After years of parish work, a Catholic priest sat up in bed one morning and thought, “Maybe the Pope is wrong and Buddha is right.” After years of teaching and writing about economic efficiency and the law, I sat up in bed one morning and thought, “Maybe efficiency is wrong and innovation is right.” The effects on human welfare from inventing the tractor far exceed the effects from more efficient allocation of horses. Innovation causes compound growth that swamps static inefficiency like a tsunami swamps a scow. These facts compelled me to rethink previous work on law and economics, including my own.

The state provides infrastructure on which the economy runs. The material infrastructure includes roads and the institutional infrastructure includes laws. Smooth roads and good laws sustain the economy. Law and efficiency economics explains how law improves resource allocations. Its practical usefulness, systematic consistency, and even its intellectual beauty, have influenced America legal scholarship. By contrast, law and growth economics must explain how law increases economic innovation. Its potential usefulness potentially exceeds law and static economics, but, in its current state of underdevelopment, it lacks systematic consistency or intellectual beauty.

Law and growth economics is underdeveloped partly because growth economics is underdeveloped. Growth economics explains innovation’s effects, but not its causes. Mystery shrouds the causes of innovation because innovation is intensively legal and growth economics is not. Economics exports ideas to law and imports little, like contemporary China exports commodities to the USA imports little. Importing some legal ideas into economics, thus balancing trade in ideas, can dispel some of the mystery of growth.

Economic innovation usually requires combining new ideas and capital. They naturally repel each other because the investor distrusts the innovator with her money, and the innovator distrusts the investor with his ideas. The “double trust dilemma” refers to the problem of inducing the innovator to trust the investor with his ideas, and also inducing the investor to trust the innovator with her money. The solution to this problem depends on law, especially the law of property, contracts, corporations, finance, and bankruptcy. This book dispels some of the mystery of growth by explaining law’s contribution to solving the double trust dilemma.
Will law and growth economics fulfill its promise? Two shoe companies sent representatives to Hawaii in the 19th century. One of them telegraphed the message to the home office, “No opportunity. No one wears shoes.” The other telegraphed the message,” Great opportunity. No one wears shoes yet.” Instead of shoes, this book telegraphs the latter message about law and growth economics.