

The Economist and the Poet on Neighbors



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Our cover story touches on the phenomenon of suburban sprawl, which has come to characterize the condition of many of our metropolitan areas. The expansion of suburban development into previously rural areas often brings older and newer residents into conflict. Reconciling the sometimes conflicting desires of residents in a community is a familiar problem for anyone who is or has a neighbor. When people work to achieve their piece of the American Dream — a house and yard in the suburbs — they expect to be able to use their property as they see fit. But their neighbors feel the same way. This sort of sentiment seems to play a role in concerns about suburban sprawl. What happens when someone else's use of his own property reduces my enjoyment of my property?

The economist Ronald Coase was awarded the Nobel Prize largely for his analysis of this sort of problem. The main lesson derived from his work, sometimes referred to as the "Coase Theorem," is that strong economic forces are at work that tend to drive such conflicts toward efficient resolutions. Economic efficiency results when a piece of property is put to its most highly valued use. Take the situation in which a homeowner builds a home in the country because he values being surrounded by undeveloped land. Eventually the nearby metropolis expands and the individual faces the prospect of an adjacent property being sold for development. Can he stop such a sale? Certainly. If he places a higher value on the undeveloped condition of the adjacent land than others place on alternative uses, then he will outbid others and acquire the property himself. This outcome would be economically efficient, since the property would be put to its most highly valued use. Short of buying the property outright, there may

be other contractual arrangements by which the homeowner could compensate a neighboring landowner for voluntarily restricting his development options.

The message of the Coase Theorem is that if property rights are well defined, then negotiations among interested parties will lead to efficient outcomes. That is, if the legally permissible uses of a piece of property are well understood by all parties, then the owner and his neighbors can evaluate alternative uses and bargain over the outcome. Local and regional governments, of course, play a crucial role in spelling out property rights through zoning ordinances and other rules governing land use. Such rules are most useful if they are hard to change. If rules are easily changed, either existing or prospective owners' options may be arbitrarily limited, which could weaken the natural Coasian forces that lead toward efficiency.

In his poem, *Mending Wall*, Robert Frost took issue with the old adage, "Good fences make good neighbors." He argued that before putting up a wall, one ought to talk to one's neighbors to see whether and why a wall is needed. In effect, he was arguing for negotiations between neighbors regarding their adjoining properties. It seems that Frost would agree with Coase; it's not good fences, but good property rights that make good neighbors.



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