The Heritage Foundation Backgrounder

No. 770 | The Heritage Foundation 214 Massachusetts Avenue N.E. Washington, D.C. 20002-4999 (202) 546-4400

May 24, 1990

PRIVATE PROPERTY: THE BASIS OF ECONOMIC REFORM IN LESS DEVELOPED COUNTRIES

INTRODUCTION

The problems of economic growth in less developed countries are taking center stage among policy makers in the United States and in its industrialized allies. As Eastern European countries and Nicaragua reject communism, and as South American countries attempt to protect fragile democracies, the need for a strong economic base is crucial. Equally crucial, the people of these countries must have hope that their hard work and efforts finally will bring them and their families a better life.

Most policy makers at last seem to realize that only free markets can produce prosperity in these countries. But too many policy makers still pay too little attention to the basis of a free market: the right of individuals to private property. This right means that specific persons can own, use, or dispose of material goods exclusively as they see fit without the approval or interference of other individuals or of the government. This means that all exchanges of property must be based on the mutual consent of the original owner and the prospective buyer. Such a system of free exchange defines the market.

Individuals seek material possessions as a means to a more secure and satisfying life. When property rights are denied or their protection is not ensured, there is little incentive for individuals to engage in productive work.

Profit and Loss. Similarly, property rights are essential for business activity. Entrepreneurs must own shops and buildings, stocks of goods, tools, machines, and raw materials in order to produce goods and services for the public. Because the promise of profit and the risk of loss fall on specific individuals, owners have a strong incentive to use their property in the most productive manner possible.

Creating a Middle Class. The economic development of the West is based in large part on the establishment of private property rights and the free market system. This development has allowed, for the first time in human history, the vast majority of people the opportunity to escape abject poverty and to live a secure, comfortable existence. And it has created a vast middle class in Western Europe, North America, various Asian countries, and the rest of the world. This should be the model for less developed countries.

Most poorer countries fail to protect the property rights of their people. In the case of communist countries, private ownership of businesses is restricted to very small enterprises or banned entirely. In other less developed countries property rights are threatened or unprotected. Governments sometimes seize land, business enterprises or banks from private owners, allegedly for the "public good." Often the wheels of the legal and judicial system are not turned by the rule of law but rather by bribes or political influence. Small businessmen and landowners have little protection against arbitrary government action. Inflation is a means by which governments pay their bills by printing paper currency, and inflation has the effect of cutting the purchasing power of people's savings, robbing them of their property by indirect means.

The right to private property, and especially to productive business assets, offers individuals the opportunity to control their own lives and to seek their fortunes through entrepreneurial activities. The market system of free exchange is a mere extension of the right of individuals to control property. As policy makers in the West seek to help Eastern European and other less developed countries to climb out of poverty and create growing, prosperous societies, they should promote as the first reform the establishment and protection of private property rights for all citizens.

Removing Incentives. To promote private property rights, the U.S. and its Western allies first must avoid policies that reward countries that violate such rights. When America's Agency for International Development (AID) or international organizations, such as the World Bank or International Monetary Fund (IMF), give loans and grants to countries that are poor because of their own policies, they simply remove incentives for reform. When America's Overseas Private Investment Corporation of the World Bank's Multilateral Investment Guarantee Agency insures investments by foreign businesses against loss due to nationalization by the host governments, they protect corrupt governments from the economic consequences of their failed policies.

The U.S. should develop an Index of Economic Freedom to establish goals for American development assistance. The Index should set out the specifics of policies for developing countries to protect private property rights, for example, by assuring access to an independent judiciary system when rights are violated or assuring that owners can sell their property for whatever price they can obtain through mutual agreement.

Finally, the U.S. should refuse new funds to any international development organization that fails to place the protection of private property rights as one of its principle means of promoting economic growth in less developed countries.

PROPERTY RIGHTS IN WESTERN HISTORY

The importance of private property rights has been recognized throughout human history. The Greek philosopher Aristotle (384 - 322 B.C.) rejects communism of property, observing:

> ... that which is common to the greatest number has the least care bestowed upon it. Everyone thinks chiefly of his own, hardly at all of the common interest; and only when he is himself concerned as an individual. For besides other considerations, everybody is more inclined to neglect the duty which he expects another to fulfil..[1]

Aristotle maintains that since all men pursue their own self-interests, individuals will best care for that which they own personally. In the ancient Roman world, private property was protected by a sophisticated system of laws, administered and enforced by relatively impartial magistrates.

