

Housing Finance in Emerging Markets: Policy and Regulatory Challenges

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PROPERTY RIGHTS and HOUSING FINANCE

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WORLD SANS PROPERTY RIGHTS

IMAGINE A SOCIETY IN WHICH ALL PROPERTY RIGHTS HAVE BEEN ABOLISHED. A FARMER PLANTS CORN, FERTILIZES IT, AND ERECTS SCARECROWS, BUT WHEN THE CORN IS RIPE HIS NEIGHBOR REAPS IT AND TAKES IT AWAY FOR HIS OWN USE. THE FARMER HAS NO LEGAL REMEDY AGAINST HIS NEIGHBOR'S CONDUCT SINCE HE OWNS NEITHER THE LAND THAT HE SOWED NOR THE CROP. UNLESS DEFENSIVE MEASURES ARE FEASIBLE (AND LET US ASSUME FOR THE MOMENT THAT THEY ARE NOT), AFTER A FEW SUCH INCIDENTS THE CULTIVATION OF LAND WILL BE ABANDONED AND SOCIETY WILL SHIFT TO METHODS OF SUBSISTENCE (SUCH AS HUNTING) THAT INVOLVE LESS PREPARATORY INVESTMENT.

- POSNER, *ECONOMIC ANALYSIS OF LAW* (6TH ED., 2003)

OUTLINE OF PRESENTATION

- I. Introductory Remarks
- II. Importance of Property Rights
- III. Property Rights in a Global Economy
- IV. Linking Property Rights to Housing Finance
- V. Six Lessons for Emerging Markets
- VI. Conclusions

IMPORTANCE OF PROPERTY RIGHTS

- X Property as rights is the most controversial concept in the world.
- X Developed and under-developed societies face property rights issues.
- X Property rights are found in even the most primitive of cultures.
- X Property rights issues date back to antiquity.
- X Key link for capitalist states: private property \equiv economic efficiency
- X Key problem for socialist states: communal and state property \equiv bureaucratic outcomes

CONCLUSION:

- X Property rights are fundamental and pervasive throughout the world.

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PROPERTY RIGHTS IN A GLOBAL ECONOMY

- X Resource allocation in market economies is affected by the clarity of property rights.
- X A society's inability or unwillingness to specify ownership claims leads to problems.
- X If all resources were owned with clarity, there would be no property disputes.
Rights \equiv Highest bidder.
Equity \equiv Entitlements as needed
(including housing)
- X High transaction costs would preclude market outcomes.
- X Mitigation of high transaction costs would replace property disputes.

de SOTO=S CONTRIBUTION

- X Hernando de Soto=s *The Mystery of Capital* (2000) is really a story of failed property rights systems.
- X Ineffective property rights institutions doom many developing countries from creating capital from assets.
- X Without efficient mechanisms, such societies are faced with generations of Adead capital.@
- X Globalization benefits are avail-able only for those with Amobile capital.@
- X Result: Inadequate property institutions preclude wealth creation in much of the world.

LINKING PROPERTY RIGHTS TO HOUSING FINANCE

- X de Soto notes that the US mortgage market took 150 years to develop.
- X Mortgage markets in US were built upon clear titles, secure collateralization, enforceable contracts, default and foreclosure remedies, and other institutions.
- X Without these institutions, real assets (land and buildings) cannot be securitized.
- X New developments in securitization (e.g., MBSs using new analytical tools) are extensions of this idea.
- X

- X More broadly: institutional structure affects economic growth.
 - S Scully (1988) and others
 - S Jaffe/Louziotis (1996)
 - S Fisher/Jaffe (2003)

- X Housing finance systems are built upon the chosen institutional foundation.

SIX LESSONS FOR EMERGING MARKETS

Lesson #1: The decision about what property means will enable and constrain the housing finance system which subsequently develops.

Lesson #2: There is an intrinsic link between property institutions and the use (or abuse) of society=s assets.

Lesson #3: A strong property rights regime will result in lower risk levels, all else the same.

Lesson #4: In the case of mortgage markets and housing finance, weaker property rights systems will limit how strong mortgage financing mechanisms can become.

Lesson #5: The specification and effectiveness of a nation=s property rights institutions are key ingredients for the success of its financial system and therefore, its housing market.

Lesson #6: AEmerging market@ economies are faced with important choices about property and the impact on housing markets of these decisions will be enormous.

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CONCLUSIONS

- X Concept of property rights is fundamental idea for all societies.

- X Role played by property rights regimes in supporting housing finance should not be overlooked or under-appreciated.
- X Property rights are a key development for emerging markets economies.
- X Property rights issues drive mortgage and housing markets within the system as well as from outside.