

Economic Development and the Institution of Borrowing and Lending

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Overview

1. Personal background
2. Position:
 - a. *Institutions* matter in economic development, as one of among more factors
 - b. Recent research has described the behaviour which implement the institution of real property rights
 - c. Growth depends on the state conditioning entrepreneurs/ technology,
but also on state/similar power including/ inviting those at the edge of the market
3. Factors of economic development: Context for addressing 'institution'
4. Institution: Use of term, definitions, components of
5. The institution of borrowing and lending
6. Summary

1. Background

1. Land surveyor. PhD: The implication of computers for public administration/ cadastre. The DK history of property registration.
2. Public administration 1971 - BBR: Policy issue networks in action.
3. Professor, 1977. Explored disciplines around cadastre and law: Geography, Informatics, Political science/ PubAdm, Economics.
4. Hernando de Soto (2000). Why does Capital work in the West? ESt (2008) How did real property rights come into being in DK from 1085 (oldest kept deed of conveyance) to 1970s
5. Hodgson: Seventh International Workshop on Institutional Economics, 2005 University of Hertfordshire, UK

2. Factors of economic development, a review

- Technology, productivity
(Child, 1693/ Reinert, 2005; ..Easterlin, 1981; ..Berger, 2007)
- Availability and consumption of news, including amount of formal education and mass communication
(Easterlin, 1981; Grier, 1999; Temple,1998)
- *Quality of institutions*: Rule of law, property rights, corruption, voice, ..
(1993..; Classens, Laeven, 2003; IMF, 2003)
- Existing level of economic development, GDP pr. capita
(.., Paldam, 2008)

Reflections on the ‘quality of institutions’

1. Institutions provide predictability, ensure stability, BUT division of work in the global market demands constant change, because ‘local’ growth demands local management of the change process (cf. Chang, 2002; Reinert,..).

Consequently, we need to *discern*

- institutions promoting change (e.g. flexicurity; "the self-transformation of the economic system" by entrepreneurs and state, where "the state .. filled the entrepreneurial function, . .by condition[ing] enterprise" p. 11)
from
- institutions maintaining status quo (e.g. property rights, "1) the economics serving the study of the functioning and administration of a largely given economic system" Andersen, p.8).

Reflections on the ‘quality of institutions’

2. The notion of ‘institution’ is underspecified, no relevant metrics available (Sengupta, 2003).
 - Potential confusion: ‘Institutional Metrics’ reflect the overall effectiveness of an institution (= organisation).
 - Potential dead-end: What gets measured gets managed - Replacing internalized norm with Taylorism.

3. The concept of ‘institution’: Use of the term

- financial institutions; educational institutions; institutions like the IMF and the World Bank; universities .. knowledge institutions
- ‘institutional differentiation’ between, and within, institutions concerned with knowledge production and knowledge diffusion (Lundvall 2002b).
 - Use: institution ~= organisation
- an institution that is credible when it comes to critically assess and validate ‘what is reasonably reliable knowledge’
- capitalist institutions;
- the institutional arrangements are to a higher degree pertinent to the interests and operations of the corporations.
 - Use: institution(s) = set of norms

The concept of ‘institution’: Definitions

1. North (1990,3) defines institutions as ‘the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction’. The institution of property rights is a prominent example.
2. Ostrom (1990,51 in Furubotn, 1998) Institutions .. the set of working rules that are used to determine
 - who is eligible to make decisions in some area,
 - what actions are allowed or restrained ..
 - what procedure rules must be followed,
 - what information must or must not be provided, and
 - what payoffs will be assigned to individuals dependent on their actions
 -
 - Working rules are those actually used, monitored, and enforced when individuals makes choices

The concept of ‘institution’: Definitions

Hodgson (JEI, XL (1) March 2006) What Are Institutions? :

- *Institutions* are systems of established and embedded social rules that structure social interactions.
- *Rules* in this context are understood as socially transmitted and customary normative injunctions or immanently normative dispositions, that in circumstances X do Y.
- *Conventions* are particular instances of institutional rules.
- *Organizations* are special institutions that involve
 1. criteria to establish their boundaries and to distinguish their members from non-members,
 2. principles of sovereignty concerning who is in charge, and
 3. chains of command delineating responsibilities within the organization.

