

From Exogenous to Endogenous Property Rights.

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EDLE PhD course, Bologna. 07/02/2018.



Course Objectives and Organization.

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- You will be assessed on the basis of a final essay illustrating a possible application to a legal case of your choice of the models discussed in class.



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- 3 discusses how essays should access avenues for further research.



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- Final Essay: Structure.



What Types of Legal Institutions Do Matter?

Exogenous Property Rights

Versus

Exogenous Contracting Institutions?



A Closer Look at the Coase Theorem: Limited ...

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← These rules enhance the **reliance on contracts** and, thus, are called **contracting institutions** by Acemoglu and Johnson (2005).



and Large Transaction Costs.

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← Acemoglu and Johnson (2005) call them **property rights institutions**, since they protect citizens against expropriation by government/powerful elites.



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where \mathbf{Z}_i gather the controls. Y_c can be the **GDP per capita, the investment over GDP, the private credit over GDP, and the stock market capitalization.** F_c can be the number of steps necessary to collect an unpaid check, and two proxies for the **legal difficulty to collect an unpaid commercial debt.** I_c can be the Polity IV constraint on the executive, the Political Risk Services' and Heritage Foundation's **subjective measure of private property protection.**



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 - $I_c = \delta_2 L_c + \eta_2 M_c + \mathbf{Z}_i' \gamma_2 + u_{2c}$, where M_c is either the **log mortality rate of European settlers or the log of the indigenous population density in 1500** ← exogenous allocation of political institutions due to colonialism (Acemoglu, Johnson, and Robinson, 2001, 2002).



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- The instruments enter in a separable way into the first stages (table 3).



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- The results are robust to changing samples, controlling for macroeconomic policies, religion, and latitude, and employing firm-level data.
- ← Individuals can deal with weak contracting institutions by altering their contracts but cannot avoid predation since transaction costs are relevant!!!



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Exogenous Institutions Approach: Inconsistency of ...

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- ← measurement error might not be an issue if both L_c and M_c are strong, separate and above all excluded. Instead,



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Next, we will first clarify the coercion vs. predation trade-off, and then we will evaluate the role of the other drivers of property rights.



Towards Endogenous Property Rights: Predation Versus Disincentives.



Endogenous Property Rights: ...

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- Furthermore, strong property rights **expand trade and facilitate credit markets, i.e., the de Soto effect** (Besley and Ghatak, 2010).



Democracy, Disincentives to Effort, and Resources.

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- **Evidence:** Figures 1-3 and Tables 2 and 3 in Besley and Ghatak (2010).



Towards Endogenous Property Rights: Inefficient Exclusion From Trade/Innovation Versus Inefficient Expropriation.



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 - **Indirect private takings**: expropriation mediated by the state, which transfers without consent property from a private party to another private party for profit—and not for public interest—goals.



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Paradigmatic Case of Stolen Goods, ...

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- **Stolen-art market** “is a looming criminal enterprise with estimated losses running as high as \$6 billion annually” (FBI, 2012).



Double Sale of Real Estate, ...

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Embezzlement, ...

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Exclusion From Trade/Innovation Versus Expropriation.

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40% of private lands in developing countries are invaded and there are roughly two billion squatters in the world (Brueckner and Selod, 2009).



Intellectual Property, ...

— A downstream “B” exploits an idea developed by the upstream “O.”



Intellectual Property, ...

- A downstream “B” exploits an idea developed by the upstream “O.”
- Should the legal system protect “O” or impose the exhaustion of his intellectual property rights or the compulsory licensing of the idea?



Financial Intermediation, ...

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- Similarly, if a debtor pledges an asset as security to two creditors.



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- “B” offers through agent “I” a contract to “O” at conditions more disadvantageous than those prevailing on the primary market.
- Should we protect the contract signed by “B” or “O”’s labor rights?



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e.g., *Kelo v. City of New London*, 545 U.S. 469, 2005.



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- “The state not only [decides] whom to entitle, but [also] which entitlements are protected and [if] an individual is allowed to [...] trade the entitlement.”



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- Inalienability rules:
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 - Three selection criteria: economic efficiency, distributional goals, and nondistributional goals as moralism, self paternalism and paternalism.



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→ “When a transaction would create significant [or non measurable] externalities,” **inalienability rules are the best option.**



Final Essay: Structure.



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