

JEDER MENSCH BRAUCHT  
FREIHEIT, UM SEINE  
ANLAGEN UND FÄHIGKEITEN  
ENTFALTEN UND  
VERWIRKLICHEN ZU KÖNNEN.  
DAS ERHÖHT SEIN  
VERMÖGEN, SICH FÜR  
VERFALLEN KULTUR UND  
WISSENSCHAFTEN, STAGNIERT  
DIE WIRTSCHAFT,  
GEISTIGES LEBEN BRAUCHT  
FREIHEIT GENAUSO, WIE DER  
KÖRPER DIE LUFT ZUM ATMEN.

## Liberales Institut

# LIBERTY –

# THE BEST REMEDY AGAINST POVERTY

Otto Graf Lambsdorff

*Position Liberal*

Impressum:

Published by  
The Liberal Institute of the  
Friedrich Naumann Foundation  
Truman-Haus  
Karl-Marx-Str. 2  
D-14482 Potsdam

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Production  
Dienstleistungen Comdok  
Eifelstr. 14  
D-52757 Sankt Augustin

Printed by  
p.altmann-druck GmbH  
Mahlsdorfer Str. 13-14  
D-12555 Berlin

Design  
gleis 7  
atelier für realisation  
Rethelstr. 22-26a  
D-40237 Düsseldorf

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**LIBERTY –  
THE BEST REMEDY  
AGAINST POVERTY**

*Position Liberal*

Occasional Papers Series of the Liberal Institute  
of the Friedrich Naumann Foundation



*„There is a heartfelt and near-universal refusal to understand the basic economic principles behind the creation of wealth“  
(P.J. O'Rourke)*

## The Challenge of Poverty

Mass poverty remains a challenge to the global community. According to the World Bank, in 1998 1.2 billion people lived in absolute poverty, i.e. with an income of less than 1 \$ a day, almost half of them in South Asia. Although poverty has decreased somewhat, it remains the biggest challenge to mankind.

The consequences of poverty are so pernicious that they bear repeating: First of all, poverty has a de-humanising effect. It inflicts daily suffering through hunger and through the constant frustration of even the simplest aspirations. It brutalises people, both through pushing some poor people towards violence, but also through poisoning human relationships, especially within the family. Poverty is an important factor in violence against women. When the lot of poor people improves, one of the most noticeable changes that women in South Asian villages mention is more harmony in the family, i.e. less domestic violence.

Poverty keeps poor people from realising their inherent human potential. Without access to education, poor people are severely restricted in developing their talents, their capacity, their productivity. In an age that pays so much lip service to the importance of education and of human resource development, the billions of people locked out of these opportunities represent a waste of human potential on a massive scale – for the individuals, but also for society as a whole. Many people do not realise the relevance of this; instead, they fret about overpopulation and believe this to be the main problem. Mass poverty thus becomes the fault of the poor – a truly cynical approach, and very much at variance both with historical experience and economic theory. No rich country has become poor due to a rise in the birthrate, and economic growth has always been driven by densely populated cities, not by thinly populated

rural areas. Economic theory teaches us that generation and distribution of national income is a dynamic process, dependent on many variables, of which the size of the population is only one – and one which actually has a positive influence if one accepts that each person has the potential to contribute to economic and social development. It is only in societies which have created dysfunctional systems producing stagnation instead of dynamism and which do not allow people to realise their potential that population growth comes to look like a problem. Such dysfunctional systems exacerbate the problem since they create perverse incentives for the poor to have large families: as a form of old-age insurance and additional labour to enhance marginal family income.

Poverty has serious political ramifications. It forces people into unequal relationships which severely limit their freedom, and exposes them almost defencelessly to the predatory behaviour of others. The daily struggle for survival usually does not leave the poor time or space to participate independently in the political life of their community or nation. Their interests go unrepresented and are consequently neglected. They are usually forced to attach themselves to some patron, be it the „big man“ in the village, the slumlord, the labour agent: they have no choice but to „sell“ their political rights to such a patron who provides them in turn with a modicum of security, a situation that seriously threatens democracy. Societies managed to transform themselves into real democracies only when poverty was reduced and such patron-client-relationships became less dominant.

