

The Distribution of and Access to Property Rights in Developing Countries: An Institutional Analysis of the Relation Between Poverty and Development

Justification

The central motivation to the proposed research is a seemingly simple hypothesis: *in identifying the key attributes that create social and economic development, it is not the quantity of resources available to a society that is most important but rather the **distribution** of these resources and the structure of the property rights that govern this distribution.*

Models of economic development have often overlooked institutional and property rights constraints as major conditions for growth and social development. Traditional economics has mainly focused on lack of capital and skilled labor. However, countries with high financial liquidity and resources such as Venezuela or Ecuador, or high educational levels as in Costa Rica, Argentina and Uruguay, have not been able to jumpstart high rates of development. They still suffer 25% to 50% poverty rates and 15% to 40% of unemployment or underemployment.

Current social science is more explicit in treating structures of property rights as critical determinants of socio-economic performance (North, 1990; Sened, 1997; Ostrom, 1998): Property rights structures are fundamental to economic development as they shape the incentive for trade and production. The novelty of our research is the emphasis on the **distribution** of rights to property and access to productive assets. Because they form a foundation for economic exchange, access to secure property rights can be seen as a prerequisite to economic participation. Excluding segments of society from this access limits a society's wealth below its potential.

While the hypothesis and the justification behind it seem simple enough, the remarkable complexity of institutions that govern property rights structures (Ostrom, 1998) makes it difficult to identify the distribution of these rights. To account for this complexity, we reintroduce the concept of '*The Social Contract*,' redefined as: *the set of all formal and informal institutions that regulate the lives of individuals in society*. Since the 'structure of property rights' is really the *Social Contract*, as defined above, our first task is to explore how the *Social Contract* affects the **distribution** of rights to property and access to productive assets. Secondly, we must examine how this distribution determines human and economic development.

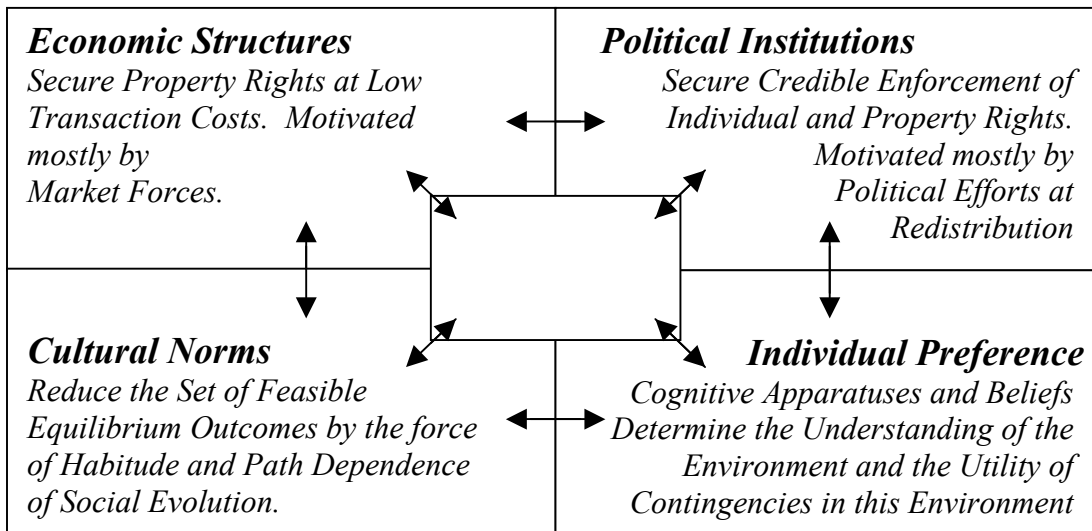
Figure 1 illustrates the content and interdependencies of four quadrants of the social contract that determines the structure of property rights:

- (1) Individual beliefs and cognitive apparatuses
- (2) Cultural norms
- (3) Political institutions¹ and

¹ Douglass North (1990, 1993) has publicized the role of institutional structures in governing this complex matrix of social life. Elinor Ostrom (1998) has recently raised the resolution of the picture of institutional arrangements to include seven different variables, each requiring a multitude of indicators and measurements to measure: Clearly defined property rights; Congruence between appropriation and provision; Collective Choice Arrangements; Monitoring mechanisms; Graduated sanctions; Minimal rights to organize and protest (cf. Sened 1997: 117-119); Nested inter-relationships among appropriations, provision, monitoring enforcement and government.

(4) Economic Structures.²

Figure 1: The Four Quadrants of Social Lives



Social sciences are too often guilty of reductionism. Economists reduce individuals to price takers and are ‘religiously’ suspicious of governments. Sociologists and anthropologists overweigh the role of cultural norms at the expense of politics and economics. Cognitive scientists focus on beliefs and cognitive apparatuses with a remarkable disregard to the cultural, political and economic environments in which these beliefs and preferences are shaped. Political scientists overweigh the role of institutions, underestimate cultural bonds and oversimplify individuals, as well as the role of economic resources. This reductionism introduces a bias in the explanatory models used because important explanatory variables are omitted from the analysis. We develop a new model that treats all four quadrants as equally important determinants of structures property rights in any particular society.

Objectives

Our *first goal* is to prove that countries with a better distribution and access to property rights rank higher on economic, political and social development. **To the extent that we can prove that more even distribution of resources favors economic growth, a new model of development would guide developing countries to implement more equitable distribution of resources that will promote social and economic order, revitalize economies and reduce inter-group conflict.**

Our *second goal* is to show how the distribution of property rights depends on the different components of the social contract that define and determine these structures.

² The meaning of the term ‘structure’ used here is derived from North’s (1981) *Structure and Change in Economic History*, and (North, 1990) *Institutions, Institutional Change and Economic Performance*.

Research Design and General Timetable

First Year

PI constructs a data set of indicators of human, social, political and economic development as measures of the dependent variable and indicators of the distribution of property rights in land and access to other productive assets such as credit, education, technology and production factors as measures of the independent variables.

The Center for New Institutional Social Sciences (CNISS) at Washington University, under the initiative of the PI (also the Director of CNISS) will conduct a workshop to improve the theoretical understanding of the issues involved and devise empirical measures and indicators of property rights structures.

Second Year

PI and staff of CINPE (International Centre of Economic Policy for Sustainable Development) train M.A. students from Central America and the Caribbean islands to collect the data needed to complete the research. This second layer of data includes newly developed measures of informal institutions such as trust, indirect indicators of economic development and institutional efficacy such as transaction costs and corruption and data on individual expectations and aspirations. This data must be collected on site through experimental economics techniques and representative random sample surveys and interviews. CINPE and PI will conduct a workshop in Costa Rica to clarify issues and improve measures.

Third Year

Data collection.

Fourth Year

Data analysis.

Second workshop in Costa Rica to share the data and preliminary exploratory findings and get feedback from participants in the project.

Similar workshop at Washington University.

Second round of confirmatory data analysis.

Writing towards publication starts.

Fifth Year

Complete data collection and analysis.

Writing for publication continues.

Sixth Year

Final Workshops at Washington University and Costa Rica: Presentation of results to a large gathering of social scientists.

Conclude writing for publication.