

## IPRI and Economic Outcomes

The underlying assumption of this study is the strong correlation between an effective property rights regime and its significant impact on the economic performance of a country. According to the distribution of average income among countries in the IPRI quintiles, countries with high property rights scores tend to be the nations with higher per capita incomes. Countries with low property rights scores tend to have lower per capita incomes. Additionally, countries with strong property rights regimes attract more foreign direct investment (FDI). Finally, developing countries with strong property rights show stronger per capita GDP growth than those that fail to respect property rights. This observation is especially important considering the role that property rights can play to alleviate poverty.

**Figure 8: Average Per Capita Income by IPRI Quintile**

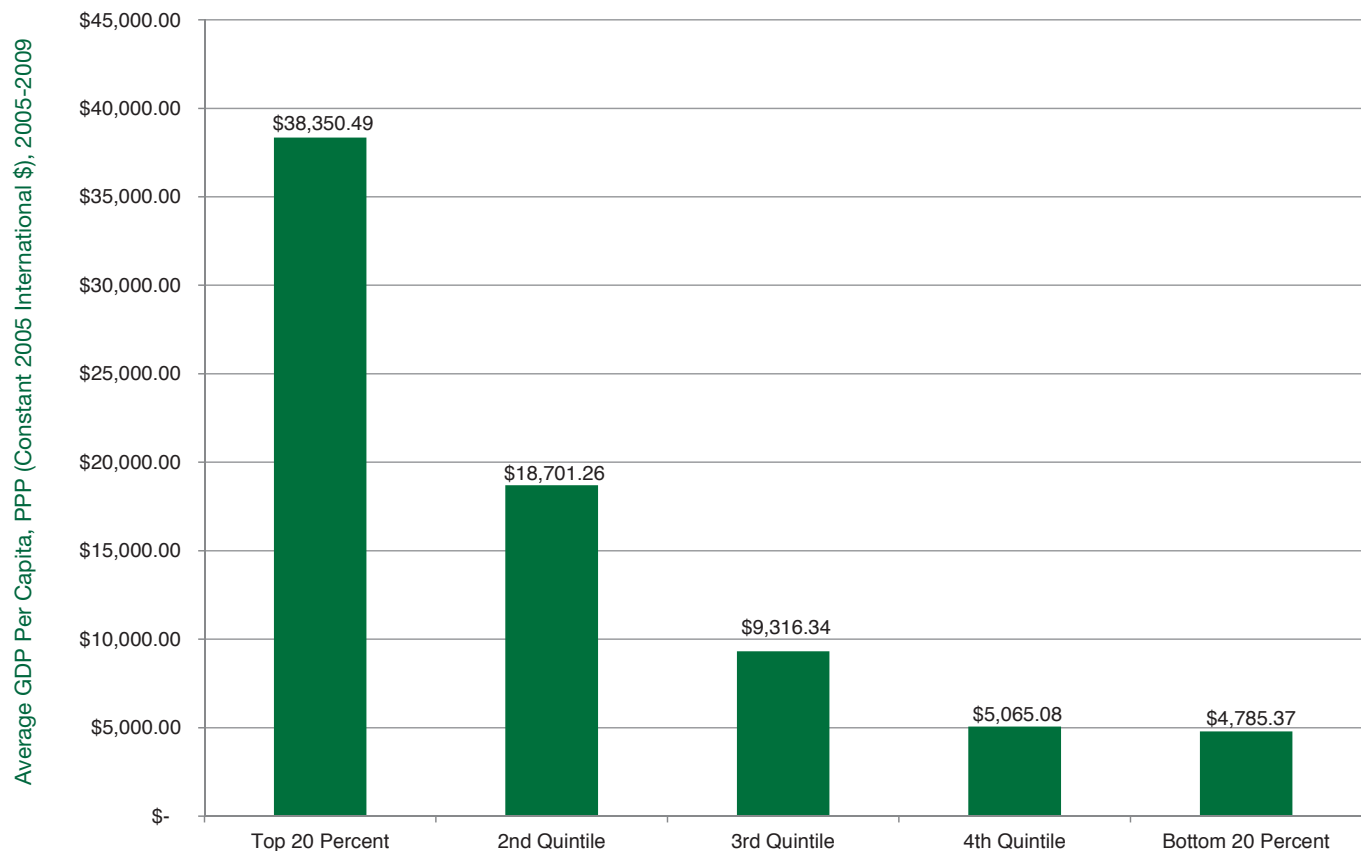
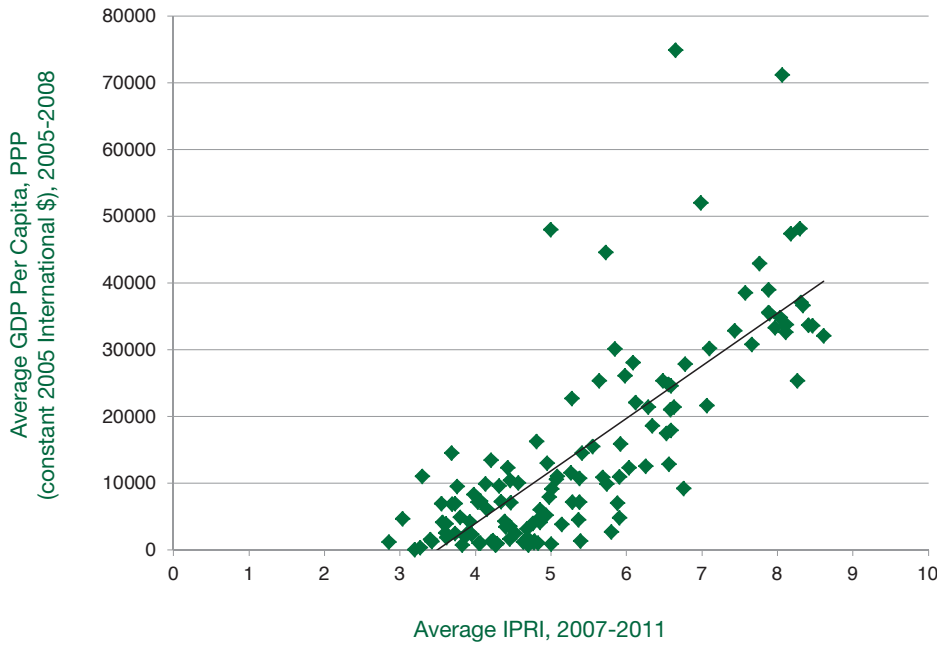