Poverty is therefore a huge challenge for Liberals, both for their vision of humanity and their vision of a just liberal society. Liberals believe in the principle of freedom of the individual and a set of inalienable human rights. Extreme poverty is a daily attack on the right to life of an individual and therefore cannot be tolerated by liberals. Moreover, a person struggling for physical survival has very few choices in life where he or she could experience individual freedom. A realisation of individual liberty throughout society presupposes an alleviation of mass poverty.

Liberals have unfortunately failed to make this point forcefully. They have also often forgotten the roots of the liberal movement: it was very much a

movement against feudal domination that not only stifled political, religious and cultural freedom, but also economic freedom, and it was recognized at the time that this was a cause of mass poverty. Such structures of quasi-feudal domination still exist in many developing countries, even if the nomenclature of the feudal lords has changed; often they are no longer members of an aristocracy but of a parasitical class of socialist bureaucrats and politicians extracting rents through over-regulation and corruption or through running vast empires of nationalised industries and banks. Liberalism could become a truly revolutionary movement in many developing countries that could represent the hopes and aspirations of the poor, too – if liberals learn to speak their language and conceptualise reforms on the basis of their needs.

The liberal response to poverty has also been hampered because it is, to some extent, counterintuitive. The basic human reaction to poverty is to help the poor. Liberals, instead, have talked about freedom both as an instrument as well as the objective, and this seems to many to be too abstract an approach. Behind this lies a deep dilemma. At a very basic level, help is certainly necessary for those who are too downtrodden to help themselves. However, help can become a permanent feature and make people dependent.

Far more important, it is usually forgotten how people have historically escaped poverty throughout the world: through their own efforts, their hard work, thrift, their investment in education, their willingness to move in search of better opportunities, their willingness to try something new, to take risks. As Lord Bauer famously pointed out, if outside help had been a necessary condition of poverty alleviation, we would all still be living in the Stone Age. While there are undoubtedly some individuals who are too downtrodden to help themselves, this does not hold true for the bulk of the poor. They do not need help; they need access to opportunities, and they need the protection of the law to escape domination by powerful groups or individuals who tend to appropriate the fruits of their efforts.

Not incidentally, liberalism has always put great emphasis on stable private property rights, since private property is an important safeguard of

individual liberty. It has often been argued that the liberal concern with private property reflects the interests of the propertied classes, but that is only a small part of the picture. The poor need this even more, because it is their right to such property as they have that is often either unrecognized by the law or unprotected by the judicial system.

The liberal concern for private property also has to be seen as an objective of state policy: the state should enable all citizens, especially the poor, to acquire private property. This is substantially different from, or even the opposite of, socialist policies which want the state to limit or even confiscate private property in order to finance transfer payments to citizens. Liberals are sceptical about the value of transfer payments as these introduce an element of dependency, while acquiring property increases financial autonomy and thus strengthens individual liberty.

There are, of course, instances where transfer payments of some kind will be necessary, for example through self-targetting instruments like food-for-work schemes that are effective in preventing starvation, especially in the case of natural disasters. Such transfers are certainly superior to price controls, e.g. on food, which are often imposed in the name of the poor but have serious economic consequences as they distort economic incentives. Artificially low food prices can do serious harm to farmers, depressing the rural economy with grievous consequences for the employment opportunities of the rural poor, who form the bulk of the poor of this world.

