

## **What Causes Prosperity?**

*Two roads diverged in a wood, and I--  
I took the one less traveled by,  
And that has made all the difference.<sup>1</sup>*

Two former British colonies, Botswana and Zimbabwe have taken different paths. Botswana has made leaps and bounds in economic growth. Yet Zimbabwe, once labeled as the *jewel* of Africa, has stumbled. Today, Botswana is a model to the world as one of the most dynamic economies of Africa. Zimbabwe is infamous for its frenzied land redistribution policies leading to a crippled economy.

Botswana's pride is its reverence for property rights, whereas Zimbabwe has destroyed whatever traces of the institution it had. The economic difference between these two countries is glaring – Botswana has maintained one of the world's highest economic growth rates since independence in 1966.<sup>2</sup> On the other hand, Zimbabwe, has watched prosperity slip farther and farther away.

The two extreme examples brings up the question, “What causes prosperity?” More often than not, we come up with ‘structured property rights’. This is not a novel concept. The pilgrims to the United States have considered it thoroughly. We come across Arthur Lee's famous

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<sup>1</sup> Frost, Robert. *Mountain Interval*. New York: Henry Holt and Company, 1920; Bartleby.com. 20 November. 2005 <[www.bartleby.com/119/](http://www.bartleby.com/119/)>

<sup>2</sup> *Botswana*. 01 Nov, 2005. The World Factbook. 10 Nov. 2005 <<http://www.cia.gov/cia/publications/factbook/geos/bc.html>>

statement: “*The right of property is the guardian of every other right, and to deprive a people of this is in fact to deprive them of their liberty.*”<sup>3</sup>

The economic term, “*tragedy of commons*” exemplifies the implications of private ownership of property. It is not by mere chance that we observe economic prosperity among nations that have promoted freedom of trade, enterprise, choice and perhaps the most important, ownership of property. Boettke, in his article (2005) states that, hardly any economic concept has proved to be as significant as that of private property rights. And the prosperous nations have shown the meaning of his words throughout history. By trotting the proverbial globe, we can identify the ‘prosperous’ regions – Europe and North America. Using simple generalization, we notice the presence of certain similar ideas in them; one of them being the long standing history of well defined property rights.

Now let us not confuse ‘freedom to own private property’ with absolute freedom from government intervention as in *laissez-faire*. The role of the government limited to reinforcing property rights in a country along with transparency in property laws is imperative. Hence in the examples of Botswana and Zimbabwe, it is evident that intervention from the government has played a vital role to the economic differences that they have attained. They are at the extremes of the spectrum of economic prosperity – owing largely to their interpretation of ‘property rights’.

However in order to enforce property rights, its very definition is necessary. The online encyclopedia Wikipedia defines it as a *bundle* of rights protected by the state. The state may or may not be the owner of the property in question. Essentially, the rights allow the owner to control its use, to benefit from the ownership, to transfer and to exclude others from the piece of

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<sup>3</sup> Arthur Lee. *Citizens’ Alliance for Property Rights Homepage*. (ND). Citizens’ Alliance for Property Rights Homepage. 23 Oct. 2005. <<http://www.proprights.org/>>

property.<sup>4</sup> A capitalist economy provides only the title-holder with the right to do as he wishes with his property. For dispute settlement or transfer, he can supply the legal documents to assert his authority. Besides, generally speaking, property can be classified into three categories – real property (example, real estate and capital goods), tangible personal property (example, books and clothes) and intangible personal property (example, social security).<sup>5</sup>

One cannot stress enough on the point of limited yet sound role of the state in establishing a well defined and efficient system of property ownership to bring about prosperity. However, this idea, at times, seems oversimplified for some developing nations. Ebeling states, “*Effective ownership of property is not recorded in any of the official registries and ledger books, creating the impression of a greater degree of poverty, backwardness and lack of entrepreneurial activity than is actually the case.*”<sup>6</sup> Word of the mouth is sufficient to transfer property in the third-world. This deprives the *apparent* owners from having complete rights to the property. With the informal sector prevailing investment and business decisions, economic growth is hindered.

What is more, Peruvian economist Hernando de Soto believes that there is a basic economic distinction between the rich and the poor economies. It is the distinction in their understanding and implementation of property rights. In the poorer economies, exists property and its rights; but the rights are ‘defined’ *informally*. De Soto claims that the poor in these countries own enormous amounts of wealth collectively. The problem lies in the fact that most of this wealth are without legal titles and so, are not recognized by the legal and political authorities.

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<sup>4</sup> *Property (ownership right)*. Wikipedia, the free encyclopedia. < [http://en.wikipedia.org/wiki/Property\\_rights](http://en.wikipedia.org/wiki/Property_rights)>

<sup>5</sup> Rounds, C.E. Jr. “Property Rights The Hidden Issue Of Social Security Reform.” 10 Nov. 2005  
< <http://www.socialsecurity.org/pubs/ssps/ssp19.pdf>>

<sup>6</sup> Ebeling, R. M. “Titled Real Estate.” *A World Connected*. (N.D.). 10 Oct, 2005.  
<<http://www.aworldconnected.org/article.php/877.html>>

Without the official titles, dealing in the national and global financial markets becomes extremely difficult. Such property cannot be used as collaterals. Hence it is easier to transfer capital in the developed world in comparison to that in the underdeveloped countries. For example, in the United States, the buyer's credit history vouches for him during a purchase. In the third-world, such a *thought* is almost utopian. (Thus, standard of living finds it difficult to elevate itself in the developing world.

Once everybody in the country is aware of his respective claim on the property, it is up to the government to enforce the right. In his *Mystery of Capital*, de Soto claims that the developed nations in the West, at some point, have gone through the transition from having predominantly informal ownership of property to well-defined, and well-enforced legal ownership. The concept has now become ingrained into the 'Western civilization'.