Figure 8 illustrates that, on average, countries in the top quintile of IPRI scores enjoy a per capita income eight times that of their counterparts in the bottom quintile.<sup>ii</sup> Calculations for Figure 8 are based on the averages of the IPRI scores for years 2007–2011 and corresponding data on average GDP per capita in PPP terms for years 2005–2009. Use of averages allows us to establish a more robust relationship between property rights and income, which may fluctuate because of economic cycles and other exogenous impacts. The same pattern is observed when using only the last year of the IPRI scores and GDP per capita data.

**Figure 9: Relationship between IPRI and GDP Per Capita**



**Figure 10: Relationship between LP and GDP Per Capita**

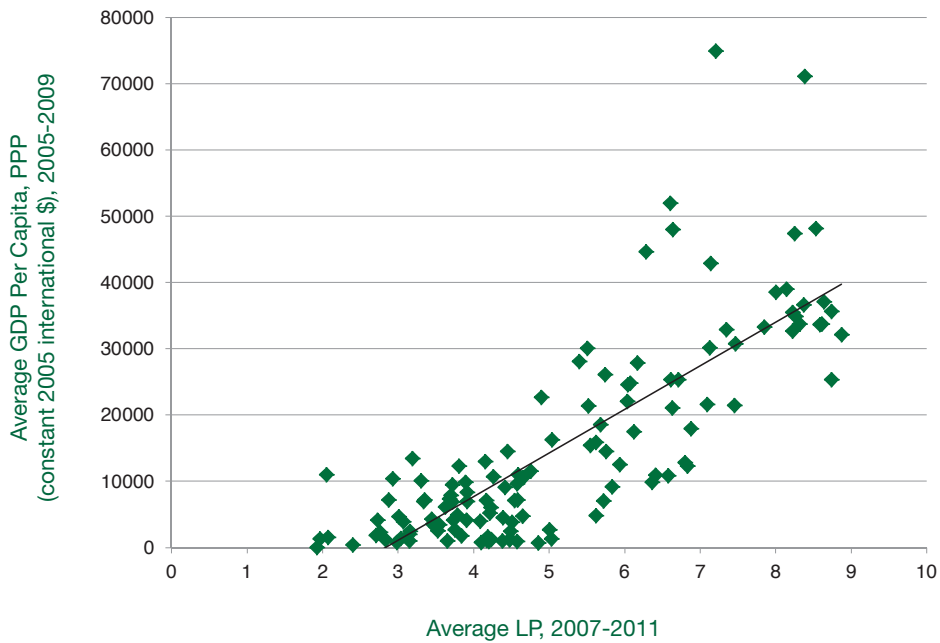


Figure 9 presents the relationship between the IPRI scores and GDP per capita. The IPRI score is overwhelmingly positively related to GDP per capita. We find that countries with strong property rights protections have higher GDP per capita income compared to countries at the bottom of the IPRI ranking. A similar relationship is observed for the IPRI's core components (Figures 10–12).