Whenever possible, though, liberal social policy will explore whether there are instruments that help poor people to acquire more property, rather than offering a new entitlement. If compulsion is unavoidable, liberals will therefore prefer to force people to save money in individual retirement accounts or insurance schemes like health or unemployment insurance, rather than forcing them to pay tax and distribute the money to people vested with some entitlement or another. The forced saving/insurance road allows operation by efficient private agencies, controlled by governmental regulation that might include a reinsurance requirement. The taxation/redistribution approach, on the other hand, necessitates the setting up of a huge welfare bureaucracy that will eat

up a significant part of the resources. Note that in both cases the state assumes a responsibility to protect people from economic risks, but the instruments employed are radically different. Not only is the savings/insurance route likely to be cheaper and more efficient, it also produces savings that can be invested, provided there is a functioning capital market. This additional investment will contribute to economic growth, whereas a redistributive welfare bureaucracy constitutes a deadweight loss for the economy – and the poor pay a heavy price for this wastage.

A likely objection in this context will be that savings and insurance schemes are irrelevant for the majority of the poor in the Third World. Nothing could be further from the truth. There is a plethora of studies that have shown that the poor have truly astonishing savings rates. What they lack are easily accessible financial instruments. In many countries, financial systems have been nationalised, and the hurdles faced by a poor illiterate person who dares to try opening a bank account have to be seen to be believed. But when professional financial institutions have been set up catering specifically for the poor, such as the Grameen Bank of Bangladesh, the savings deposited by the poor have quickly reached amazing proportions, and some such institutions have also successfully developed basic insurance schemes for the poor. This should not come as a surprise: private local cooperative banks or savings-and-loans associations have played a great role in Western economic history. We are only rediscovering what has worked before, after a truly costly detour in many, if not most, developing countries via state-run financial institutions. These have excluded the poor and siphoned rural savings into the cities where they were „invested“ in now-decrepit state-owned industries or phoney schemes of politically well-connected crony capitalists. Unfortunately, in many countries this perverse process continues. The need of the hour is to get the state out of running financial institutions and to let it focus instead on creating the proper legal framework for private banks and insurance companies of all sizes, especially for simple financial institutions in rural areas. Also needed, of course, are effective institutions of banking and insurance supervision that are kept at arm's length from political interference.

Unfortunately socialists seem to have somehow managed to convince most people that the creation of a huge welfare bureaucracy is the only ethically sound response to the challenge of mitigating poverty. This recourse to emotion serves to suppress reasonable debate about the effectiveness of alternative instruments. This is pernicious for the poor, as the examples of education and health care will show.

## Education and social mobility

There can be no doubt that education is a crucial element in the fight against poverty. It can equip people with marketable skills that enable them to find better jobs than their parents and hence to climb up the social ladder. Education for all helps to reduce the discrimination faced by women. Education of girls demonstrably reduces birth rates by postponing marriage, giving them access to information about contraception, and about better health care for the family, especially for infants, thus lowering infant mortality. Needless to say, education also enables people to acquire information, including on things political, stimulating debate and ultimately strengthening democracy and liberty.

If the aim of education is to improve social mobility, the quality of education imparted to the poor should assume critical importance – we write „should“, because strangely enough, many educational reformers who claim to have the interests of the poor in mind have been much more concerned about quantitative aspects, i.e. to give educational degrees to as many people as possible, with scant regard to the quality of such a degree. The result is a cementing of social stratification. Curiously, this can be observed in developed countries such as Germany as well as in many developing countries.

One reason for this is that the provision of education has been entrusted to a government bureaucracy, often a centralised one, without asking the obvious question whether bureaucracies are the right instruments for supplying education. This has come about probably because most people, including most liberals, agree that it is the duty of the state to ensure access to education for all. But even though we agree that this is

indeed the duty of the state, it does not logically follow that therefore this has to be implemented through a government bureaucracy. However, the inherent tendency of bureaucracies to grow and multiply has ensured that this was done almost everywhere. Anyone questioning this bureaucratic imperialism has been accused of trying to destroy universal access to education, a deadly charge in any democratic society.

The results have often been pernicious. In most countries of South Asia, e.g., the quality of education in government schools is so bad that people go to great financial hardships to send their children to private schools which offer a significantly better education – often with English as the medium of instruction. However, in rural areas such private schools are rare, so the urban poor and most of the rural population have to make do with government schools of rather low quality or get no education at all. Since at least 40% of the education budget in India, Bangladesh and Pakistan is spent on the Universities – mostly attended by students from middle class families – there is not enough money for primary schools to give all children at least rudimentary literacy.

