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A Tale of Two Markets and the Role of Prosperous Market-Augmenting Governments

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This paper aims to examine the role of market-augmenting government and the two general conditions for achieving economic prosperity. Markets exist ubiquitously, but the markets in rich countries are substantially different from those in poor countries. In rich countries, the markets are the main source of prosperity and thus are called *prosperous* markets. For a country to achieve rapid economic growth, the country should obtain gains not only from the mutually advantageous trades, but also from the rights-intensive, property rights-intensive or contract rights-intensive productions. The mutually advantageous trades and individual rights-intensive productions take place both in the government-contrived markets and in the rich countries. The countries having a *market-augmenting government* coined by Olson (2000) tend to grow most rapidly. A market-augmenting government should not only be 'strong' enough to guarantee secure and well-defined property rights and contract enforcement rights to the people, but also be 'inhibited' so as not to deprive or damage individual rights. The two general conditions to achieve economic prosperity are secure and well-defined individual rights, and the absence of any predation. These conditions are realised in countries with market-augmenting governments and rights-respecting democracies.

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1. INTRODUCTION

Markets are largely classified as capitalist markets and socialist markets in terms of the economic system. The capitalistic market economic system is based on various markets. Numerous markets exist all over the world, both in rich countries and in poor countries. These markets are called "ubiquitous markets". While markets exist ubiquitously, the markets in rich countries are substantially different from those in poor countries. Rich countries make full use of the markets, and thus the markets are the main source of economic prosperity. Such markets are called "prosperous markets." On the other hand, while the markets also exist anywhere even in poor countries, the markets in those countries are spontaneous, or self-enforcing, and unable to serve as a source of prosperity. These markets are thus called "spontaneous or self-enforcing markets". As generally recognised, if markets can bring about economic prosperity,

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why are the *ubiquitous* markets in poor countries unable to do so? Even though markets are ubiquitous in the world, why are rich countries so rare? How can a country have not only ubiquitous markets but also prosperity-bringing markets, or *prosperous* markets? How are prosperous markets created in each country? These questions are important for both advanced and developing countries as well as for both capitalist and communist countries.

Olson (1996, 2000) asserted that the countries having a *market-augmenting government* tend to grow most rapidly. In other words, a government which is best in securing individual property rights and enforcing contracts will contribute to obtain the substantial gains from market transaction by increasing the number of markets, or augmenting markets. Not all the countries in the world have such a government that is faithful to this fundamental role. The first world countries, or advanced industrial countries, have well-developed and 'complex' capital markets, allow people to borrow money from each other for a long-term basis, and confiscate one's property if he or she does not pay back the borrowed money, since they have a market-augmenting government. But this rarely happens in the second world countries, or former communist countries, and in the third world countries, or developing countries. Azfar and Cadwell (2006) outlined market-augmenting government in a broad context. Recently, Acemoglu, Laibson and List (2016) and Acemoglu and Robinson (2012) propose 'inclusive economic institutions' which share the same spirit with Olson's argument.

This paper aims to address the role of market-augmenting government and the two general conditions for achieving economic prosperitybased on Olson's seminal idea. The profound importance of market-augmenting government is often overlooked even by the rich countries and the economists.

This paper is organised as follows. Section 2 describes a short episode of two different towns. Section 3 considers self-enforcing and government-contrived markets, rights-intensive productions and institution-enforcing trades. Section 4 examines the two general and sufficient conditions for economic prosperity. Finally, Section 5 presents summary and concluding remarks.

2. AN EPISODE FOR THE STORY OF TWO TOWNS

Before addressing the main argument, it may be useful to start off with an insightful speech delivered by Oh Joon as the president of the Economic and Social Council (ECOSOC) under U.N.[1] The speech was on the story of two towns that can be easily found in the contemporary world.