Figure 11: Relationship between PPR and GDP Per Capita

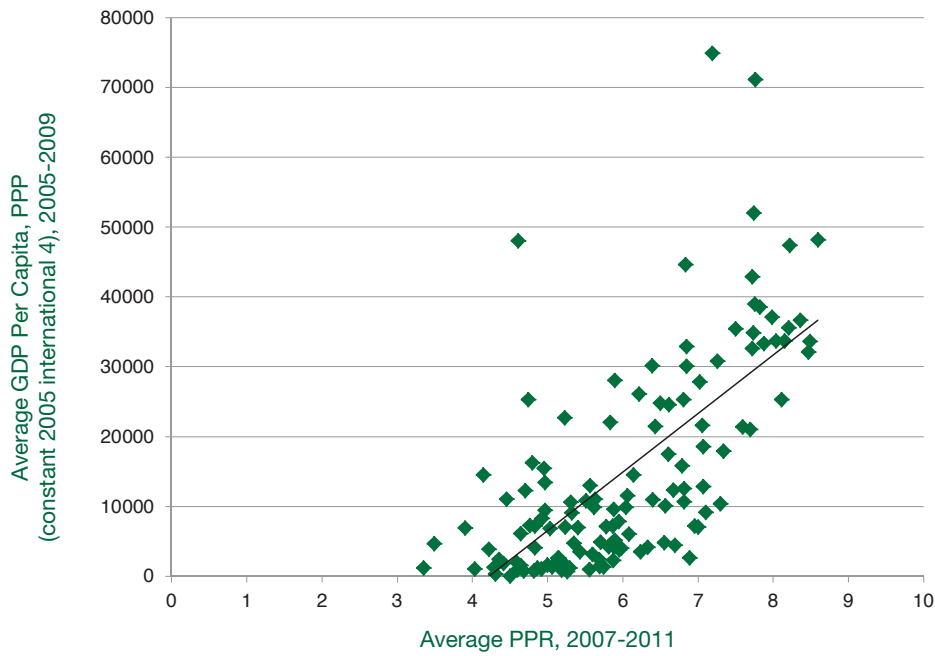