Giving people more control of their local school by devolving responsibility for education from a central ministry to municipalities and villages would be one important step. The central government could concentrate on setting and enforcing educational standards. This separation of tasks would enhance the transparency of spending on education, as parents will probably find it easier to control what is going on at the municipal or village level. Separating the organisation that sets standards from the implementing organisation would probably also enhance the quality of education. An element of competition could be injected by publishing results of different schools and rewarding good schools while punishing bad ones. Various such reforms have been tried with some success.

A more radical approach would be the acceptance of reality. The reality, at least in urban areas, is that there is a thriving market for education, but the poor cannot participate in it. The government could give the poor access by paying the cost of sending their children to a school of their choice, e.g. through a system of vouchers. The government would set standards and educational objectives and would concentrate on

monitoring and enforcing these. Government schools would not get budgetary support any more and would have to finance themselves by attracting students, i.e. by offering better quality. Such a system would create a very healthy competition among schools. Parents would choose schools on the basis of the quality of education offered, since the voucher system ensures that they could not divert money for other purposes. The schools would be compelled to look for the most cost-effective way of providing quality education. Schools that compromised on quality would lose students, schools that didn't control costs would go bust. The creation of a competitive market in education would also give parents more choice in the type of education that their children receive, particularly if schools run by religious organisations are included. This would, of course, raise the potential conflict between state-set curricula and religious values propagated by schools, but a compromise is surely possible in the interest of the poor. Anyone who has, for example, seen the superior performance of private, i.e. usually catholic, schools in American urban ghettos compared to state schools will probably feel that it is worthwhile to find such a compromise. In the USA, accordingly, some promising experiments have started with such schemes. Not surprisingly, the state bureaucracy hates such ideas and resists them tooth and nail, as it resists measuring the quality of the education it imparts. But as long as quality is not the undisputed aim of educational reform, the poor will remain deprived of the most powerful instrument of social mobility available; and society as a whole will be deprived of the potential laying dormant in poor children. The price extracted by the education bureaucracy is a shamefully large one.

## Health Care

A parallel argument can be made with regard to health. The poor face much higher health risks, and the absence of quality health care facilities causes untold misery, suffering and premature death – again, at a brutally high cost to the individuals as well as society as a whole. Again it is widely agreed that the state has a duty to ensure basic health services for all, and again socialist-minded politicians and self-interested bureaucrats have used this as a pretext to create a huge, often centralised,

health bureaucracy. Therefore the state, in many developing countries, has committed itself to provide free universal health care, and in practically all of them the health care actually delivered is of very low quality. As in the case of education, this massive (if predictable) failure has spawned a thriving private health care market, which caters to all who can somehow afford it. The poor, too, are forced to spend heavily in the private health market, because the supposedly free state services are either nonexistent, useless or only accessible after paying a hefty bribe. As in the case of education, there is ample scope to explore different instruments that the state could use to ensure health care for the poor: health vouchers, support for private basic health insurance schemes, or, at least, decentralisation of the responsibility – and the budget! – to local government.

Depressingly enough, such liberal reforms of education and health systems are few and far between. The reason for that is not that they are unrealistic; the reason is that there are small, but powerful vested interests ranged against such reforms: the central bureaucracy that would have to shrink or vanish, but also the politicians who use the system for patronage. They attack all reform proposals by creating fear that change will mean higher costs for the poor, and so far their emotional smoke-screen has not been effectively pierced by the a liberal beacon of rationality.

## **Some economic growth is needed, too...**

The question of how to give the poor better access to economic opportunities is another central issue. First and foremost, this requires a dynamically growing economy. It is yet another socialist folly to ignore or at least downplay the issue of economic growth when dealing with the task of poverty alleviation. This again is explicable only by the preoccupation of the left with entitlements and interventionist bureaucracies – and by the uncomfortable fact (from the leftist point of view) that liberal economic policies, especially free trade, have been much more successful at producing lasting growth than policies of state intervention – so much so that environmentalists attack liberalism, and especially trade, for producing too much economic growth!

