

**BREAKING NEWS****Help the Third World -- Protect Property Rights**

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Haiti recently was devastated by a massive earthquake. Yet social desolation in Haiti long preceded the natural disaster. The tragic Caribbean nation does not have the economic freedom and legal stability necessary to build a prosperous economy.

Much goes into the process of economic development. One of the most important factors is the protection of property rights, both physical and intellectual. Today the Property Rights Alliance (PRA) released its latest annual *International Property Rights Index* (IPRI), written by Victoria Strokova, with contributions from many others. Countries which do the most to strengthen property rights have the best economic results.

Prosperity is not everything, of course. As Nobel Laureate Milton Friedman observed: "The preservation of liberty, not the promotion of efficiency, is the primary justification for private property. Efficiency is a happy, though not accidental, by-product."

Americans enjoy believing that the U.S. is the most market-oriented society on earth. But the U.S. is not number one on general economic freedom indexes, though it remains in the top ten. America doesn't even fall within the top ten on protecting property rights. The U.S. was 15 -- not bad out of the 125 countries ranked, but nevertheless disappointing given America's freedom heritage. Here, as in so many areas, the U.S. is losing its position as the global leader in promoting individual liberty and limited government.

Property rights always have been important. Barun S. Mitra, head of India's Liberty Institute, who wrote the foreword to the latest IPRI ratings, observes that "A modern economy is built on clear ownership of property whether tangible or intangible -- be it land, shares, or intellectual property." Property rights promote justice, allowing people at all economic strata to enjoy the fruit of their labor. More important from the economic standpoint, property rights create an extraordinarily powerful incentive to raise and use resources productively and efficiently.

Alas, the challenge to economic freedom has grown in the aftermath of the financial crisis. Notes Kelsey Zahourek, the PRA's executive director, "many people across the globe are continuing to see their basic property rights stripped away from them in the shadow of a global economic crisis."

## No surprise, the greatest challenge faces the poorest nations. Writes Mitra:

While world attention is focused on the economic situation in the U.S. and other developed countries, the situation also underscores the perpetual economic crisis in many developing nations and poor communities. In these societies, recognition of property rights and respect for ownership are weak, and a title document is often non-existent. Typically, these are places where informal economic activities dominate. But the consequences are very similar in both -- lack of credit. Ironically, the problem of the poor is not that they do not have assets; instead, they are unable to effectively to capitalize their assets. The present crisis demonstrates that the rich are equally vulnerable to being unable to capitalize their assets if they lose their connection to the real economy and the clear titles that it requires.

Protecting property rights take many forms. One aspect is the legal and political environment. At issue are judicial independence, rule of law, political stability, and control of corruption. Notes the PRA report: "Even the most comprehensive *de jure* property rights cannot be enforced unless a strong rule of law and independent judiciary are present to enforce them." Political instability and corruption make it harder to acquire and preserve private property, and to benefit from using and improving private property. These factors typically are most lacking in poor Third World states.

Defending physical property rights is one leg of the property stool. One aspect is the strength of independent institutions, most notably the judiciary, standing against attempts to seize private assets. Other aspects include the ease of registering property and borrowing money. Explains the PRA: "access to a bank loan without collateral serves as a proxy for the level of development of financial institutions in a country."

Another, increasingly important aspect of property is intellectual property rights. Today, with economies increasingly dependent on information and other new technologies, intellectual property is an increasingly important aspect of economic growth and prosperity. IPRI looks at both *de jure* and *de facto* protection for intellectual property, as well as strength of patent law and level of copyright piracy.

Useful information about many countries is lacking, which limits the number of states covered by IPRI (such as Haiti, which is absent). However, the 125 nations listed account for 97 percent of global GDP. And the rankings, if not exact, are broadly accurate in assessing national commitments to stronger property rights regimes.

The best performers are the Scandinavian states. Although these governments typically spend more than Washington, they also often regulate with a lighter, more efficient, and less corrupt hand.

In the case of property they tend to be far more protective of individual liberty. The top ten are Finland (number one for the fourth year in a row), Denmark, Sweden, Netherlands, Norway, Switzerland, New Zealand, Singapore, Australia, and Austria. No surprise, all of these nations enjoy productive and prosperous economies.

At the bottom are Bosnia and Herzegovina, Nicaragua, Paraguay, Bolivia, Burundi, Chad, Zimbabwe, Venezuela, Ivory Coast, and Bangladesh. Obviously, much is wrong with these

nations, as well as others that rank poorly on the IPRI. However, unless they are able to remedy their flawed property rights regimes, they are unlikely to successfully develop even if they meet their other challenges -- end external wars, pacify internal conflicts, overturn dictatorships, and so on.

North America is the freest region. Western Europe is the second. The Mideast and Asia are roughly tied for third-fourth. Eastern Europe/Central Asia, Latin America, and Africa trail.

The U.S. is only number 15 overall but ties for first regarding IP. America is number 18 on legal/political environment and ties for 11 on physical property. The U.S. did improve overall slightly from 2009 to 2010, though little substantive changed much.

While the relationship is not perfect, nations in the top IPRI quintiles do far better economically than those in the bottom quintiles. Although most countries which protect physical property also promote intellectual property, there are differences of emphasis.

Overall, nations in the top IPRI quintile enjoy an average per capita income of \$35,676. The average for the second quintile is \$20,087. The third comes in at \$9,375. Countries in the fourth quintile have an average of \$4,699 while those in the fifth fall in at \$4,437. The report includes tables matching IPRI score and per capita GDP. Again, while the relationship between freedom and prosperity is not perfect, it is strongly positive.

Positive IPRI scores relate positively to other economic factors, such as foreign direct investment inflows and GDP growth. The poorest countries are most vulnerable to the adverse effects of economic statism. Wealthy, industrialized nations tend to have a free and prosperous heritage upon which they can rely. Third World states have no such advantage.

The report includes a number of specific case studies. One of the saddest is Venezuela, where all liberties, including private property protections, are under assault. Notes PRA:

"Commencing in 2001 with a set of decree-laws (i.e., executive orders with value and rank of laws) such as the one on Agrarian Reform ..., a new trend began in Venezuela to ignore private property rights protected by article 115 of the 1999 Constitution. Moreover, with the takeover of a significant number of private agrarian lands starting in 2005, such a trend has become a State policy. The government's strategy of systematically denying the existence of private property in different areas reached its highest manifestation with the enactment of new decree-laws in 2008 and recent legislation passed in 2009 by the National Assembly.

The result has been tragic for Venezuelan democracy as well as Venezuelan prosperity.

The report also notes how better property rights can promote non-economic ends, such as environmentalism. The study observes the World Bank "found that weak IP regimes were another form of [non-tariff barrier] undermining the transfer of climate friendly technologies."

Moreover, better protection of property rights is essential for gender equality. Poor countries tend to do worse on protecting women's property rights just as they do worse on protecting property rights generally. Of particular importance are women's access to credit, land, and other property, as well as inheritance practices and social rights. In Uganda, for instance,

"Despite the importance of land to women, the overriding feature of their relationship to land is insecure tenure."

All countries could do better. Even Finland, notes the PRA: "The one area in which Finland needs to make progress is in [intellectual property rights], specifically copyright protection. Pirated material in business software is estimated to account for over 25 percent of the business software on the market." The U.S. has further to go. The opportunities for improvement are modest, but nevertheless real.

Liberty is good. Milton Friedman was right: the most important justification for freedom is moral. But efficiency matters too. And protecting property rights is a critical basis of an efficient, productive, and innovative economy. Governments of rich and poor nations alike need to finally learn this lesson.

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