

## CHAPTER I: INTRODUCTION

**"If history could teach us anything, it would be that private property is inextricably linked with civilization."**

—*Ludwig Von Mises*

Property rights play an important and often overlooked role in the creation of prosperity. Firmly established property rights allow for individuals to enjoy the fruits of their labor thoroughly and to create incentives to use resources efficiently. However, as Milton Friedman poignantly noted, "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 – and a most important by-product because liberty could not have survived if it had not also produced affluence."<sup>3</sup> Indeed, there has been growing recognition of property rights as fundamental human rights.

Whereas property rights were acknowledged in the Universal Declaration of Human Rights in 1948,<sup>4</sup> it was not until recently that property rights gained the attention of policy makers around the world. The work of Hernando de Soto has been instrumental in bringing into focus the problems that the poor in the developing world face in exercising their property rights. The 2008 report by the U.N. Commission on Legal Empowerment of the Poor, chaired by de Soto and former U.S. Secretary of State Madeleine Albright, unequivocally reaffirmed that property rights are human rights.<sup>5</sup>

The Commission's Working Group on Property Rights further highlighted the importance of property rights beyond the role they play in economic activity. Karol Boudreaux, a member of the Working Group and a contributor to the 2008 IPRI report, maintains, "Secure and accessible property rights provide a sense of identity, dignity, and belonging to people of very different economic means. They create reliable ties of rights and obligations among community members as well as a system of mutual recognition of rights and responsibilities beyond the local community" (Boudreaux, 2008). Moreover, Boudreaux stresses, "For many poor individuals and the communities in which they live, the relationship with property is more than just an aggregate of occupied and used plots. It is the very expression of a way of life, and one that they should have the opportunity to improve by virtue of their own efforts" (Ibid.). Boudreaux's observation demonstrates the complexity of property rights that transcend pure economic justification.

While the non-economic aspects of property rights are equally important, this report focuses on the economic benefits resulting from the protection and enforcement of property rights. In economic sense, property rights are characterized as holding exclusive authority to determine how a resource is used (Alchian, 2008). Armen A. Alchian, an economist who significantly contributed to the economics of property rights, noted that this definition of property rights does not necessarily preclude government or public ownership. However, private property rights possess additional features. Specifically, they allow for exclusive rights to the services of the resource (e.g., to collect rental income) and the right to exchange the resource at mutually agreeable terms (Ibid). These additional qualities of private property rights empower individuals to seek the most efficient use of the resources they possess and to better their life through mutual exchange with others.

Many studies have attempted to determine the benefits of strong property rights at an individual or community level. This report seeks to determine the consequences of ensuring property rights on a macro level. Do societies that respect property rights perform better than those that disregard property rights? Do countries that provide the legal framework for enforcement of property rights have better economic outcomes? A cross-country study like this one allows one to establish empirically what role property rights play in economic development.

Certainly, such an approach is not without limitations. There are many factors that affect the effectiveness of a property rights regime. The choice of aspects to include in this study represents a significant trade-off between a more detailed and nuanced approach and the comprehensiveness of this study. The factors chosen for this study allow us to capture important differences in the provision and enforcement of property rights among as many countries as possible. Finally, the reader is reminded that it remains a challenge to differentiate causal effects in a multi-country setting. However, we remain confident that this difficulty will be overcome as more data become available for future editions of the IPRI.