The plain truth is that classical liberalism, under which free trade flourished, has been the most successful economic strategy in world history. In the 19<sup>th</sup> century it put an end to famines in Europe, which hitherto had been seen as the inevitable lot of mankind. We tend to forget that, for instance, in 18<sup>th</sup> century France there were nine famines which killed more than 5 per cent of the population. When we see famines today, we will only find them under non-capitalist, non-liberal and non-free-market dictatorships such as North Korea. The era of free trade in the 19<sup>th</sup> century for the first time in human history made wealth for all possible. That the free market is a source of wealth today is unquestionably true. Empirical data confirm this.

The Friedrich Naumann Foundation is one of around 52 co-publishers of an annual study called „Economic Freedom of the World“ which was originally masterminded by Nobel-Laureate Milton Friedman. The purpose of this study is the measurement and the comparison of economic freedom in 123 countries. Measurable indicators like the tax rate, the share of government in GDP or the amount of trade restrictions are used to find the place for each country in a comparative ranking. This is not of mere academic interest. The study has clearly shown that there is a remarkable correlation between economic freedom and economic growth. Conversely stated, the heavier the burden of government on the individual, the more stagnant the economy. This does not come as a surprise to liberal economists who have always believed that economic dynamism depends on individual initiative, creativity and risk-taking, and these traits require freedom to flourish. But common sense unfortunately has not always guided the formulation of economic policies.

It has also been shown by correlating the results of „Economic Freedom of the World“ with other criteria of „standard of living“ rather than mere growth rates, that the freest countries of the world have lower poverty rates, less illiteracy, less corruption and a higher life expectancy than the unfree ones. Again, common sense would suggest this, because economic growth creates the resources needed to solve humanity's most pressing problems; but the myth that the benefits of growth do not reach the poor is a powerful one – the old saw about the rich getting richer and the

poor poorer. This belief is demonstrably wrong, as historical experience and the empirical evidence of the „Economic Freedom of the World-Index“ show, but the belief seems to be impervious to facts. It is probably due to the failure to grasp the one insight of economics that is somewhat counterintuitive: that an economy is not a zero-sum game, that my economic gain is not based on your loss, that both sides in a free and voluntary economic exchange gain – that, in other words, we can all grow rich together, if maybe at different speeds.

But what does this study say about those „left behind“? We all hear that the gap between rich and poor countries is widening. This is actually true. In the third world there are poor countries with zero or even negative growth rates, while most economies in the first world are – at least moderately – growing. But this will only be fully understood if, again, one correlates it with the degree of economic freedom. The result: the group of the poorest and least growing countries is almost totally identical with those who have not opened their economies and constantly interfere with the freedom of their people. Yes, there are people who are „left behind“, but they are not the victims of free trade or globalisation. They are victims of their own governments!

A growth rate taken in aggregate, one could argue, does not say much about the internal distribution of wealth. In the industrialised countries, so the media say, the liberalisation of the economy may have created new jobs, but those were only unqualified trash jobs or „McJobs“, as the pundits say in order to add the usual anti-American undertone to the argument. The „working poor“ is the new stereotype that is supposed to give some rhetorical ammunition for the crusaders against globalisation and free trade both on the right and the left. Even if this were true it still would be better than the exclusion of the less qualified from the labour market that is practised by the over-inflated welfare states in Europe. But it is – at least in the way it is generally presented – not true at all. Not only did the new technologies not destroy jobs. They created new and better ones.