Rewards of Hard Work. The reestablishment of private property rights was a major cause of the rise of Western Europe from the poverty of the Dark Ages following the fall of Rome in the fifth century A.D. to the wealth and prosperity of the industrial revolution. Under the feudal system, armed barons or lords ruled over peasant farmers who worked the land and were required to turn over a large proportion of their produce to their masters. Further, the peasants were subject to periodic, arbitrary expropriations and special levies. Peasants had little incentive or opportunity to produce anything beyond what was needed for their own subsistence. As the power of the feudal lords arbitrarily to expropriate property was curbed, peasants more and more became subject to a set percentage of taxes rather than to forfeiture of their produce. This meant that peasants had guarantees that they would be allowed to keep most of the fruits of their productive efforts and could become more prosperous the harder they worked.[2]

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1 *Politics*, Bk. II; Ch. 3, 1261 b 33-36. Translation by Benjamin Jowett. In Richard McKeon, *The Basic Works of Aristotle* (New York: Random House, 1941).

2 For a good discussion of the development of property rights during this period, see Nathan Rosenberg and L.E. Birdzell, Jr., *How the West Grew Rich: The Economic Transformation of the Industrial World* (New York: Basic Books, Inc., 1986), especially Chapter 4, "The Evolution of Institutions Favorable to Commerce."

PRIVATE PROPERTY RIGHTS

The basis of the free market system, from which all other market principles derive, is the right of individuals to own private property. This means that the owner has the exclusive right to use or dispose of certain material goods as he sees fit without the permission or interference of other individuals or of the government. An individual also might have property in ideas, for example, a patent on an invention. This means that the owner can determine who uses or produces a new product, a production process, or a service. Since owners have the exclusive right to their property, all exchanges of property between individuals are based on mutual consent of the owners. No person legitimately may use force against another to obtain property.

Property might be acquired for two different, sometimes overlapping, reasons. First, property might serve directly the personal needs and enjoyment of individuals. Most societies, even socialist ones, allow individuals to own clothing, furniture, food, televisions, and other consumer goods. Property for personal use might also include land or a house. When governments restrict access to property, for example, by restricting imports of what they deem "luxury" items, they remove a primary incentive for hard work and productivity. High salaries in less developed countries mean little if people have nothing to purchase.

A second reason to acquire property is for productive use and exchange. A carpenter acquires wood, tools, and a work shop in order to make furniture, which he sells for a profit. A merchant purchases goods of various sorts from different locations in his country or in the world and brings them together in one location for sale to customers. The customers purchase both products and the convenience and savings of time from securing the goods at one location.

Prices and Property

An owner may dispose of his property as he sees fit. Therefore, if he transfers his property to another, the exchange must be based on the mutual agreement of both parties. Ownership thus involves the right to part with property only for a price or under terms that suit the owner personally. There is no "correct" or "just" price for any good, service or labor. The price is simply what a buyer and seller agree to in a given exchange. If the owner considers a price too low, he can keep his property.

Government controls over prices rob individuals of the full use and enjoyment of their property and undermine a free economy. In most African countries, for example, farmers are forced to sell crops to governments for a small fraction of the price they could receive in the free market. Sometimes the government price is below the cost of production. In the African country of Cameroon, for example, in 1986 the government paid farmers only $150 per ton for their crops, even though the world market price was between

$2,250 and $4,500 per ton.[3] In such countries farmers thus remain poor and food production is low.

Competition and Risk

Since in a market system, capital, land, tools, and other factors of production are owned by individuals, individual effort is required to commit such property to the production of goods or services. Further, in a free economy individuals may enter or leave the market as they wish. This gives rise to competition.

Entrepreneurs risk their property to make a profit by providing goods and services to the consumers. The existence of numerous entrepreneurs gives strong incentive for each to work as efficiently as possible. Those who are less efficient will fail to attract customers. Their investment in productive property will not yield a profit. They will lose money and have a strong incentive to take up some other enterprise.

Determinations of what goods or services will best meet public demands and make profits are usually best made by individual local entrepreneurs who are free to risk their own property, to act quickly, and to utilize their knowledge.