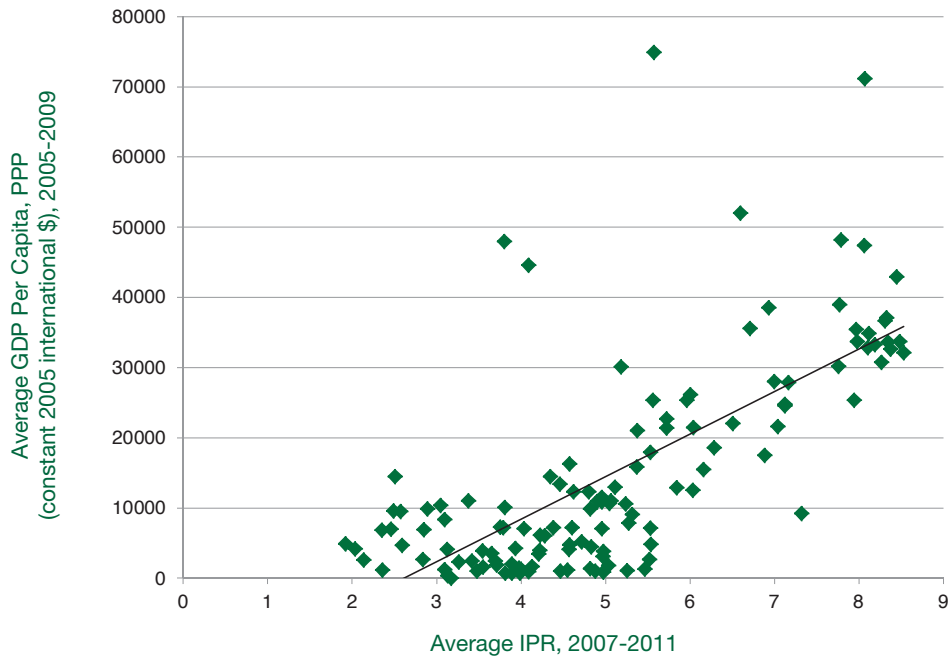
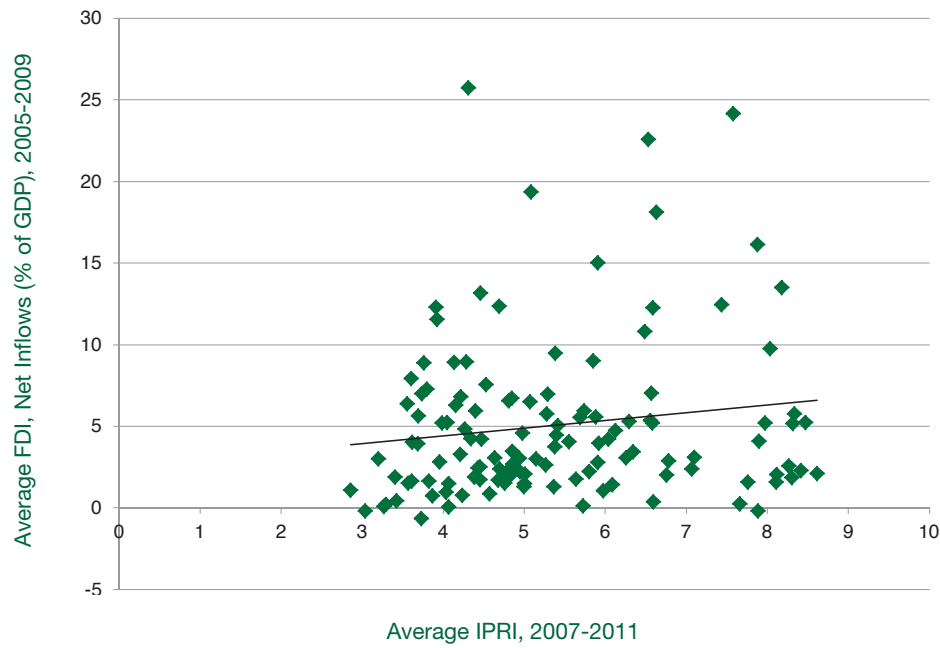
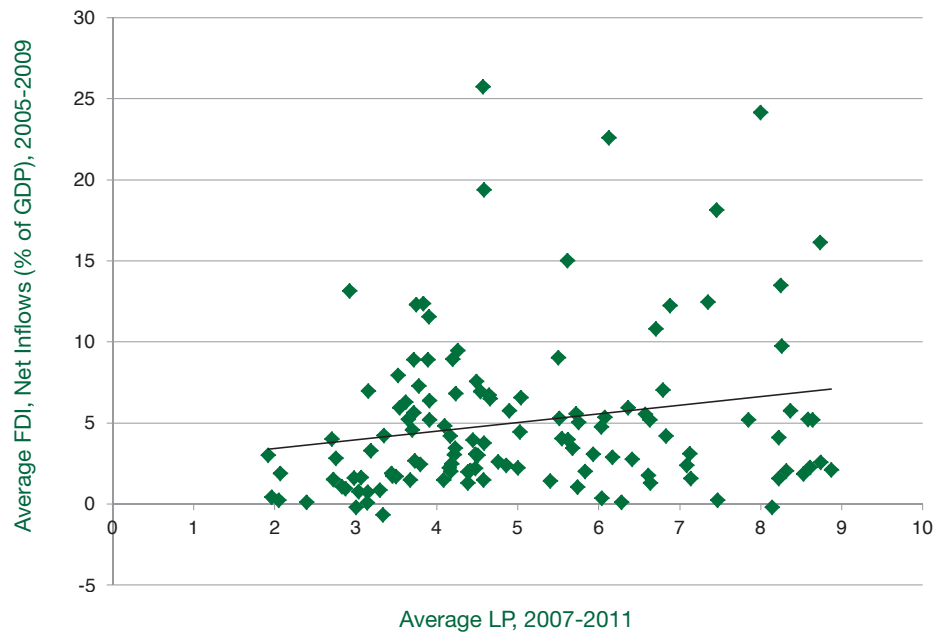