Those countries that kept their markets fairly open saw an increased demand for highly qualified employees rather than for low qualified

workers. In the US 55 % of the jobs created between 1983 and 1996 were highly qualified, about 32 % required medium qualification, and only 18 % were low quality jobs. If one looks at the distribution of income within countries, the poorest and economically most unfree countries also have bigger income inequalities than the economically free countries. Sometimes one just should take a look at the figures to find out what is behind the common stereotypes on economic freedom and global markets. On the global level, therefore, the conclusion should be to energetically continue with the multilateral liberalisation of trade under the auspices of the WTO, argues Professor Jagdish Bhagwati, a leading authority on trade issues, in a recent article titled „The poor's best hope" (The Economist, June 22, 2002). He chastises governments of developing countries for failing to see the harm that their long love affair with protectionism has done to their economies, and for the mistaken belief held by many of them that rich-country protectionism, wrong as that may be, justifies a continuation of their own protectionism. That means harming oneself twice over.

The task of economic policy-making therefore is to create political and economic institutions that allow the emergence of efficient product and factor markets. Crucial in this context are courts, the legal system, an impartial judicial enforcement mechanism and an efficient system of property rights. The direct relevance of all this for the poor will be discussed later. But one important factor for the emergence of such markets needs to be mentioned here: the provision and maintenance of infrastructure. Poverty studies have shown all over the world that access to infrastructure like roads and electricity lowers poverty in the regions under study. Transport infrastructure connects markets and gives rural people access to new goods and new economic opportunities, such as producing more lucrative goods like vegetables for urban markets. Electricity allows the emergence of small repair and production shops. Without such infrastructure, growth will be concentrated in those regions that are linked to international trade, such as coastal regions, while the hinterland stagnates. A superficial glance at India and China bears this out.

## The poor need a legal revolution

The positive link between liberal economic policies, economic growth and poverty alleviation is empirically well established. But when confronted with the reality of suffering by the poor, most people feel that a response that concentrates on economic policy reform at the macro level is too abstract and too distant from the reality of the lives of the poor. This is also a political impediment, because such reasoning will not entice the poor to vote for a liberal political movement.

There is an understandable and ethically laudable urge to do something, anything, to help the poor directly – through charity or through instruments of the welfare state. This is also what many poor will ask for, used as they have become to paternalistic systems of patronage. But the moral impulse often suppresses the question whether these reactions really tackle the root causes of poverty, or whether they just alleviate the symptoms while creating dependency and stifling the initiative of the poor themselves. Realising this, for many years the promotion of self-help initiatives has been the preferred goal among organisations dispensing aid. Thus it was at least recognised that the poor are not helpless creatures but individuals with a lot of innate potential. Yet this begs one simple question: Why do the poor need the encouragement of outside agencies, often foreign ones, to do the obvious and help themselves? There were no foreign NGOs when the people of the so-called western world embarked on their long road out of poverty.

Many of the answers can be found in two brilliant books of a Peruvian economist, Hernando de Soto. His starting point is the economic system that the poor of this world find themselves in, and he points out that the poor do not have access to the legal instruments and institutions that make a modern market economy efficient: rule of law, especially protection and enforcement of contracts, stable and safe property rights, simple but efficient regulation of markets. Instead, they are faced with a legal system that is excessively complicated and inefficient. Even when courts are independent and professional, cases drag on for years. Government regulations are hideously complicated and intrusive, making any economic

activity contingent on numerous approvals and rubber stamps. Poor people might control assets such as a piece of land in a slum, but these assets are not legally registered in their name.

De Soto and his team did a practical experiment: they tried to set up a simple textile workshop with one worker, following all the prescribed rules and regulations, without paying bribes. It took them almost one year, and the conclusion is stark: achieving legality is clearly impossible for any micro-entrepreneur. Here lies one of the biggest reasons for the size of the informal market.

These inhibiting regulations also extend to economic self-help initiatives of the poor: in many countries these are technically illegal, especially those dealing with micro-credit. These regulations are often meant to protect the poor from exploitation – in theory. In reality, they expose them to exploitation at the hands of the police and the bureaucracy whom they have to bribe in order to carry out the simplest economic activity. Whether they work as hawkers, rikshaw-pullers, or microbus drivers, the poor have to pay to the powers that be in the police and bureaucracy.