There is never a guarantee that the public will purchase enough of an entrepreneur's goods and services to cover his investment or yield a profit. When individuals own property, the risk as well as the profits are limited to the owners. This creates the strongest incentive for the best use of one's property. The results of economic misjudgments by businessmen will be limited to the owners of an enterprise. In a centrally-planned economy, the mistake of one bureaucrat can bring misery on the entire country. In the Soviet Union, for example, the government controls the production of nearly all goods, including soap. Last year, central planners cut soap imports at a time when the major soap factories were closed for renovations. Because no alternative sources of supply were permitted, soap shortages resulted.

When governments own productive assets, there is little incentive for the employees to manage assets in the most productive manner. The employees' personal possessions are not at risk. And a large profit does not go to the employee. In the Soviet bloc, theft of materials and goods by employees from state-owned enterprises is rampant, in large part because no specific individual owner suffers directly from such losses.

The market is an economic laboratory. Businesses experiment by offering goods and services to the public, hoping to discover a way to make a profit. Consumers experiment by purchasing different goods and services, hoping to discover ways to satisfy their needs.

3 Melanie S. Tammen, "The Failure of State Agriculture in Sub-Saharan Africa," unpublished draft, 1988.

Sharing the Risk

Ownership of specified properties, especially businesses, need not be limited to one individual. A number of persons might own shares in property. If two persons, for example, each invest in half the cost of an enterprise, each would assume half of the risks but also would receive half of the profits. In a normal arrangement each share in an enterprise is "severable." This means that the owner can sell his share to someone else. In stock markets shares in enterprises are bought and sold.

Joint ownership allows the creation of enterprises that require investments too large for most individuals. Further, joint ownership spreads the risk of doing business among a number of persons. An individual might invest in various enterprises so that if one fails he will not lose all of his assets.

When joint ownership with "severable" stock is not permitted, production can be discouraged. In Yugoslavia, for example, the workers technically "own" many factories. But they cannot sell their share of an enterprise if they leave. The Yugoslavian economy therefore has not been able to adjust well to changes in market conditions and currently is in very poor shape.

Legal Protection of Property

Private property is a legal as well as an economic concept. A thief, for example, while possessing stolen goods, does not hold it as property. His possession and use of it are illegal and he has no right to it.

Key to the working of a productive market system is the protection of private property by the laws, judiciary system, and government executive of a country. The laws, for example, define what constitutes a contract of sale or when an agreement is breached. An independent judiciary decides disputes over contracts objectively, based on the merits of the case in accordance with the law. The executive branch enforces the law. This also implies strict limits on the powers of government. If the government is constituted to protect life, liberty and property, it must be forbidden itself from violating the property rights of the citizens.

While most less developed countries outside Eastern Europe officially allow private property and enterprise, the governments of many do not protect these rights. Corrupt politicians control the legal and judicial systems for their own interests. Bribery and political influence help a privileged minority at the expense of poorer or less powerful citizens. In Peru, for example, scholars for the Institute for Liberty and Democracy, a private economic research organization, tried to determine how long it would take an honest citizen to obtain a business license by setting up a small enterprise with two sewing machines. They received ten requests for bribes. They refused to pay eight of them, but had to pay two or they would not have received the license. It took a researcher 289 days of full time activity to obtain the license, the delay in large part because bribes were not paid.

A similar effort by the same group found that to obtain title to an abandoned piece of government land and permission to build would take six years and eleven months.[4]

SOCIAL BENEFITS OF PROPERTY

There are a number of important social as well as economic benefits that tend to result from private property rights. Property gives individuals a realm of personal liberty, control, and autonomy over their own lives, free from direct interference by other individuals or the government. Citizens with secure property rights are less likely to seek special handouts or favors from the government, usually at the expense of other citizens. On the other hand, when property rights are limited or less secure, when the economic fates of individuals are in the hands of the government, citizens are more likely to seek political power as a means to secure their prosperity. This will cause social conflict and discord.

The material goods of society are best cared for by private owners. Public housing, for example, tends to receive less care from tenants, since the government will take care of damage or problems in the apartments. When housing is privately owned, however, the owners bear the costs of any damage. No one will bail them out. They have a strong incentive to keep up their property.

Stability and Peace. Private property tends to create self-discipline in the owners. A merchant, for example, must open his store on time, keep up his inventory, make his facilities attractive to his customers. And seeing the results of their efforts, property owners will tend to have a sense of personal efficacy and control over their lives and their fates. They will have a higher sense of self-esteem and pride in their homes or their businesses. A society of citizens who take personal responsibility for their own lives will be more stable and peaceful, with individuals respecting the rights of others.