> "In Town A, people get up in the morning and think about how they will get enough food to feed their family. If they have a job, they are worried about keeping it. If they don't, there is not much chance of getting a new one. They still send their children to school even if it burdens the family, because they want their children to have a better life than theirs. When someone is sick in the family, they try to look for any doctors they know, because if they just walk into a hospital, they might have to wait indefinitely to see one, or because they simply cannot afford a doctor, as there is no such thing as health insurance.

[1]This was delivered on 24 July 2015 at the Economic and Social Council of U.N.

In Town B, people get up in the morning and think about whether they should buy a home or invest in the stock market, as the prices of both are going up fast. They are worried about eating too much meat and fat, which cause all kinds of adult diseases. When it comes to education, they want to give their children the best education they can afford either at home or abroad. When someone is sick, they try to find out where the best doctor is, even if it costs beyond what health insurance covers.

I can give you such realistic descriptions of the two towns, as I have lived in both. In fact, my life so far has been divided roughly in half between these two towns. I did not move, but the town transformed itself from A to B. The transition from Town A to Town B is what is commonly called "development". Unfortunately, there are still many countries in the world that have yet to experience this transition. But what happened to my country can happen to any other country. I cannot say that people in Town B are necessarily happier than those in Town A. For that matter, we might never understand how we can be happy. Still, the existential imperative we learned from our poverty tells us that it is more difficult to be happy with an empty stomach. It is not easy to be thankful to society when our children are sick and there is not much we can do about it".

This speech illustrates the past and present life of ordinary people in South Korea which transformed successfully from Town A to Town B. But North Korea is still in the state of Town A. Now, this paper turns to explain this difference in an *Olsonian* perspective.

3. SELF-ENFORCING AND GOVERNMENT-CONTRIVED MARKETS

3.1. Self-Enforcing and Ubiquitous Markets

Markets exist everywhere in the world, and their types are diverse. In other words, markets are ubiquitous and diverse not only in rich countries but also in poor countries. Some types of markets—e.g. countryside markets, markets for selling basic commodities, or even small corner shops or drugstores-emerge *spontaneously* in any regions and countries, and their emergence is often *irrepressible*. Such types of markets include spontaneous markets, irrepressible markets, and informal sectors like black or illegal markets and underground markets. This type of markets are called "self-enforcing markets" by Olson (2000).

The first type of 'self-enforcing markets' is 'spontaneous markets.' Spontaneous markets refer to the markets where trade takes place without any common culture, legal court, or government which may promote the trades between two parties. Spontaneous markets existed even in primitive societies or in the ancient world, and were necessary for human survival. In spontaneous markets, a *silent trade* is carried out between two parties. A 'silent trade' refers to transactions which are carried out either in a situation where there is not a government and institutions or between people who do not have a common religion or language. However, many trades in the markets cannot be carried out by a silent trade. For example, many kinds of trades in insurance markets or in capital and financial markets (e.g. a long-term loan contract) can never be carried out by a silent trade. This is because various trades in insurance markets or in capital and financial markets would need courts or legal systems for the enforcement of contracts. The gains from silent trades in spontaneous markets are not the only gains from trades available. Many trades bringing about larger gains are carried out in other types of markets. Thus, spontaneous markets do not fully exploit gains from trade.

The second type of self-enforcing markets is 'irrepressible markets'. In some specific markets, their emergences are irrepressible. An example of such markets include the markets operated under the planned economic system of the former Soviet Union, which were created in the process of exchanging, between the state-owned enterprises, the raw materials allocated too much or too little by the central planning authority. It was then a routine practice that state-owned enterprises in the former Soviet Union would barter with other state-owned enterprises by exchanging surplus raw materials for scarce raw materials. This type of trades was common and irrepressible in the former Soviet Union. The typical example of irrepressible markets includes illicit-trade markets, illegal or semi-legal markets, and black markets which are widespread in the communist countries. The irrepressible markets tend to cause large-scale underground or shadow economies and various corruptions by the government bureaucrats.

