Depreciating Licenses

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Allocation of natural resources

• Many scarce publicly owned resources have to be assigned to different uses – in jargon, these are “public goods” but are “rival”

• Governments should try to ensure that resources are used efficiently, and that the benefits are distributed to the people

• A standard approach is to privatize: sell perpetual, tradable licenses in auctions, redistribute revenue to the population

• Is this the best approach?
Weak property rights threaten investment security
Strong property rights inhibit reallocation and lead to holdout, underuse and decay.
Property right design should recognize this trade-off

- **Investment security**: Weak property rights decrease security and confidence needed for investing in assets
- **Efficient reallocation**: Weak property rights combat speculation and holdout, helping to assign assets to users who value them most
- Standard property rights systems trade off these objectives poorly:
  - Perpetual, unconditional ownership – squatting and holdout
  - Eminent domain – arbitrary and easily abused by government
  - Term-limited leases – sharp cliff for investment security
- Can we design a better system?
Depreciating licenses (DLs)

• We propose that governments assign resources by selling depreciating licenses instead of perpetual licenses
• DLs are basically “self-assessed eminent domain”
• DLs last forever, but “depreciate” e.g. 10% a year. Owners announce prices every year to “repurchase” 10% of their licenses from the government. Repurchase payments can be thought of as self-assessed license fees.
• Price announcements are public, and anyone can buy property at owners’ announced prices
• Without a fee, owners would announce very high prices; self-assessed fee leads owners to announce prices closer to their true values, encouraging efficient reallocation
Depreciating licenses (DLs)

- DLs penalize holdout, but make it fairly easy for true users to hold on to their licenses, hence encourage efficient reallocation compared to perpetual ownership licenses.
- High-value owners can announce high prices and pay higher fees to discourage reallocation. If buyers buy anyways, owners are paid their announced prices, compensating them for any sunk investments. Hence DLs encourage investment security.
- Compared to term-limits, DLs have long-lasting investment incentives instead of a sharp cliff.
- DLs reallocate assets in response to technology/market shifts without government intervention.
- Compared to eminent domain, DLs are rule-based and decentralized, limiting the potential for government abuse as in eminent domain systems.
“Radical markets” agenda

• Depreciating licenses suggest that markets can work better with weaker property rights

• More generally, we think that classical markets are a set of technologies bundled by historical coincidence:
  • Property rights
  • Price formation
  • Competition

• Classical markets are not sacred – we can design better markets by modifying and recombining market technologies for different contexts