Finally, citizens with private property rights protected by the government will have a stake in a stable society. They will likely take care to see that the powers of government are enough to constitute a threat to their freedom. An orderly yet free society will be in their self-interest.

VIOLATIONS OF PROPERTY RIGHTS

In communist countries, private ownership of businesses usually is limited to very small enterprises or banned altogether. In other less developed

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4 Hernando De Soto, *The Other Path: The Invisible Revolution in the Third World* (New York: Harper & Row, 1989).

countries, property rights, while nominally recognized, are often violated. This creates uncertainty and severe disruption of the economy.

The most destructive violation is the nationalization or expropriation of private property by the government. In such cases, the government seizes enterprises or industries, sometimes giving usually inadequate compensation to owners, sometimes giving nothing. Often such takeovers are literal armed robberies committed by the government. When the government of Peru tried, unsuccessfully, to nationalize private banks in 1987, troops had to be sent in to eject owners and workers. When the government of Mexico nationalized private banks in 1982, it seized all foreign currency deposits, giving the bank customers, the owners of the currency, Mexico pesos in exchange at a small fraction of the real market rate. As a result of this action, Mexicans smuggled tens of billions of dollars out of their country to prevent them from falling into the hands of the government. This added to Mexico's economic crisis at that time. Last month, Mexican President Carlos Salinas de Gortari, as part of his economic reform efforts, announced his intention to reprivatize these banks.

Inflationary Theft. Governments, especially in less developed countries, often use their control over economies to deprive people of their property through inflation of the currency. In nearly all countries governments control the printing of currency. Most salaries, public and private, are paid in money. Money serves as the medium of exchange in most economic transactions. And much of people's savings is held in the form of money deposits in banks.

When governments cannot raise enough revenue to meet budget needs, they sometimes simply print up enough currency to meet their expenses. But when the amount of currency in circulation increases, there is greater demand for scarce goods and services, forcing prices to rise. Thus, if a government inflates the money supply by 100 percent in a year and prices rise at a similar rate, the saving and purchasing power of the people are cut in half. The government has in effect stolen half of its people's money.

When the currency of a country is so debased, the economy usually grinds to a halt since people avoid holding currency. During the last four years Argentina has seen inflation rates at times exceeding 2,000 percent. In 1985, Bolivian inflation hit 50,000 percent.

A variation of this form of property rights violation is found in the tax codes of many countries. Most codes levy higher rates on people with higher incomes. Thus, a worker making the equivalent of $1,000 per year might pay 10 percent tax, or $100. A worker making $1,500 might pay a higher rate, say 20 percent, or $300. Aside from the questionable wisdom of penalizing people for being productive, this form of taxation is opened to serious abuse. If the government inflates the currency by, say, 75 percent, and the $1,000 wage earner's salary goes up by the same percentage, to $1,750, his tax burden is now 20 percent. He is forced to pay $350. His real purchasing power goes down.

CASES OF PROPERTY RIGHTS AND DEVELOPMENT

As researchers look closer at less developed countries, examples of the benefits of private property rights become apparent.

Peru

In Peru, two housing settlements, the Mariscal Castilla and the Daniel Alcides Carrion, were built adjacent to one another during the same period of time. Both were founded by people of the same socio-economic background. Yet the value of land in the former settlement is twelve times higher than in the latter; the value of the dwellings is 41 times higher in the first. The reason is owing to a legal difference in the classification of each settlement. Mariscal Castilla is legally a "permanent" settlement. This means that the government more or less respects the rights of the inhabitants to their property. The Daniel Alcides Carrion settlement is classified as a "movable" settlement. This means that the rights of the inhabitants are far less secure. The government might move in and take the land at any time.[5]

By not recognizing the rights of the people to their property, the government robs the people of the full value of their land and homes. And it is particularly harmful that citizens with no clear title to their property cannot use such property as collateral to secure bank loans.