The final type of self-enforcing markets is the 'informal sector' which combines some spontaneous markets with irrepressible markets. Small-scale and legal spontaneous markets and irrepressible markets constitute the informal sector. The informal sector is found mainly in the third-world and communist countries. For example, many low-income or poor people living in the third-world countries run street stalls, fix cars or other equipment outside authorised garage shops, provide various services to their neighbours and friends, or sell second-hand cars, vans, trucks, or buses, for their living. Most of these routine activities in the third-world nations are informal and illegal.

Markets are *ubiquitous* as can be seen in the examples such as the 'spontaneous markets' in the primitive societies, the 'irrepressible markets' in the communist countries, and the 'informal sectors' in the third-world countries. In these markets, trades often take place without any common culture or institutions which may promote a trade between two parties, and even under environment and conditions antagonistic to the markets. Why are markets ubiquitous? For this question, Olson provided an insightful answer as follows:

> "Many markets are spontaneous and are often irrepressible. Trade often takes place in the absence of a common culture or institutions to facilitate it and often in environments hostile to markets. ···The markets that exist everywhere meet both of the following conditions: the gains from making the trades are significant and the trades are self-enforcing. ··· Thus some markets exist virtually everywhere, even when there is no legal system to enforce contracts and sometimes also when trade is illegal". [Olson (2000), p. 180].

When the following two conditions are satisfied, markets are ubiquitous. First, significant gains should be generated from the trades in the markets. Second, trades must be self-enforcing and thus there is no legal system required for enforcing contracts. In other words, only if trades are self-enforcing, and if there are large gains from trades, then markets can exist in a ubiquitous manner. Thus, if these two conditions are satisfied, markets may be virtually ubiquitous whether in a primitive society or a modern society, and whether in advanced countries or developing countries.

As we examined, the spontaneous markets, irrepressible markets, and informal sectors belong typically to the 'self-enforcing markets'. However, as the economy in every country develops and prospers, more *complicated or sophisticated* type of markets such as capital and insurance markets are artificially created by governments. These markets emerge *only when a state or government provide and establish the long-term institutional arrangements that are necessary to fulfil complicated transactions*. These markets are called "governmentally contrived markets". This term was coined by Olson in *Power and Prosperity* (2000, p. 174). The governmentally contrived markets based on institutional arrangements exist only in the *rich* countries.

3.2. Rights-Intensive Productions and Institution-Enforcing Trades

Why are most countries having ubiquitous markets are not rich but still poor? In other words, although most of the countries in the world have ubiquitous markets, why are most countries still poor? This puzzle may not be fully explained by the conventional concepts such as self-enforcing markets, self-enforcing or on-the-spot trades,[2] and self-protected or labour-intensive production.

To explain this puzzle, a few new concepts and understandings of market, trade, and production are needed. First, the concept of *government-contrived market* is required instead of self-enforcing markets. Second, the gains from trade realised only in government-contrived markets should be understood. Third, concepts of *institution-enforcing trades*, or not-self-enforcing markets, and *individual rights-intensive productions* are needed. Finally, the enormous gains from the individual rights-intensive productions should be understood. These new concepts are useful tools to understand and explain the puzzle faced by many countries which have ubiquitous markets but are still poor. Most poor countries with ubiquitous markets have no such market, trade and production as government-contrived market, institution-enforcing or not-self-enforcing trade, and individual rights-intensive production. These are found only in rich countries.

Self-enforcing trades do not need a legal system or institutions to realise all the gains. However, various legal systems, institutions and political order are required to obtain the gains from not-self-enforcing trades, or institution-enforcing trades, such as trades in capital or insurance markets. What kind of legal systems and institutions are needed to realise gains from the trades in capital or insurance markets? First, various legal systems and institutions are required to enforce contracts (e.g. contract law), protect property rights (e.g. law of property rights protection), fulfil mortgage contract (e.g. mortgage contract law), provide for limited liability corporations (e.g. limited liability company law), and promote stable capital markets by activating investment and loan (e.g. law of capital market promotion). Second, these legal systems and institutions should be stable and long-run for stable political order and democracy.

