

Exogenous Shocks to Crime and Resolution of Court Cases: Do Such Shocks Impact on Investments?

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Abstract: *The interaction between justice sector and private investments has widely been acknowledged by economists and governments. For instance, services provided by police and courts have been found to affect private investments in most economies. However, there is limited information regarding the growth trajectory private investments would follow when an exogenous shock to crime and resolution of court cases occurs. Therefore, this paper investigated the impact of exogenous shocks to crime and resolution of court cases on private investment. The analysis entailed the use of vector auto regressive model and Kenyan data for the period 1960-2016. The results showed that an exogenous shock to crime and resolution of cases impacts on private investment for a relatively long period of time. Hence, Governments should speedily ease down the memories of crime once a major crime engulf the economy and expansively secure the affected firms and other economic agents with future propensity to be hit by a comparable crime. Further, for courts with high pendency of cases, prioritizing cost effective programmes that would substantially and within a short period of time reduce a huge chunk of pending cases, would positively impact on private investment for a long period.*

Key words: *crime, resolution of court cases, shock, impact, private investments*

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I. Introduction

Background

Most investment theories may not be fully applicable to developing economies since in these economies, government institutions play an immense role on private investment behavior (Acemoglu, Johnson & Robinson, 2005). In developing economies, the role of government institutions in shaping investment behaviour has remained imperative. From economic theory, the institution's hypothesis links incentives to invest in physical capital, human capital and technology to economic institutions, and puts forth that economic prosperity results from these investments (Acemoglu et al., 2005). One of the institutions is the justice sector which according to Palumbo, Giupponi, Nunziata and Sanguinetti (2013), is conceptually a market for justice whose services influence proper functioning of markets. Stiglitz (2001) asserts that a market economy requires justice institutions that enforce laws and contracts, protect property rights, and provide security for factors of production. Barro and Sala-I-Martin (2004) explicates that enforcement of the rule of law increase firms' probability of maintaining possession of their accumulated capital.

For economies to grow and prosper social infrastructure of law and order is essential. Kuehnel (2010) links services offered by police and courts to the ability of economic players to retain the rights to their goods and profits, thereby shaping their incentive to invest. According to Kuehnel (2010), a government that spends sufficient resources on enforcement of rule of law, renders its economy to move to equilibrium with strictly positive growth. Palumbo et al. (2013) assert that security of property rights provides economic agents with incentive to invest by protecting returns on investment, reduces transaction costs and dissuades opportunistic behavior. Hence, institutional services that strengthen the rule of law affect the ability of economic agents to retain rights to their economic resources and to thrive in a secure environment. Once the rule of law is observed, economic agents would incur less transactional cost and would consequently be willing to commit more of their scarce resources on investments. This notion is concurred by Barro and Sala-I-Martin (2004) who affirms that observance of the law and enforcement of property rights work like tax reductions, and would lead to capital accumulation. Once capital accumulates, economic growth would be realized.

According to Dougherty (2013), without high-quality justice sector institutions, transaction costs may be prohibitive, deterring market transactions and firm entry thereby inhibiting competition and trade. For instance, government expenditure relating to security, enforcement of property rights and maintenance of public order can exert a positive effect on private investment (Njuru, Ombuki, Wawire & Okeri, 2014). Marang'a, Kosimbei and Ouma(2018a), concurs that increased provision of justice sector services of security and dispensation of justice affect private investments positively. Also, the less congested the justice sector services, the higher the growth of private investments (Marang'a et al., 2018b).