The African Sahel Desert

A photograph taken in the early 1970s from the Landsat satellite of the African Sahel desert shows a 20-mile-wide dark green pentagon-shaped area standing out clearly against the lighter surrounding sand and shrub. The sharp, geometric boundaries of this 400-square-mile area show that it is not the result of additional rainfall in the region. The explanation is not climatic. It is legal. The green area is fenced-in private property. The owner grazes his animals on one part of the land while grass grows back in the others. By rotating the grazing from one area to another, the owner always has enough food for his animals.

The barren, surrounding area is common tribal land. It belongs to no one and to everyone. No individual has the incentive or the authority to restrict grazing to certain areas while grass grows back in others. The grass in the common area has long since disappeared.[6]

5 De Soto, *op. cit.*, p. 24.
6 Cited in "Access To Energy" newsletter (Boulder, Colorado), January 1990, p. 2.

Mexico

Land reform in Mexico, beginning in the 1930s, usually involved confiscating property from owners of large tracts of land for redistribution. In most cases the land was not given to individuals but converted into large *ejidos*, which tended to be collective farms. Individuals were not allowed to sell the land or to use it as they saw fit.

Many *ejido* farmers are forced to grow crops specified by the government and to sell these crops to the state for less than the market price. The government then exports the crops and pockets the profit. For example, in Morales province farmers in the 1970s were forced by the government to grow sugar, which earned them between $7 and $11 per hectare per month, and rice, for which they received $26 per hectare. If farmers had been free to use their property as they saw fit, most would have grown tomatoes and hay, which would have fetched $40 per hectare.

Between 1929 and 1959 the average compounded annual production growth in agriculture output was 2.8 percent in the south Pacific region of the country, which is dominated by private farms. In the *ejido*-dominated north, the growth rate was only 0.8 percent.

Tanzania

With the Arusha Declaration of 1967, then-Tanzanian President Julius Nyerere announced his intention to convert his country into a model of African socialism. It became a model indeed, of the economic destruction wrought by socialist violations of private property rights. For two decades Nyerere's government collectivized farming and nationalized nearly all private industry. Central planners, aided by the military, uprooted much of the population and resettled them in 7500 "ujamaa" or "familyhood" collective villages. All crops had to be sold to government monopolies for a state-determined price.

The result: By 1984, government prices for most crops were only half of their 1970 levels, even though world market prices for the country's major crops had increased by 17 percent during that period. Because farmers could not freely own and dispose of property, production dropped. Tanzania went from being a food exporter to a country that could not feed its own people. Nationalized industries fared no better. It is estimated that during the 1980s government-owned factories operated at only 10 to 30 percent of capacity.

Socialist policies in Tanzania created as an unintended consequence a huge black market for all manner of products. Farmers, for example, would sell crops to illegal private merchants. Because the government distribution system was so inefficient, without a private outlet, crops would literally rot in the fields waiting for state transportation to collect them.

El Salvador

During the early 1980s, El Salvador nationalized the marketing of its main export crop, coffee. Farmers were forced to sell to a government monopoly for $38 per 100 pounds at a time when the world price for coffee was around $135 per 100 pounds. The result: Coffee production dropped by 50 percent.

Estonia

A visitor to Tallinn, the capital of Estonia, one of the Baltic Republics occupied by the Soviet Union, notices upon arrival at the airport six or eight planes sitting unused in fields beside the runways, covered with snow. A moderate size commercial plane costs some $15 million to $20 million. This constitutes a capital investment. In the West, most planes are in use for an average of fifteen hours per day. Maintenance is done during the rest of the day. A company that allows its planes to lie unused for days or weeks loses money. The capital invested in such aircraft is idle. In Estonia, the Soviet state-owned airline, Aeroflot, has no market incentive to make certain that its planes are put to the best use. No shareholders in the company lose money. The state bureaucrats running the airline, who do not own the planes themselves, do not profit directly from the most efficient use of these craft. There is a severe shortage of flights in the entire Soviet Union and occupied countries. Because there are no private property rights, capital is underutilized.

Capital Goods In the Soviet Union

In a recent book on the economy of the Soviet Union, *The Turning Point*, authors Nikolai Shmelev, a Soviet economist, and Vladimir Popov, senior economist at the Institute of the USA and Canada of the U.S.S.R. Academy of Sciences, find that "the average service life of tractors and combines is twice as short as it was thirty years ago and is now 1.5-2 times less than the United States rates."[7] Since no one owns Soviet farm equipment, there is no incentive to produce high quality capital products or for the laborers on state farms to demand such products. The authors note that equipment "is in the repair shop almost as often as it is in the field" and that the "fleet of tractors is used less than any other country's: of almost 3 million tractors, 250,000 are out of service because they are inoperative." Private owners of farm equipment could not tolerate such a situation.