Stated objectives of the organisation?
The metrics of institutions ?

Components of an institution

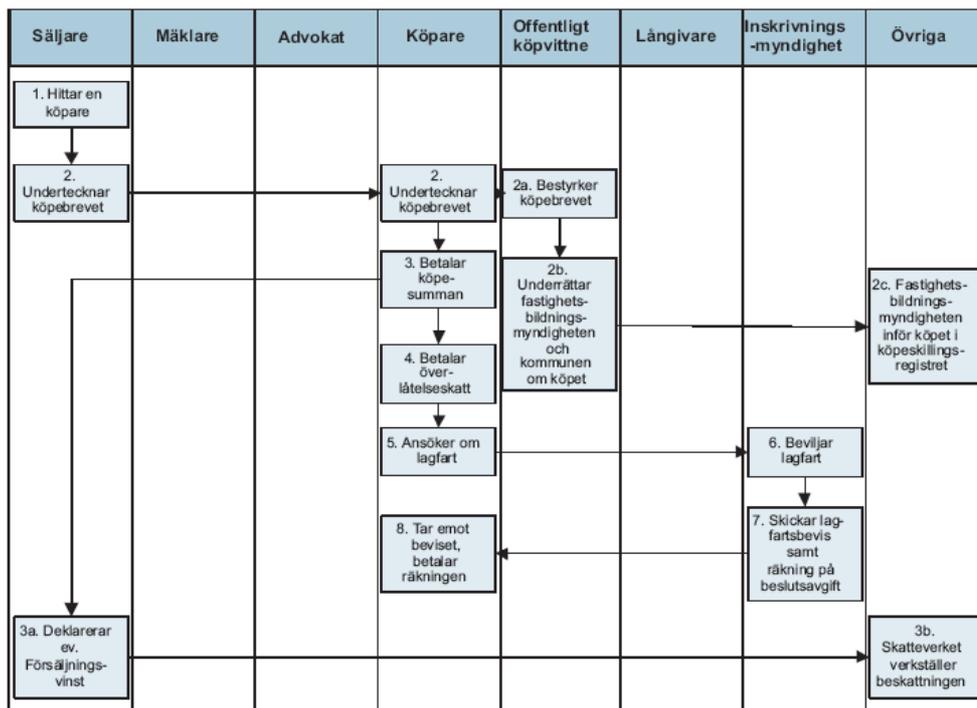
Methodology: Components of an institution: The case of borrowing and lending (following 'Juridisk metode', Blume, 2004):

- Basic terms and categories: Borrower, lender (investor, capitalist); object, interest; default;
- Procedure (ritual): Make agreement; hand object over; perhaps pay interest; give object back.
- Enforcement of punishment and compensation: Pay back value of object:
Danske Lov 1683: 5-8-1. Laan maa ej fortabis, men skal lydisløst hiemkomme og lige saa got, som mand det annammede, være sig Fie, Klæde, Vaaben, eller andet Gods. End forkommer det, saa at det ikke kand i gienskafts, da bør dets Værd nøjagtig at betalís.
- Who issues binding interpretations of the institution: Religious body, thing (community council), court, Parliament
- Other (more general) norms of the community: Brother vs. foreigner; usury;

Institutional 'actors' related to property rights

- Owner, borrower, lender, holder of some property right
- Land registry, recording rights in land and scrutinizing new entries
- Cadastral agency, identifying jurisdictions and the units of property
- Exchange, where stocks and bonds are traded
- Mortgage Credit Institutions, which issue bonds and mediate mortgage loans
- Banks/ professionals which perform case work (transaction officers)
- Money/ value transfer organisations (before (post)Giro; now banks and VP Securities Services AS)

Practise related to institution of property rights has been modelled



Figur FIN-17: Processbeskrivning över enklast möjliga fastighetsköp.