What happens if these legal systems and institutions are not well established in a country? If these institutions are not provided by governments, then the country may be *unable* to obtain all the gains from the capital or insurance markets, *unable* to produce complex goods efficiently requiring cooperation among many people, and *unable* to achieve the gains from multi-party or multi-period trades and contracts. In addition, if a country does

[2]A *self-enforcing trade* refers to a trade that is voluntarily made between two parties without any help or intervention of the third party (e.g. bank, government, and institutions, etc.).

not establish essential legal systems and institutions needed for trades, then there will be only self-enforcing trades and thus *no* mutually advantageous trades among people in the country.

What are required for people in a society to realise large gains from both complex and long-term trades? First, individuals in a society need freedom to trade. Second, the individuals need the rights to claim well-defined rights to their property and mortgages. Third, impartial courts with which individuals can enforce their contracts should be allowed and secured. Fourth, the rights to freely establish new forms of organisations, such as limited or joint-stock corporations, are needed. How can these rights be secured? The state or government should provide and secure these rights for people.

The logic may apply for production as well as for trade. Types of production may be classified as the following three types. The first type is 'self-protected or labour-intensive production'. This type of production includes, for instance, food gathering, handcraft making, services in one's own behalf, and it is referred to as a labour-intensive production. This type of production does not require machines or factories, and can be implemented *without* individual rights to property or contract enforcement.

The second type is 'property-rights intensive production'. This type of production requires physical assets or physical capital, such as machines, factories, and offices, to produce goods. These physical assets are difficult to hide, and thus there are the risks of being seized or confiscated. So this type of production is called *property-rights intensive production.* The type of production using machines, factories, and offices are generally called 'capital-intensive production'. But this is not an accurate expression, because the concept of capital-intensive production does not consider the 'rights' with respect to physical capital. In other words, the 'rights' with respect to physical assets or physical capital should be protected legally before engaging in such a production. If the individuals' rights to the physical assets are not protected and thus exposed to confiscation by robbers, the physical assets cannot be used for production from the beginning. Therefore, if the rights to the physical assets are not to be protected, people would not engage in the capital-intensive production.

The third type is 'contract-dependent or contract rights-intensive production'. Many other types of productions are almost entirely dependent on not-self-enforcing contracts. This type of production is called *contract-dependent production* or *contract rights-intensive production.* One example of this production type is bank services. The production of the services provided by banks and other relevant financial institutions may take place only if the compliance and enforcement of contracts are secured. If banks are not reliable to enforce the contract with the savers or depositors, the savers or depositors will not deposit or save their money in the banks. Banks will not be able to make operating profits if loaners could not fulfil their loan contracts with borrowers. Insurance contracts or future hedging services also will not be produced if the fulfilment of the contracts is not guaranteed. Therefore, the productions of bank loan service, insurance contract service, futures contract and hedging services correspond to the contract-dependent production.

3.3. Market-Augmenting Governments

The market-augmenting government, the term coined by Olson, implies an important role of *a strong and inhibited government.*[3] A market-augmenting government

[3] Olson mentioned this in Capitalism, Socialism and Dictatorship: Outgrowing Communist and Capitalist Dictatorships (1997), pp. 346–347.

consists of two elements. Firstly, governments should be 'strong' enough to guarantee secure and well-defined property rights and contract enforcement rights to the people. Only *strong* governments can guarantee secure and well-defined property rights and contract enforcement rights, while *weak* governments are unable to do so. As a result, only strong governments can successfully accomplish economic prosperity, while weak governments definitely fail to do so. Secondly, the strong governments should 'inhibit' excessive governmental intervention and 'constrain' so as not to deprive or damage individual rights. It is very difficult to satisfy both of the elements simultaneously, because strong governments often participate in various types of predation or harmful intervention in the market. For example, if there is a powerful dictator in a country, the condition of strong government is satisfied. However, if the dictator exercises predation and oppression, the condition of inhibited government is not satisfied. For this reason, there are only few rich countries satisfying both conditions in the world. Therefore, to be a rich country, a *strong and inhibited government* is necessary. Olson called such a government a "*market-augmenting government*". Olson even stated that "we can not have a government that augments markets unless we have a government that is both strong and inhibited."