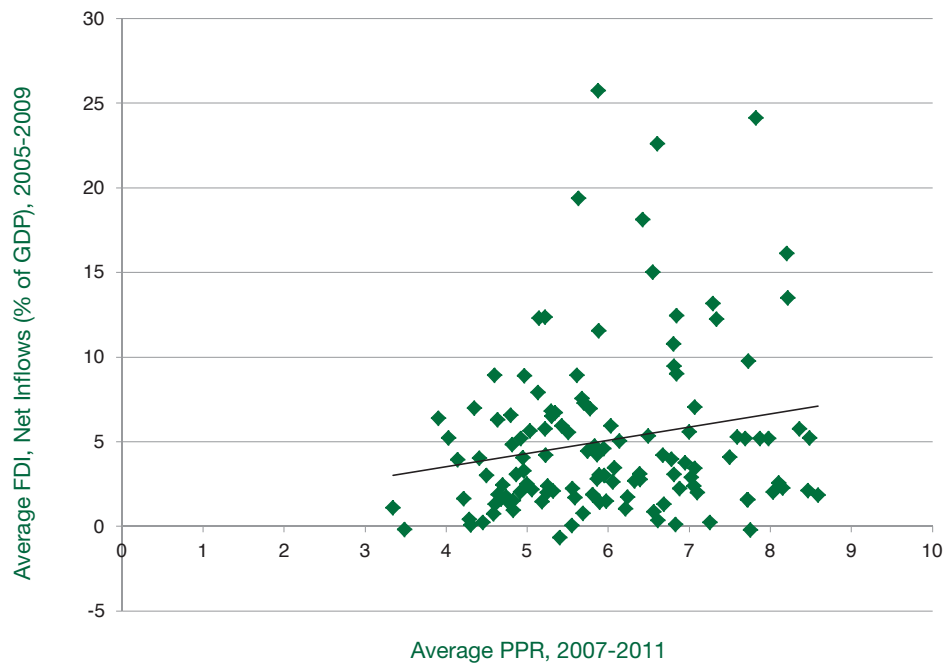
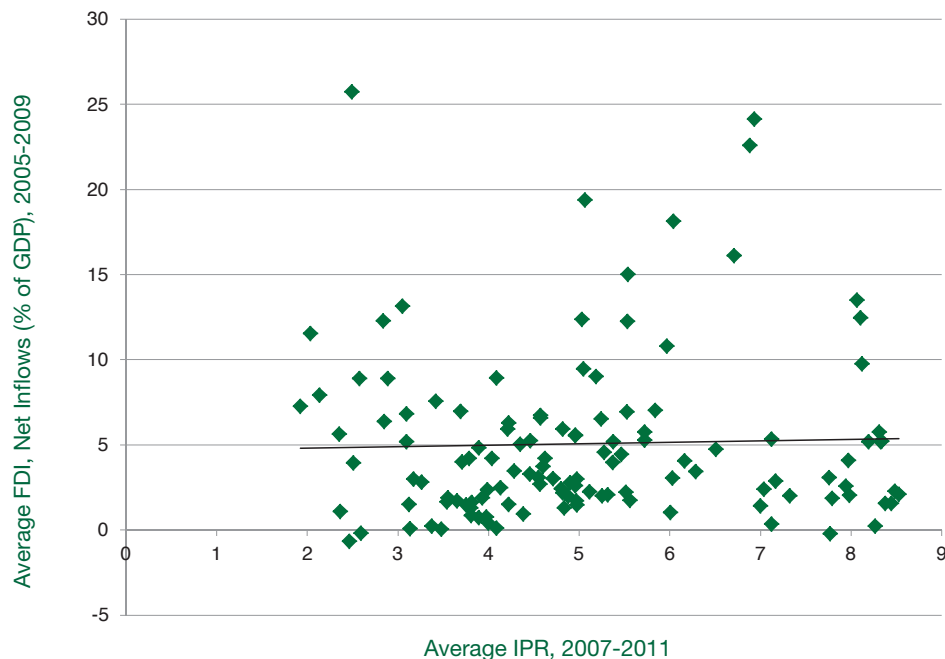


