Constitutional Environments and Economic Growth
Gerald W. Scully
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Proponents of the free market often claim that increased government reduces growth of GNP, that adherence to the "rule of law" increases growth of GNP, and that reduced regulation of economic life increases economic opportunity. In this important book, Gerald Scully of the University of Texas at Dallas has provided exactly the substantiation we would want for these propositions.

After an overview, Scully discusses the economic theory of growth, following from the work of Robert Solow. Scully makes the important point that in that model and its progeny, the institutional structure of the economy (for example, whether it is a market or a planned economy, a democracy or a dictatorship) is irrelevant. Those models focus on economic inputs, primarily labor and capital. He modifies the theoretical model to allow for institutional factors such as the property rights structure of the economy, and he discusses the role of human capital, technological change, and capital formation within the context of growth models.

The book next summarizes the economic theory of constitutions, based on the work of James Buchanan and Gordon Tullock. In anarchy, resources would be consumed in committing and protecting against theft. To avoid those losses, humans institute governments to establish and protect property rights and to provide public goods, the most important of which is defense. Different constitutions define different structures of rights, which have implications for the level and growth of income. As rights (not wealth) become more equally distributed and better protected from appropriation by individuals or government, incomes increase. Chapter 3 also considers alternative legal systems. Following the work of Friedrich Hayek and Richard Posner, Scully distinguishes between common law and statutory, or code, systems, and argues for the relative efficiency of the former.

Scully's next task is to set forth "a model of the evolution of the constitutional setting." In that model we begin with some constitution. Agents then invest in private activities under the rules defined by the constitution. As investment proceeds, the marginal product of capital invested in private activities falls. It eventually pays for agents to invest in rule change. Rule changes can be efficient, but there are also possibilities for rent seeking and other inefficient rule changes. When sufficient numbers of inefficient rules have been put in place, a constitutional revolution may occur that will eliminate these inefficient rules and allow the process to begin again. Scully maintains that this has been the situation in Russia and the Eastern countries, which began with highly inefficient constitutions (forbidding private property) and hence reached the limits of inefficiency and constitutional revolutions relatively quickly.

This theory has an advantage over others (such as Mancur Olson's theory) because it makes the process of progressive rent seeking endogenous to the model and the result of economic factors, primarily the fall in the marginal return to investment in private activities. However, in my view, this is the most controversial assumption in the model because technological change can eliminate this tendency. Scully also recognizes that this assumption is debatable. Nonetheless, the result—that modern economies seem to exhibit increasing amounts of rent seeking and other inefficient investments—is uncontroversial, and this model is an interesting attempt to explain this observation.

In subsequent chapters, Scully discusses alternative measures of political and civil liberty available in the literature and examines the relation between freedom and type of law. The common law countries are defined as Great Britain and her former colonies (a total of 54 countries). All other noncommunist countries (94) are characterized as civil law countries. Marxist and Muslim legal systems are also considered. The major empirical result is that common law countries are significantly more likely to be free than are any other countries. Marxist and Muslim countries are less likely to be free than non-Marxist and non-Muslim countries.

Actual economic behavior is examined for 115 non-Marxist economies for the period 1960-1980, and Scully here presents the most important conclusions in the book. The capitalist paradigm is contrasted with the paradigm calling for increased government intervention to stimulate economic growth. The results (p. 176) are worth quoting:

> On average, politically open societies grew at a compound real per capita rate of 2.5 percent per annum, compared to a 1.4 percent growth rate for politically closed societies. On average, societies that subscribe to the rule of law grew at a 2.8 percent rate, compared to a 1.2 per cent rate in societies where state rights take precedence over individual rights. On average, societies that subscribe to private property rights and a market allocation of resources grew at a 2.8 percent rate, compared to a 1.1 percent rate in nations where private property rights are circumscribed and the government intervenes in resource allocation.

Scully also shows (p. 179) that "societies where freedom is restricted are less than half as efficient in converting resources into gross domestic product as free societies."

Many who believe that economic freedom leads to higher growth nonetheless favor increased government because they fear that economic freedom leads to excessive concentration of wealth and income inequality. Scully examines that argument and concludes that in fact "income inequality is somewhat more than 50 percent higher in societies where individual rights are restricted" than in freer societies (p. 191-94). He also shows that as the size of government as a percentage of the total economy increases, economic growth decreases significantly, and resources are used less efficiently. Finally, Scully summarizes the policy implications of the analysis and ends on a rather pessimistic note. He concludes that in the United States and Great Britain, the forces of the

1980s for reduced government seem to have run their course, and much of the rest of the world has not adopted these policies.

While this book contains some technical theoretical and statistical analyses, it is useful for others besides professional economists. The conclusions summarized above are sufficiently powerful that anyone interested in the role of freedom in economic development would profit from close attention to this book. Parts are also accessible to undergraduates in courses in economic development, law and economics, government regulation, and in general economic policy courses.

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