/allocation of property rights a primary task, introduces the question of economic organization and makes the political institutional structure, key to understanding economic growth because property rights have different effects on wealth. Thus, *transaction cost* become crucial to the way in which the neo institutional paradigm works.

² Lakatos' understanding for the protective belt of a research program (ad hoc assumptions modified and adapted to explain the counter-examples in the program), (Lakatos, & Musgrave, 1970).



The most important thing for our analysis is the recognition that the neo-institutional economics does not reject, but rather, generalizes, the optimization approach of the neo-classics, adding new factors of optimization, including a varying structure of property rights and transaction costs, such as companies, bureaucracies, legislative communities; exchanges in alternative economic systems etc.

It is therefore concluded that even relatively small changes in the appropriation/allocation of private property rights can significantly affect human *behaviour*.

4.1. Summarizing of the neo-institutional concept

- NIE identified property with the cost of the transaction, thus
- depriving it of its almost divine status, which it had in previous paradigms, and thus
- the NIE opened the way for formalizing the ownership.
- Clear and significant distinction between the economic and legal aspects (Barzel, 1997). Decomposing ownership into **bunch of rights**, NIE made possible to **arrange** them **institutionally** in various ways, making the institutions matter again.
- Paradoxically, it appeared that the desired favorable outcome on social benefit from this **institutional arrangement** can also be achieved through state intervention.
- Generally, the dismantling of the property rights of individual elements and the broad interpretation of their object leads to a serious **redefinition** of the economic system.
- Regardless, the NIE concept is the most promising concept currently, it does not seem to offer the final picture of the ownership. It contradicts both some theoretical principles and the liberal principles of the positive economists.

5. An Alternative approach to the property through the General Theory of the Systems (GTS):

The inalienability/irrevocability of the property from the economic system, established at virtually every step of the development of economic theory, starting with the ancient deification, leads us to try to address it from the position of the systems' analysis.

According to the GTS each system comprises of *elements* and *relations* between them, (Bertalanffy at al., (1968). They determine each other mutually and each element possesses a systemic attribute, which makes it element of that *particular* system. Dropping of or acquiring a new systemic



attribute, excludes a particular element from one system or switches it to another one, so precise definition of the systemic feature is essential for the analysis.

If we now apply this to the economic system, we can easily see that the companies (economic agents) are the system elements, and the market, or the price mechanism (in Coase terms) is the systemic relationship(s) between the elements.

Then we come to the question - what is the systemic attribute of the economic system? And the ownership is the only candidate for this role. Its type determines the nature of the links between the economic agents. Where the economic agents own their products, the relation between them is as of commodity producers, i.e., it is based on the value or price (if one sticks to neoclassical paradigm) of their products. The agents are equal each other.

If one or both agents are deprived of one or all producing factors, they are deprived of the above systemic attribute, though they possess other one – e. g. they are serves. Thus, the relation between them alters, and is no longer an economical one and might be one of power, violence, or personal dependence.

6. Conclusion

The GTS approach enables us to treat property, at a general system level, as a category – inseparable from the economic system, dependent on it, but also having its own development, which in turn predetermines changes in the system to which it belongs.

This concept does not revoke or replace the need to analyze each particular form of ownership in its manifestations and functioning as an objective economic category. It is just a complementary view, an additional aspect that outlines more clearly, the place of ownership and its organic connectivity with the economy system.

The GTS shows best inseparability, irrevocability of the ownership from the economic system, which one may find practically at every step of the development of economic theory, starting from its deification in the antiquity.

Ownership is the systemic attribute that is inherent in all economic agents, predetermines the links between them and thus makes them elements of that *particular* system.

Ownership, as a system quality, develops together with the systems and develops them in accordance to the its own changes.



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