



**Chapter 6 "Comparing Legal and Alternative Institutions in Finance and Commerce" by Franklin Allen and Jun "QJ" Qian.**

Conventional wisdom = "to be successful in terms of long-run economic growth a country needs good institutions. In particular, it needs a good legal system that enforces contracts and resolves disputes and a good financial system including financial markets and a banking sector to fund firm growth."(119)

**Argument: Is it true for all countries?**

	<b>legal system</b>	<b>alternative system</b>
<b>property rights (120)</b>	(+) strong incentives for innovations	
	(-) deterring competition, and inducing rent-seeking behaviors by vested interests.	
<b>law making (120)</b>	(-) late response to change (limited time and effort to devote to one area of the law.	
<b>120-121</b>	(+) equal and full access by all and fairness in trials and settlement. powerful enforcement long-term stability low marginal cost for enforcement	(-) existing within a network, and may be inaccessible to outsiders. Instability and limited enforcement. --> weak long-term incentives.
<b>121</b>	(-) less responsiveness to change: by rent-seeking behavior cost in revising laws	(+) profit-sharing in the long run and reputation-based mechanisms can ensure good (cooperative) behavior.
	(+) static environment with infrequent changes	(+) fast-growing economy
<b>economy</b>	(+) developed economy	(+) emerging economy
<b>126-127</b>	(-) Window dressing for western investors who do not understand China. Only a disfavored means to resolve a breach that had occurred, but weak role in dissuading future breaches.	(+) driving factors in screening potential business opportunities.
<b>138-139</b>	(+) employed by developed and democratic countries such as the US, commits to use the law as the basis for finance and commerce and legal institutions as the ultimate source for resolving disputes and enforcing contracts; further, changes to the law must be approved by the legislature and electorate.	(+) there is no systematic definition of private property rights or property law, and, in practice, nonlegal mechanisms are the norm for conducting business; the process of change in finance and commerce is often bottom-up rather than top-down.
<b>140</b>		(+) more likely to foster competition among different mediation/ resolution agencies/ organizations.



		--> most effective one will prevail.
140		(-) lack of enforcement authority. Insufficient to ensure good behavior if future losses are not substantial relative to the gains that can be made today, or if these losses can be recaptured by entering other lines of business or networks (*need of exclusiveness and stability). Inaccessibility. weak long-term incentives
140-141	(+) static environment with infrequent and predictable changes	(+) dynamic environment with frequent and unforeseen shocks.

**Legal system and alternative system:**

"In particular competition among different networks and institutions can ensure the most efficient prevails, and it is not necessary to persuade the legislature and the electorate that the law needs to be revised when circumstances change." (p.121) --> *\*Is it convincing?*

**Signal for transition:**

"Whether and how a transition from a system dominated by alternative mechanisms to one using the law and legal institutions as the focal point depends on the country's economic history and growth potential, as well as the workings of many other social and cultural factors that help build the social norms in the society and business communities. " (142)

	patents in 2009 (thousands)	patents per 1000 persons	patents per 1 billion \$ GDP
Japan	349	2.74	68.9
Korea	162	3.35	194.6
EU	273	0.55	16.6
USA	456	1.45	32
China	315	0.23	64.2

source: <http://www.soeci.com/jp/ipinfo/iptopics/003/001742.php>

Decline of patent actions (12 Jan 2009 Nikkei Shinbun)

Patent holders reluctant to make law suit on their patents --> lawsuits sometimes do not pay.

Amended patent law (2004) --> suit against patent violation as well as administration lawsuit (to ask patent invalid)