Literature describing the institution of property rights

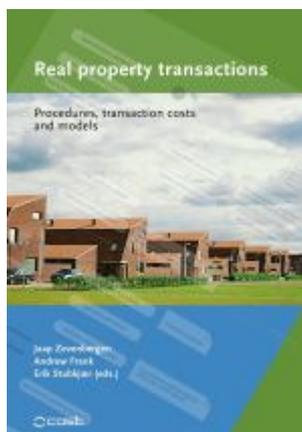
Kort & Matrikelstyrelsen, der er Danmarks statslige myndighed med ansvar for opmåling, kortlægning og matrikel- og landinspektørvæsen, har i slutningen af 2006 udgivet to bøger med titlerne *Dannelse og transaktioner vedrørende fast ejendom i de nordiske lande* og *Ejendomsregistrering i de nordiske lande*.

Bøgerne er resultatet af flere års samarbejde mellem universiteter og faginstitutioner i Norden, og giver et overblik over ejendomsbegreber og -registre, samt over processerne og aktørerne i forbindelse med ejendomsdannelse, transaktion og registrering af fast ejendom i de nordiske lande. Bøgerne er opbygget således, at det er enkelt og overskueligt at sammenligne processerne mellem landene.

<http://www.kms.dk/Matrikelogejendomsdannelse/Nordisk+ejendomsregistrering/Nordisk.htm>

Real Property Transactions.
Procedures, Transaction Costs and Models, 2008

Edited by: J. Zevenbergen, A. Frank and E. Stubkjær
 ISBN: 978-1-58603-581-5



<http://www.iospress.nl/loadtop/load.php?isbn=9781586035815>

Outcome of ESF/COST G9 action, 2001-2005:
 Modelling Real Property Transactions (~10 countries; surveyors,
 knowledge engineers, economist(s))

Literature on the practising of property rights (cont'd)

**European University Institute, Florence's
 European Private Law Forum - Projects:**
 Real Property Law and Procedure in the European Union

BundesamtBauRaum (2006) Internationaler Vergleich von Kosten und
 Dienstleistungseffizienz bei der Transaktion von Wohneigentum - Optionen für
 Deutschland. Forschungen, Heft 120.

http://www.bbr.bund.de/nn_22320/DE/Veroeffentlichungen/Forschungen/1998-2006/Heft120.html

Conveyancing Services Market: Study for the European Commission, DG
 Competition led by the Centre of European Law and Politics (ZERP) at Bremen
 University, December 2007

**Growth depends also on state including/ inviting those
 at the edge of the market**

Bodil Nyboe Andersen at Annual Meeting of the Association of Danish Mortgage Banks
 30 April 2003:

The new Mortgage Credit Act Innovations are being made that give
 borrowers more choice, e.g. the opportunity for repayment-free loans
 for a long period, i.e. up to 10 years. ... Over the years, the
 mortgage-credit sector has often suggested that the balance principle be
 removed, or at any rate softened considerably. ...

*The mortgage-credit product may not be very exciting, but it is a good,
 simple and inexpensive product that gives even small borrowers the
 opportunity to finance homes and businesses on financial-market
 terms.*

Absolutist monarch's invitation of public debates (compare France):
 Denmark, 1755: National prosperity.; Austria, 1789: How to curb
 usury

Summary

- *Institution* is one among a few number of development factors
- Growth depends on two categories of institutions:
 - institutions promoting change (e.g. flexicurity) and
 - institutions maintaining status quo (e.g. property rights)
- The institution of real property rights
 - depends on a number of actors,
 - has been modelled as practised in North European countries, and
 - has become researchable in a global perspective.
- Institutions supporting the almost-able deserve more concern.

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Economic Development and
Institutions

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