3.4. Individual Rights and Economic Prosperity

In a market economy, individual rights are a fundamental source of economic prosperity. Only when individuals and firms have *a broad and secure set of individual rights* to property and contract enforcement, various types of complex productions, such as rights-intensive production or contract-intensive production, are possible, and thus larger gains from trade are attainable. In particular, regarding the relationship between individual rights and economic prosperity, Olson stated as follows:

> "In a market economy, many important gains from trade and many important types of production will take place only if the individuals and firms have a broad and secure set of individual rights". [Olson (2000), p. 187].

Olson's afore-mentioned assertion consists of three factors. The first factor is 'individual rights', or the rights to property and contract enforcement. The individual rights should be *broad, or free from restrictions, and secure*. Second, only when the individual rights are broad and secure, gains from trade are *larger* than gains from trade obtained in old primitive societies. Third, only when the rights to property and contract enforcement are well-established and secure, complex or not-self-protected productions, such as property rights-intensive or contract-intensive productions, are possible.

In short, in a market economy, only when individuals and firms have a broad and secure set of individual rights, various types of complex productions are carried out and thus enormous gains from trades are realised; only when the rights to property and contract enforcement are secure and well-established, complex or not-self-protected productions are possible; and only in an environment where the individual rights are broad and secure, gains from trade may be larger than those in primitive societies.

Then, what is the relationship between individual rights and economic prosperity? The answer is that broad and secure individual rights are an important source of economic prosperity. How can individual rights be a source of economic prosperity? First, it is never by chance that the advanced democratic countries, where *broad and secure* individual rights are well-established, are the countries where complex and long-term trades (e.g. trades in insurance, capital, and futures markets) are possible. Those advanced democratic countries obtain enormous gains from complex and long-term trades, and, as a result, they are the countries having the highest per capita income levels. The advanced democratic countries are the countries to make sure that they establish and protect broad and secure individual rights, enforce complex and long-term trades, and thus achieve the highest per capita income levels. Therefore, individual rights to property and contract enforcement will serve as an important source of economic prosperity by facilitating complex productions and obtaining large gains from trades in a market economy.

4. GENERAL CONDITIONS FOR ECONOMIC PROSPERITY

4.1. Two General Conditions

Despite the ubiquity of the markets which are believed to bring about economic prosperity, why do most countries in the world still have a slow economic growth rate or be in a low-income level? Although markets are ubiquitous, why are some countries still poor? Then, how could the countries in the world have the markets that are supposed to bring about rapid economic growth and continuous economic prosperity? What conditions are required for a market economy to create economic prosperity? To answer these, Olson (2000) described as follows:

> "It is natural to ask how a society can obtain the types of markets that generate the rapid and sustained growth that brings a cornucopia of wealth. ⋯ We see that only two general conditions are required for a market economy that generates economic success. ⋯ Individual rights are never given by nature, but are rather the result of social or governmental contrivance". [Olson (2000), p. 195-196].

Olson proposes that there are only two general conditions which are necessary for a market economy to bring about economic prosperity. First, *secure and well-defined individual rights* are essential. Individual rights are not a luxury good that only rich countries may provide. Individual rights are necessary for obtaining maximum output from rights-intensive and contract-intensive productions. Individual rights are also essential for obtaining large gains from the complex trades. Finally, individual rights are vital to achieving the maximum production level. Only when all those participating in the market activities have secure and well-defined rights to private property and to contract enforcement, the maximum production level can be reached. For these reasons, individual rights are essential for obtaining enormous gains from not-self-enforcing or complex trades, obtaining large gains from property-intensive and contract-intensive productions, and achieving the maximum output level. Therefore, secure and well-defined individual rights are the first general condition for economic prosperity. Moreover, individual rights are the result given by '*governmental contrivance*', not by nature, and are well-established only in the rich countries.

