

The Dynamics of Rules*

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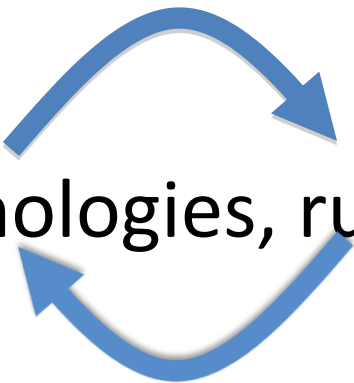
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Economics of Ideas

- Value of an idea is proportional to number of users
- This behind the driving forces in our lifetimes
 - Globalization
 - Digital communication
 - Urbanization

If you give someone a fish,
you feed them for a day

If you teach someone to fish,
you destroy another aquatic ecosystem

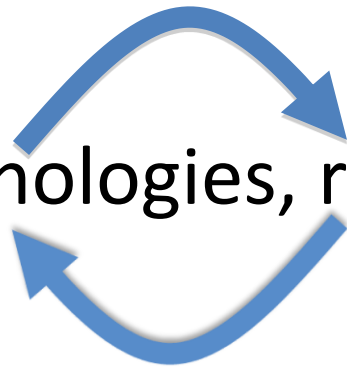


Ideas = {technologies, rules}

Dynamics of technologies

Dynamics of rules

Ideas = {technologies, rules}



Rules -> Technology

Intellectual property rights, open science

Technology -> Rules

- Trawlers and tradable quota shares
- Telephony and phone numbers
- Computerized trading and new rules on stub quotes and quote stuffing

- New technologies -> new rules
- Larger scale -> new rules
 - Ex: Urbanization and sanitation
 - Ex: Traffic lights and blocking the box
 - Ex: The IP protocol and email

Dynamics of rules

- Rules = {Laws, Norms}
- Laws = {Text, Enforcement}
- Fundamental Challenge in Enforcement:
Who guards the guardians?

Enforcement systems

- Hierarchies: principles and responsibility
 - Fed
 - US Military
 - FAA + NTSB
- Legalistic process with judicial oversight
 - Enumerate prohibitions
 - Myron's Law and the inevitability of financial crisis

Myron's Law

Asymptotically, any finite tax code collects zero revenue

Romer's Corollary

Every decade or so, any finite system of financial regulation will lead to systemic financial crisis

Enforcement systems

- Hierarchies: principles and responsibility
 - Fed
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- Legalistic process with judicial oversight
 - Enumerate prohibitions
 - Myron's Law and the inevitability of financial crisis
 - Enumerate permissions
 - Cape Cod wind farm

Wind Farm in Cape Cod

- Government has become a “perpetual process machine”
- 10 years of study by 16 different agencies
- Thousands of pages of documentation
- New lawsuits claiming “inadequate review”

Prospects for the rich countries

- Current path:
 - Financial crisis every decade or so
 - Lag behind technological advances in areas like renewable energy
- Alternative path:
 - Rely more on executive action and responsibility

Prospects for developing nations

- Hierarchies grounded in other successful countries
- Ex: Honduras and partner country that appoints strong mayor for new city