Given that, once the concept of property rights is fully defined and enforced, the question of linking it to prosperity comes up. Looking back in time, Ludwig von Mises and F. A. Hayek, in their critique of socialism stated that without a clear concept of "mine" and "thine," there is no institutional basis for exchange. This triggers a spiral effect. Money loses its functionality on the market, profit and loss signals are distorted and eventually allocation of resources becomes difficult. All in all, economic prosperity seems impossible without clearly defined and enforced property rights.<sup>7</sup>

Considering the more recent example of Zimbabwe, the government's intervention has actually seized property rights from some of its citizens. In 2000, the *fast-tracts* land reform was employed. The Zimbabwean government led by president Robert Mugabe erroneously aimed to reduce inequity in distribution of land between the whites and the blacks by this policy of

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<sup>7</sup> Boettke, P. "The Role Of Private Property In A Free Society." *Virginia Viewpoint*. April, 2005. 02 Nov, 2005. < [http://www.virginiainstitute.org/viewpoint/2005\\_04\\_2.html](http://www.virginiainstitute.org/viewpoint/2005_04_2.html)>

confiscating the commercial lands. Such lands were owned by the white farmers and were lush and green. The communal lands owned by the black farmers were dry and dusty. This disparity had little to do with the climate. The government failed to realize the fact that the commercial farms had secure property titles, providing the farmers incentives to make the maximum profit from their resources. The larger of these farms employed about 350,000 black workers and often provided money for local schools and clinics. Small-scale commercial farms, run by about 8,500 black farmers, had access to credit and were also productive.<sup>8</sup> The communal lands, on the other hand were parched and eroded. With the lack of property rights, squabbles over them were omnipresent and the incentive to maximize productivity was practically absent.

As a matter of fact, the outright effects of the onslaught on property rights in Zimbabwe are manifold. FDI dropped to zero by 2001, because investors were fearful of their assets being attacked next. Numerous banks collapsed, because now there were far less collaterals for investment. The ripple effect adversely hit all kinds of economic activity in the economy.<sup>9</sup> Seven hundred companies closed by the end of 2001 as industrial production declined by 10.5% in 2001 and an estimated 17.5% in 2002.<sup>10</sup> Once the land from the commercial farmers was ‘redistributed’, the Zimbabwean economy plunged into a recession. By 2003, the country saw

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<sup>8</sup> Richardson, C.J. “How The Loss Of Property Rights Caused Zimbabwe’s Collapse.” *Cato Institute Economic Development Buletin Project on Global Economic Liberty*. 14 Nov 2005. 15 Nov. 2005. <  
<http://www.cato.org/pubs/edb/edb4.pdf>>

<sup>9</sup> Richardson, C.J. “How The Loss Of Property Rights Caused Zimbabwe’s Collapse.” *Cato Institute Economic Development Buletin Project on Global Economic Liberty*. 14 Nov 2005. 15 Nov. 2005. <  
<http://www.cato.org/pubs/edb/edb4.pdf>>

<sup>10</sup> “Bankers Slam Zimbabwe’s Policies,” *BBC News Online*,  
September 4, 2001, <http://news.bbc.co.uk/1/hi/business/1524821.stm>.

500% inflation and the currency lost 99% of its real value.<sup>11</sup> Today, it has the lowest real GDP growth rate in the world (-8.2%).<sup>12</sup>

Surprising a few, Botswana climbed up the ladder, although its neighbor Zimbabwe fell on its face. After its independence, adoption of sound economic policies has raised Botswana to an upper middle income economy (with a per capita GDP of \$9200 in 2004) from one of the poorest countries in the world. It enjoys a growth rate of 3.5% (2004), a current account surplus, low external debt and benefits from hosting FDI.<sup>13</sup>

The key difference, to a large extent, is the fact that the government maintained the institution of private property is among the more influential factors that explain this remarkable growth. Some economists give credit to the British institutions left behind. If this is true, then Zimbabwe and the other former British colonies should have been cruising along the same fast lane. However, Botswana has valued property rights from its aboriginal times. Besides, its trust in free-market has allowed foreign investors and foreign aid to make their contribution to the economy.

In addition, although Botswana have had both *black* farmers and *white* farmers, it did not engage in fruitless redistribution of land. But instead, the government of Seretse Khama cooperated with the white farmers. In other words, the state established the *rules of the game* effectively enough for the private sector to flourish.

Lastly, like in constructing an edifice, once the foundation is solid and set, further growth is possible. Similarly, establishment and enforcement of efficient property rights lays out the

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<sup>11</sup> International Monetary Fund. Zimbabwe: 2003 Article IV Consultation—Staff Report. (Washington: IMF, July 2003), p. 28.

<sup>12</sup> *Rank Order - GDP - real growth rate*. 01 Nov, 2005. The World Factbook. 10 Nov, 2005. <<http://www.cia.gov/cia/publications/factbook/rankorder/2003rank.html>>

<sup>13</sup> *Botswana*. 01 Nov, 2005. The World Factbook. 10 Nov, 2005. <<http://www.cia.gov/cia/publications/factbook/geos/bc.html>>

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foundation of economic prosperity of a nation. Only then the implementation of free-market maximizes economic growth.

In conclusion, the causes of prosperity can be traced back to the histories of the prosperous nations. The contrasting cases of Zimbabwe and Botswana have shown the extent of importance of property rights on an economy's opulence. With the aid of legality in ownership of private property, the *invisible hand* can show its magic. Free market bestows the nations with the ability to make a choice – to choose the road that leads to prosperity.

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