Then, how are these individual rights provided? Individual rights are provided not by markets but *by governments*. Individual rights (i.e., rights to private property and contract enforcement) are not something that comes naturally, but a governmental contrivance. To put it extremely, private property would not exist without government. Individuals may possess their properties, but if a government did not protect the individual properties, the properties would not be private. Only if a government protects an individual's right to private property against other people and against the government itself, then the property becomes 'private.' If a government establishes and protects secure and well-defined individual rights to private property and contract enforcement, it will give strong incentives for people to participate in production, investment, and mutually advantageous trade.

The second general condition for a market economy to accomplish economic prosperity is that there should not be any type of predation: *the absence of predation of any kind.* For example, there should be neither the predation taking place in the process of "the war of each against all" under a Hobbesian anarchy state, nor the predation taking place when a dictator or other governments extorts individual's rights through the confiscation of private property or refusal of contract fulfilment. These types of predations will not exist if individual rights are well-established and secured. In modern societies, these primitive and undemocratic predations have virtually disappeared. However, other types of predations are taking place quite often, even in societies where individual rights are best secured. For example, there are predation by lobbying and predation by organising cartel or collusion in modern and democratic societies. First, in the modern democratic countries, various interest groups engage vigorously in lobbying activities to enact laws or regulations for obtaining their special interests. These lobbying activities by the special interest groups are equivalent to a modern type of predation. Second, labour unions and other various interest groups struggle to organise a cartel or collusion so as to fix or manipulate prices or wages. This type of cartel or collusion taking place in the market economy corresponds to an act of predation as well. This kind of predations often occurs even in societies or countries where individual rights are well established and protected. Moreover, this type of predations will make a market economy retarding or "sclerotic".[4] Thus, such type of predations as various lobbying, cartel, and collusion prevalent in a modern market economy will retard economic growth and economic prosperity.

Table 1

Two General Conditions and Government Type

		Condition for 'Individual Rights Protection'	
		Satisfy	Not Satisfy
Condition for 'no predation'	Meet	*Market-augmenting government*	Market-contracting government
	Not meet	Market-contracting government	Market-depressing government

[4]According to Olson (1982), this sclerotic process has been occurring in both East and West, and in both autocratic and democratic societies.

4.2. Sufficiency of Two General Conditions

Are the two general conditions for economic prosperity perfect or ideal in a market economy? The two general conditions would not guarantee perfect markets, maximum social innovation, or an ideal allocation of resources. Moreover, the two conditions would not assure equitable distribution of income which is extensively supported by societies. Thus, the two conditions are *general* ones required for economic prosperity.

Then, there are two important questions raised. First, are the two general conditions *sufficient* for economic prosperity? With regard to this question, Olson (2000) asserted that "these two conditions, if fully met, are none the less sufficient to bring prosperity to a society". The two general conditions are sufficient for a certain country not only to have ubiquitous and self-enforcing markets, but also to have complex markets which bring about large gains from not-self-enforcing trades. In the end, even though the two general conditions would not secure a perfect market, ideal allocation of resources or equitable distribution of income, only if the two general conditions are satisfied altogether, any countries may have not only ubiquitous markets but also prosperous markets. Hence, the two general conditions are sufficient to bring economic prosperity.