Figure 12: Relationship between IPR and GDP Per Capita



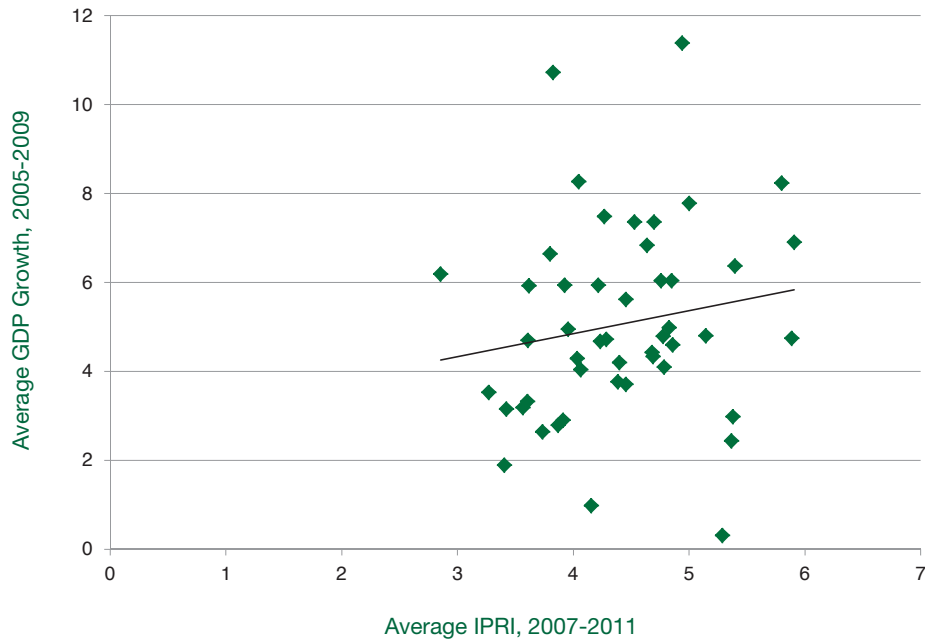
**Figure 13: Relationship between IPRI and FDI Inflows as a Percentage of GDP****Figure 14: Relationship between LP and FDI Inflows as a Percentage of GDP**

To further investigate the role that protection of property rights plays in economic development, we consider the relationship between the IPRI and its components and FDI. [Figure 13](#) demonstrates that there is a positive relationship between the average IPRI score and average FDI inflows measured as a percentage of GDP.<sup>iii</sup> Similarly, [Figures 14–16](#) demonstrate that countries with a well-established legal system, a stable political environment and strong protection of physical property rights attract more FDI. This relationship appears to be weaker for the IPR component, but data on IPR is less complete than for other components. Therefore, our results may be prone to inconsistencies in certain cases because of the lack of comprehensive data.