Shmelev and Popov found that "at Mechanical Factory No. 1 in the city of Gorky, perfectly good zinc is turned into scrap metal simply to fulfill the plan for non-ferrous metal waste.... "[8] There are no private owners of this factory

7 Nikolai Shmelev and Vladimir Popov, *The Turning Point: Revitalizing the Soviet Economy* (New York: Doubleday, 1989) p. 120.
8 *Ibid.*, p. 113.

and thus no one to be concerned about literally destroying valuable and costly raw materials. Central planners calculate how much waste should result from the production process. Failure to end up with such waste might indicate to planners that the factory is not doing its job, not that the factory is efficient.

Shmelev and Popov also found that "at the Kurgan Bus Factory workers tear apart with sledgehammers the 'extra' parts of the 'GAZ 53' trucks that come partially assembled from the Gorky Automotive Factory, and then assemble buses." Central planners require the Gorky factory to add these "extras." There are no owners of the bus factory who can refuse to purchase chassis that must be partially destroyed to be used. There are no owners of the Gorky factory that can change the orders.

Agriculture in the Soviet Union

In the late 1920s and early 1930s Soviet dictator Joseph Stalin forced most farmers to surrender their land and become employees of collective farms. Today many farmers are allowed to work small, private plots, to sell the produce and keep the profit themselves. These private plots constitute around 1 percent of the total farm land in the Soviet Union, yet they account for some 25 percent of the total value of agricultural output.[9]

Agriculture in the People's Republic of China

China began reform of its collectivized farming system in 1979. First, the limit on the size of the small private plots was raised. Second, farmers were allowed more freedom to choose what they would grow. Third, farmers were allowed to sell much of their private plot output on the free market. The gross value of agricultural output grew from 197 billion yuan in 1978 to 330 billion yuan in 1984, an average annual growth rate of 9 percent after a decade of stagnation.[10]

New fertilizers and machinery were not the cause of this agricultural expansion. Nor were "miracle" seeds and fertilizers. Huge investments of government funds were not necessary. All that was necessary was a change of policy, a law allowing Chinese farmers the right to use their property as they saw fit and to benefit from the sale of its product, thus providing an incentive to be productive.

9 Hedrick Smith, *The Russians* (New York: Times Books, 1976), Chapter VIII.
10 Carl Riskin, *China's Political Economy: The Quest for Development Since 1949*, (Oxford: Oxford University Press, 1987), Chapter 12.

PRIVATE PROPERTY AND THE ENVIRONMENT

Private property rights help a society deal with what are called "negative externalities," that is, the indirect material harm to one person's property by another's action. For example, pollution and environmental degradation, an extremely serious problem in Eastern Europe and many less developed countries, can go unchecked in a country in which all property is owned by "society." After all, how can society act to harm itself? But when property is owned by individuals, pollution often involves harm by one individual or business to the property of another. Individuals can sue in court for damages or have the government order violators to cease and desist.

The function of private property rights can be illustrated in the problem of expanding deserts. One estimate finds that as much as 15 million acres of land each year become desert. This is especially true in Africa and India. Part of this process is manmade. For example, some 90 percent of wood consumed in less-developed countries is burned for fuel while industrialized countries rely primarily on oil, coal and nuclear fuel. In most of the heavily harvested regions the land is owned by no one.[11] This results in the "tragedy of the commons," a term referring to overuse and destruction of pasture land in England in the centuries before the Industrial Revolution. Everyone had an incentive to graze as many animals on the land as possible since there were no direct costs to owners of flocks. No individual had an incentive to conserve common resources. All had an incentive not to abstain from using resources while others made full use of them. In the case of expanding deserts in Africa, for example, if individuals had had to pay for wood, they would have had an incentive to seek more efficient ways of using this fuel, perhaps by using small furnaces, rather than open burning, which causes most of the heat to be wasted.

Flammable Water. In the wake of the revolutions in Eastern Europe and the openings in the Soviet Union, the scope of environmental damage is becoming clear. In the Republic of Estonia in the Soviet Union, for example, the ground water in places is flammable. This is because jet fuel at Soviet military airbases is routinely dumped into the ground, and over the decades the ground water has become so contaminated that it burns.