Second, cannot his assertion, known as Olson's hypothesis, be historically supported? It has been shown that Olson's hypothesis is supported historically. Olson observed that most of the countries that accomplished rapid economic growth in a short period (e.g. South Korea, Singapore, Hong Kong, etc.) did not have perfect markets or ideal institutions. Despite various imperfections in the markets and institutions, those countries achieved rapid economic growth. In particular, Olson stated as follows:

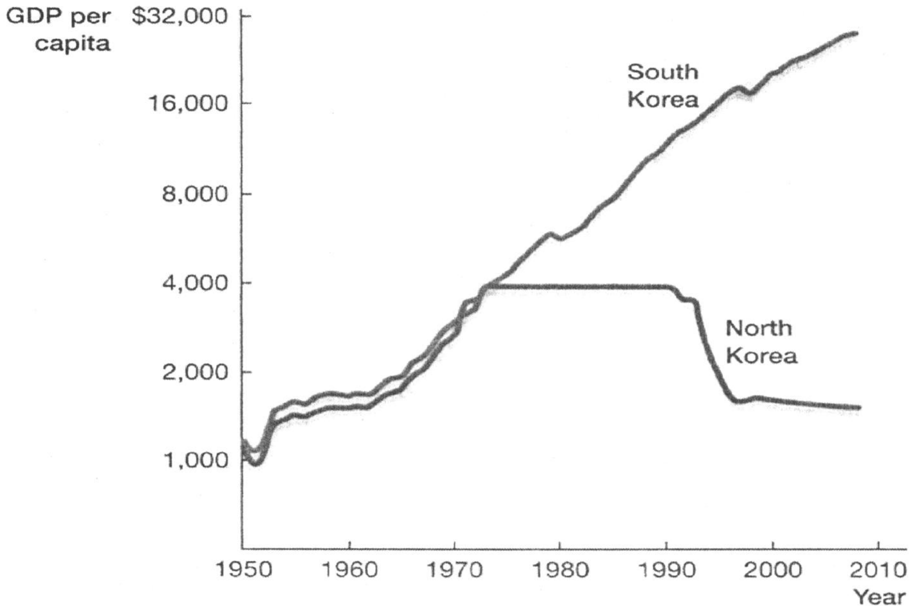
> "There is no society in the postwar world that has fully met the two general conditions that has failed to prosper". [Olson (2000), p. 198].

Simply stated, this indicates that since the Second World War, all the countries satisfying the two general conditions have accomplished economic prosperity. Historically, all the countries which have accomplished rapid economic success since the Second World War share a common point that they have satisfied the two general conditions although they have various imperfections in the markets and institutions.[5] Therefore, only if the two general conditions are to be satisfied, any country can have not only the *ubiquitous* markets but also the *complex* markets that lead eventually to economic prosperity.

Figure 1 shows how GDP per capita of North Korea and that of South Korea have sharply diverged over the last 60 years. While South Korea, with institutions based on a market economy, has reached a high level of GDP per capita, North Korea, under a communist dictatorship, has failed to grow. The divergent institutions of the two Koreas have led to diverging GDP per capita. This example provides strong support for Olson's hypothesis and present argument.

[5]Interestingly, Olson (2000) mentioned that the countries satisfying both of the two conditions are just like boys in the adolescence period, because boys in the adolescence grow eventually to be adults even though they undergo many mistakes as well as trials and errors.

Fig. 1. A Tale of Two Nations



Source: Acemoglu, Laibson, and List (2016), p. 555.

4.3. Individual Rights-Respecting Democracies

Then, *in what countries or societies are the two general conditions most likely to be satisfied?* It is mostly probable that the two conditions are satisfied in countries with stable and individual rights-respecting democracies. Olson proposed that individual rights-respecting democratic countries refer to the countries where decision making is made to best represent the *encompassing interests of the majority people* rather than the special interests of the minority. Alternatively, individual rights-respecting democratic societies are where the encompassing interests, rather than narrow special interests, are respected. When democracy is stable for a long period in a country, the country is eventually dominated by narrow special interests. However, the historical evidence shows that it is not necessarily the case, because encompassing interests rather than narrow special interests will dominate in an individual rights-respecting country or society. Narrow special interests always consist of small minorities in a society. However, if a narrow special interest group becomes larger and represents the majority in the society, the narrow special interest group will come to represent *encompassing interests*. On the contrary, special interest groups engage in lobbying to enact a public policy which is advantageous to the firm or industry to which they belong, or in organising a cartel to increase the price or wage in the specific markets.