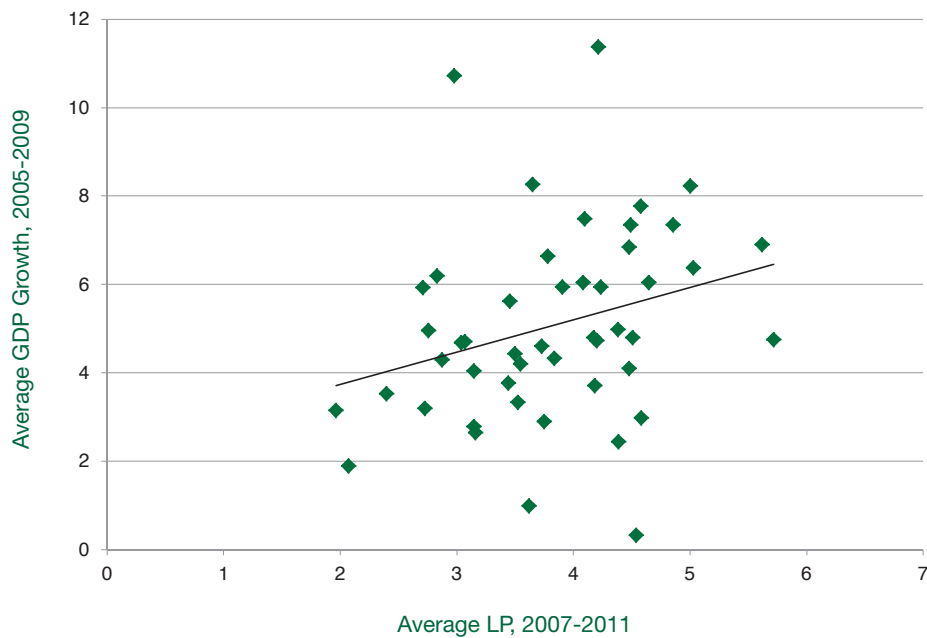
**Figure 15: Relationship between PPR and FDI Inflows as a Percentage of GDP**

**Figure 16: Relationship between IPR and FDI Inflows as a Percentage of GDP**


The amount of economic activity that involves IPR is smaller than that which involves physical property rights. This means that changes in IPR would have less effect on total economic output than a similar change in PPR. Additionally, the relationship appears to be somewhat hindered by the presence of outliers, such as Ireland, which ranks in the top quintile of the IPRI but has attracted significantly less FDI since 2005.<sup>iv</sup> Again, we use averages to establish long-term trends.

**Figure 17: Relationship between IPRI and GDP Growth**



**Figure 18: Relationship between LP and GDP Growth**



Countries in the top quintile of the IPRI rankings tend to be developed nations with mature markets that generally expand at a slower rate than those in many developing economies. We compare countries with high GDP growth to those with low GDP growth and test whether a strong property rights regime is associated with high economic growth.<sup>v</sup>