If individuals had had property rights in land and the water under it, they could have sued for damages or to stop such pollution.

11 Robert J. Smith, "Privatizing the Environment," *Policy Review* No. 20 (Spring 1982), p. 39.

WESTERN SUPPORT FOR PROPERTY RIGHTS

As the U.S. and its Western allies face the need for economic growth in Eastern Europe, Latin America and Africa, they must pursue policies that first and foremost protect private property rights. Initially, this means denying assistance to countries that violate the rights of their own people. When America's Agency for International Development (AID) and such international organizations as the World Bank and International Monetary Fund (IMF) give grants and loans to such countries, they simply protect those countries from the consequences of their ill-conceived policies, bailing them out and leaving them with little incentive to change. Lectures from foreign development officers to leaders of less developed countries on how this time a country must reform its policies fall on deaf ears as long as the money from overseas keeps flowing in.

The U.S. government and the World Bank in one sense both recognize that political threats to private property by governments in less developed countries result in lost foreign investments and slower economic growth. Yet the U.S. government's Overseas Private Investment Corporation (OPIC) and the World Bank's Multilateral Investment Guarantee (MIGA) shield less developed country governments from their self-destructive policies. Both OPIC and MIGA provide insurance for foreign investors against the danger of nationalization by the host government or other forms of political abuse. Governments thus can avoid the adverse economic consequences of their violations of property rights. Such insurance in fact is available privately, but at high market rates that reflect the true risk of such investments.

Setting Goals. To promote the protection of private property rights in less developed countries, the U.S. should develop an index of Economic Freedom to set specific goals for foreign assistance and to gauge the effectiveness of assistance programs. Among the goals for such an Index: The legal rights of all citizens to own property, protected by the government and an independent judicial system; freedom of individuals from undue regulations of their businesses; the right of owners to dispose of their property for a price set by the mutual consent of the buyer and seller; a low, flat tax rate that does not penalize productive economic activity. Such an index was introduced in the Senate in 1989 (S-1347) and included a rewriting of the Foreign Assistance Act of 1961 that passed the Senate that same year.

Such an index should be used to guide development programs at AID. For example, to help protect these rights the U.S. could assist countries in developing or choosing a uniform commercial code which would define when a contract has been made, what obligations are implied by a contract and when a breach of contract occurs. Further, the U.S. government should use such an index to guide the policies they promote through the IMF, World Bank, and other international development organizations.

The U.S. also should refuse to make new contributions to the IMF, which is seeking additional lending authority of $60 billion, or to join the new European Bank for Reconstruction and Development to aid Eastern Europe unless it receives assurances that those organizations will guide their policies by an Index of Economic Freedom meant to protect private property rights.

CONCLUSION

Ultimately, personal and political freedom cannot be sustained without economic freedom, that is, the right to private property. Material possessions are necessary for the achievement of any goal in human life. If a person is dependent on the government for his material needs, if he is forbidden to own personal property such as a house, or productive assets such as land, tools or factories, he will not be free in any meaningful sense of the word.

The free market is merely an extension of the right of individuals to own, use and dispose of private property as they see fit. Protection of property rights is what separates free, prosperous societies from impoverished, repressive ones. The empowerment of individuals with private property rights gives each person the opportunity to create the material means for his own well being and to control his own life and destiny.

Fundamental Step. Policy makers today in the wealthy, industrialized countries have a historic opportunity to promote in less developed countries the policies that will do away with the distinctions between "rich" and "poor." The statist policies in communist countries in Eastern Europe and socialist countries in Latin America and Africa have produced seemingly intractable poverty that is resulting in political revolutions and the establishment of democracy. But this is not enough. The establishment of secure private property rights, protected by law from abuse by other individuals or by governments, is the most fundamental step a country can take to ensure liberty, democracy and prosperity.

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CONCLUSION

[illegible]

The [illegible] should [illegible] rights is [illegible] be [illegible] during and [illegible]

[illegible] countries have [illegible] that still [illegible] successful policies at communist countries [illegible] countries in Latin America and [illegible] have produced [illegible] poverty that is resulting [illegible] and the establishment of democracy. But this is only [illegible]. The [illegible] rights, [illegible] from [illegible] government, is the [illegible] step [illegible] liberty, democracy and prosperity.

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