

## Chapter 1 : The Rule of Law and Economic Growth: Where are We? - GSDRC

*rule of law has been associated with economic growth: through security of property and enforcement of contract; through checks on government; and through checks on corruption and private capture.*

Full text [ KB] - 13 pages Summary It is widely assumed that the rule of law is essential for economic growth. However, the rule of law is clearly a multidimensional concept, encompassing a variety of discrete components from security of person and property rights, to checks on government and control of corruption. This article reviews the theory underlying these different causal mechanisms linking the rule of law to economic growth, and provides an introduction to some outstanding measurement issues. It finds that the correlation among different components of the rule of law concept are not tight among developing countries and that some inferences about the effects of property rights protection may not be warranted. The literature on the rule of law and economic growth has become one of the more dynamic areas of theoretical and empirical work in political science, economics, and law. More cross-national data exists now, purporting to measure the rule of law than we know what to do with. Yet even the very best work in the field has not been adequately attentive to the multidimensionality of the rule of law concept. What do we really mean by the rule of law? How are discrete components of the rule of law related to one another theoretically and empirically? To what extent are empirical findings based on one conceptionâ€”and measureâ€”of the rule of law robust to alternative specifications? The empirical relationship between distinct components of the rule of law in a sample of 74 developing and transition economies indicates that measures of property rights, checks on government and corruption are correlated much less tightly than is often thought. The looser-than-expected correlation across rule-of-law measures raises the question of whether empirical findings in the literature are robust to alternative specifications. In the third and fourth sections, we undertake replications of influential work. In both the economics and political science literature, the dominant line of theoretical inquiry on the relationship between the rule of law and economic growth has centered on property rights and the institutions required to enforce them, such as checks on government and judicial independence. These models often explicitly or implicitly identify government predation as a principal constraint on economic growth. The policy conclusions are clear; restraining the government is crucial for economic performance. The ongoing role of violence has been highlighted as an even more fundamental constraint on the growth process. In many developing countriesâ€”the so-called failed statesâ€”it is the weakness of the government and the inability to provide law and order in the most basic sense that constitute the most profound barrier to growth. To think that the fine points of the law, judicial independence, or corruption constitute the fundamental barrier to economic growth in the face of the breakdown of order and widespread violence seems strange; rather, the failure of those institutions itself is almost certainly a result of state failure and the restoration of order thus the primary rule of law task. The review of the empirical literature suggests some further cautionary notes. First, the correlation among rule of law indicators for the advanced industrial states is much higher than among developing countries, suggesting the need for particular care in drawing inferences from global samples. Second, this article findsâ€”as other studies haveâ€”that aggregate indices perform better than the discrete components of the rule of law that are highlighted in the theoretical literature. We cannot rule out the possibility that these findings are simply flawed because of fundamental methodological problems in the construction of such indices. However, one explanation is that indices and subjective measures may be capturing informal institutions or important differences between de jure and de facto rule of law. What distinguishes these complexes is not formal institutional arrangements, but corruption, risk of expropriation, and particularly the extent of violence. These findings suggest a research program that focuses more attention on the complementarities among rule of law institutions: The rule of law and economic growth: World Development, 39 5 ,

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Some economies took off, whereas others, like many of those in Africa or Asia, remained close to a subsistence standard of living. General calculations show that the 17 countries of the world with the most-developed economies had, on average, 2. By , the most developed economies had 4. However, by the middle of the twentieth century, some countries had shown that catching up was possible. Certain countries in Latin America experienced a boom in economic growth in the s as well. In Brazil, for example, GDP per capita expanded by an average annual rate of More recently, China, with its population of 1. India, with a population of 1. Visit this website to read about the Asian Development Bank. These waves of catch-up economic growth have not reached all shores. In the context of the overall situation of low-income people around the world, the good economic news from China population: Economic growth in the last two centuries has made a striking change in the human condition. Richard Easterlin , an economist at the University of Southern California, wrote in By many measures, a revolution in the human condition is sweeping the world. Most people today are better fed, clothed, and housed than their predecessors two centuries ago. They are healthier, live longer, and are better educated. Although Western Europe and its offshoots have been the leaders of this advance, most of the less developed nations have joined in during the 20th century, with the newly emerging nations of sub-Saharan Africa the latest to participate. Rule of law and economic growth Economic growth depends on many factors. Laws must be clear, public, fair, enforced, and equally applicable to all members of society. Property rights, as you might recall from Environmental Protection and Negative Externalities are the rights of individuals and firms to own property and use it as they see fit. It is your property. The definition of property includes physical property as well as the right to your training and experience, especially since your training is what determines your livelihood. The use of this property includes the right to enter into contracts with other parties with your property. Individuals or firms must own the property to enter into a contract.