Figure 19: Relationship between PPR and GDP Growth

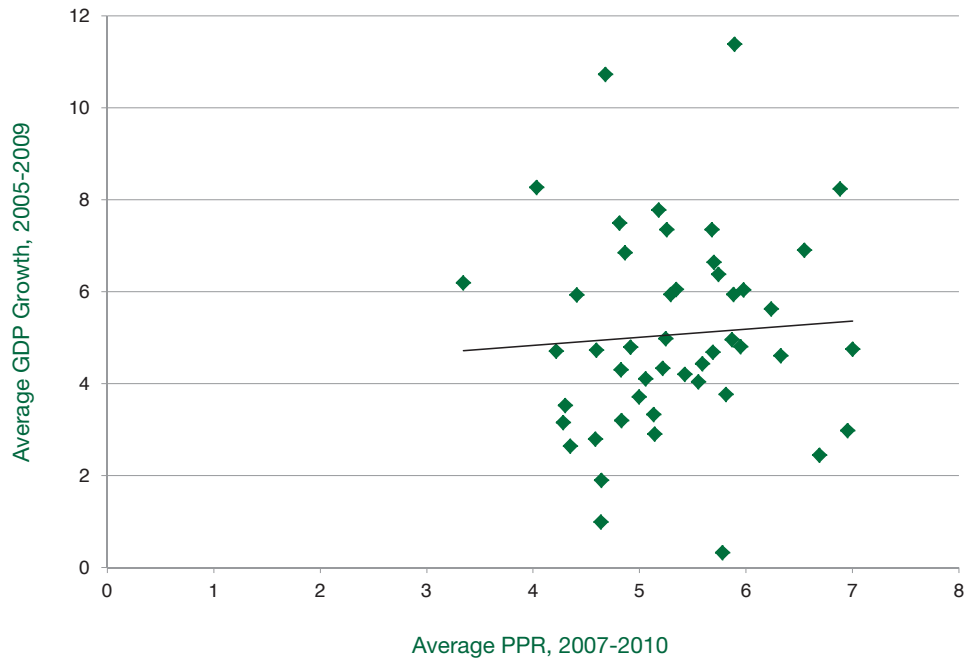
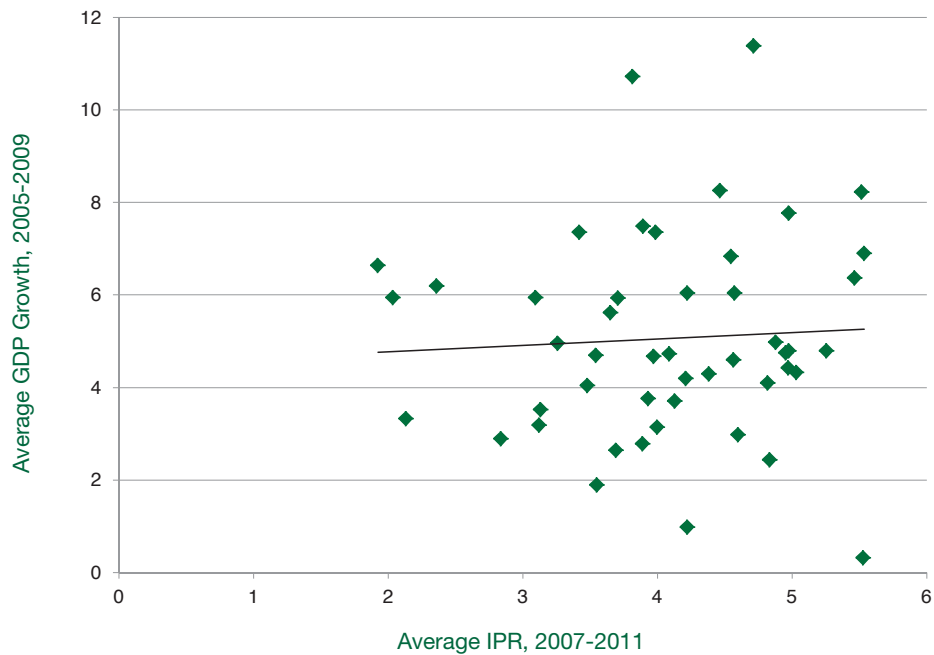


Figure 20: Relationship between IPR and GDP Growth



Figures 17–20 demonstrate that those developing countries that respect property rights grow on average faster than those that fail to provide sound legal and political environments and protection for physical property rights. As with FDI inflows, the relationship is less clear with IPR but similar caveats apply about the nature of the IPR data.