5. SUMMARY AND CONCLUDING REMARKS

Markets exist everywhere all over the world. While numerous markets are ubiquitous in the world, most countries have experienced neither higher income level nor rapid economic growth and economic prosperity. The main reason why markets exist everywhere is that the trades in the markets are self-enforcing. Thus, markets may be ubiquitous when considerable gains are obtained from self-enforcing trades in the markets. Self-enforcing markets are typically spontaneous, irrepressible and informal markets which have a large proportion in the second world (communist countries) and the third world (Asian and African developing countries). However, self-enforcing markets are not able to contribute to economic prosperity.

Then, what types of markets contribute to economic prosperity? Gains should be obtained from the new types of trade and production which are necessary for a country to achieve rapid economic growth or high income levels. A country should obtain gains from not-self-enforcing and complex trades, or from the mutually advantageous trades. These trades include capital borrowing and lending, and futures trading that are not self-enforcing. The gains from the mutually advantageous trades can be obtained not from self-enforcing or spontaneous markets, but only from *government-contrived markets*. Therefore, in order for a country to achieve rapid economic growth or high income levels, a country should obtain gains not only from the mutually advantageous trades, but also from these new types of production. Moreover, the mutually advantageous trades and the individual rights-based productions take place not only in the 'governmentally contrived markets' but also in the 'rich countries'. Finally, in the countries where broad and secure individual rights to property and contracts are not well-established and secure, then the economic growth is slow or the income level is low. Therefore, individual rights are very important to the economic growth and prosperity in the market economy. In addition, individual rights are best secured in what Olson called 'individual rights-based democracy' or 'rights-respecting democracy'.[6]

This paper has some important implications for both other relevant works and further study. First, the concept of "inclusive economic institutions" proposed by Acemoglu, Laibson, and List (2016) and Acemoglu and Robinson (2012) are largely in the same spirit as market-augmenting governments. They divide economic institution into inclusive and extractive institutions.[7] Inclusive economic institutions are those that protect private property, provide secure property rights, uphold law and order, allow and enforce private contracts, and permit free entry into new lines of business and occupations. In contrast, extractive economic institutions fail to protect private property rights and enforce contracts. Inclusive economic institutions tend to foster economic activity, productivity growth and economic prosperity, while extractive economic institutions generally fail to do so. Not surprisingly, the roles of market-augmenting governments are similar in nature to those of *inclusive economic institutions*. Lindsey (2002) also uses a concept of market-augmenting government as a spring board which is given as below:

> "Olson argued persuasively that underdevelopment reflects, not the absence of markets generally, but rather the absence of particular types of markets—namely,

[6]In addition, individual rights are important to not only economic prosperity but also allocation of resources. Secure and well-defined individual rights are useful for a society to transfer resources from resource-wasting activities to wealth-creating activities.

[7]See Acemoglu, D., D. Laibson, and J. A. List (2016) *Economics*, pp. 556-62; Acemoglu, D. and J. A. Robinson (2012) *Why Nations Fail: The Origins of Power, Prosperity and Poverty*, pp. 70-95.

"socially contrived" or "property-rights-intensive" markets that arise and flower only with the help of appropriate, government-provided legal institutions.··· Those essential government activities that undergird a liberal market order are, by and large, so routine and uncontroversial that they do not figure in the ongoing debate over the role of government." [Lindsey (2002), p. 175].

Secondly, in real world, *market-contracting* governments are more prevalent than market-augmenting governments since the condition for the absence of predation is not satisfied because of various special-interest lobbying and rent-seeking activities. This implies that the second general condition is more important than the first one for rich and prosperous markets.

Finally, market-augmenting governments will provide an important implication for North Korea and former communist countries before adopting free market economy. While some scholars suggest the free market economy for North Korea, the authors recommend that North Korea should adopt the *Olsonian* approach by satisfying two general conditions for prosperity. Without satisfying the two general conditions, the market in itself will *not* guarantee economic prosperity.

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