

# WHY ISN'T THE WHOLE WORLD WEALTHY?

Lecture 1  
ECON 4524

- Technology?
  - ▣ Easily copied, through reverse engineering
- Capital Shortage?
  - ▣ Evidence indicates that poor countries have far less capital and investment than rich countries
- Natural Resources?
  - ▣ Generally resource rich countries are richer (Australia, Canada), but there are many exceptions

# Bad Institutions?

- **Institutions:**
  - are the rules of the game that determine economic incentives.
- **Formal Institutions:**
  - Laws, Courts....
- **Informal Institutions:**
  - Culture, Norms,

# The Institution of Private Property Rights

- The right to use an asset
- The right to derive an income from the asset
- The right to sell an asset
- The right to bequeath an asset
- The right to exclude others from using an asset

# Enforcement of Private Property Rights

- Government – Policing of laws and judicial enforcement (civil and criminal)
- Private enforcement – locks on our doors, alarms, private policing (e.g. neighborhood patrols)
- c. Norms – Social ostracism (guilt or shame)

# Why do private property rights matter?

- Incentive to retain and enhance the value of assets
- Promotes trade: specialization and voluntary trade creates wealth
- Trade establishes prices. Role of prices in an economy – signal to producers and consumers about allocating resources in the present and future
- i. Consumers respond to high prices by conserving resources ii. Producers respond to high prices by developing new technologies to create substitutes and reduce costs

# Why do private property rights matter?

- Incentive to invest
  - ▣ Provides security that individual investors will reap the returns of their investment
- Ability to invest
  - ▣ Most investors need to borrow to finance their investment
  - ▣ Secure property provides collateral
  - ▣ Ex: farmers wanting to buy new equipment may borrow against their farm, parents may take a second mortgage to finance your education

# Private property rights versus the commons

- The keg or shrimp bowl at a party versus your at home consumption
- Fisheries The George's Bank and other ocean fisheries – property rights assigned upon capture Effect, bigger and bigger boats, expensive equipment, near total depletion of the cod stocks
- Air: far too much pollution from a social standpoint. Tradable permits, establishes a market for the right to pollute. Incentive to trade and develop new technologies
- Oil production – US law property right assigned to surface owner. Result too much drilling.

# Private Property Rights and Economic Development

- Market economies versus Soviet bloc
- East and West Germany or North and South Korea
- Land Reform in Latin America
- Modern economic growth began in England, Why?
  - ▣ Glorious Revolution and “accountable government”

# Growth Promoting Institutions in the U.S.

- Separation of powers; checks and balances
- Federalism – allows experimentation
- Independent judiciary – affects beliefs in the system
- Common law – evolutionary
- Belief in “land of opportunity” concept