

Rule of Law, Quality of Institutions and Information

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April 19, 2008

Abstract

The literature has no convincing explanation why there is a persistent lawlessness attitude in transition and developing countries experiencing an overall increase in the quality of their institutions. This paper explores this issue by looking at the mechanism of information diffusion on institutional quality in a model where the state, willing or not to enforce property rights, confronts a continuum of agents, prone to strip or invest assets. The model predicts that high uncertainty and sunk costs in rule of law enforcement push the economy towards anarchy, a Pareto-dominated equilibrium. Viceversa, if the assets' value and the cost of asset-stripping are high, this is instrumental to rule of law enforcement, a Pareto-dominant equilibrium. In other words, high institutional quality increases the likelihood of rule of law enforcement only if there is enough information about the strength of institutions. However, if good institutions and good information about institutions do not come together there is scope for the puzzle of advanced reforms coexisting with poor property rights protection.

Keywords: Rule of Law, Coordination Failure, Global Games

JEL Classification: D81, C72, K42

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