This also explains why outside involvement was necessary: it persuaded or pressured governments and their bureaucracies to allow – usually grudgingly – such activities to take place, at least on a limited scale. It is one of the less recognized achievements of foreign aid that it has helped to protect the growing self-help movement in the developing countries against attempts by the state apparatus to throttle it in its infancy.

The most serious problem, though, is the issue of property rights. In most countries of the South, property rights are either ill-defined, ill-protected or difficult to transfer. These countries do have systems of property rights, often very complicated ones, but they do not reflect the reality in which the poor live, and they are not at all efficiently managed. Many of the poor live in housing such as slums whose title is contested. The inefficiency of the property market means that not enough land and housing is available for the growing number of people migrating to the cities. They therefore have to grab land, usually from the state that owns it, cannot

make up its mind what to do with it and is usually unable to defend it. Such land grabs are organised by „informal Entrepreneurs“, also known as slumlords, who organise the defences of illegal settlements and their political protection. The poor who live in these new slums pay rent to them, cast their votes as they are told and make up numbers at political rallies. It is obvious how this harms both democracy and economic development, but the poor have no choice.

The economic effects of this are nothing short of momentous: Assets such as houses, huts or land whose ownership is unclear or contested cannot be transformed into capital. The moment ownership of an asset is clearly defined and protected by the law and its transfer can be done safely and efficiently, it can be used as collateral to raise money. The asset thus assumes a second, virtual life as capital. The poor on this globe are usually excluded from this: they control assets, but they do not have access to the legal instruments that turn their assets into property and thus into capital. De Soto estimates the amount of unused or „dead“ capital caused by deficient property rights in the countries of the South to be in excess of 9 trillion \$, and much of that is controlled by the poor. No amount of foreign aid can match this potential for capital formation. Moreover, it would give the poor a much larger share of recorded wealth.

What emerges from this is the idea with which this leaflet started: the best way to overcome poverty is helping the poor to get access to property. It turns out that in many cases, this could be done virtually free of cost: it just means recognising in law what is already a reality, namely control of assets. The poor in a slum already know who „owns“ which hut. All the state needs to do is to record the fact and give it the effective protection of law. Formulating law should be seen, in De Sotos parlance, as a process of discovering the reality, and in this process the need for a variety of legal instruments might become apparent. To take one example, land held for centuries collectively by tribes can be integrated into a formal system of individual property rights by using not just natural but also legal personalities, e.g. cooperatives or share-based companies. We already have examples in Europe such as monasteries where the monks or nuns own land collectively and the monastery becomes the actor in the

marketplace. If a tribe wishes to continue its age-old practice of collective land use, this would be an instrument to do so within a market-based economic system.

Recognising the property rights of the poor and defending them is not a technical but a political task. For too long, champions of the poor have ignored the issue of property rights, thinking this is only relevant for the rich. In the South, this is a fatal fallacy. The rich don't need protection of their property rights as much as the poor do, and in reality it is the ill-defined and often undefended property rights of the poor that get attacked or destroyed by the rich. An example from Bangladesh might illustrate the process: A female member of the Grameen Bank had escaped out of poverty by taking loans from the Grameen Bank, investing them wisely and, combined with hard work, managed to build up a small capital base. She then wanted to start a small sawmill. When the local competitor, a politically well-connected local businessman, came to know of this, she was visited by his henchmen and threatened with assault and rape if she did not abandon the project. Knowing that the police would be on the side of a member of the local elite and that a court case would take years, she gave up. Such stories are by no means exceptional in the South. Talk to businessmen in countries of the South about relocating a plant or building up a new one, you will find that they will not dare go into unfamiliar territory – because the state fails to implement the rule of law, and its place is taken by local power arrangements that prey on outsiders, the poor, the ethnic and religious minorities. This is a significant impediment to growth, and it creates a glass ceiling for the economic activities of the poor. Several studies of the aforementioned Grameen Bank have wondered why their borrowers don't seem to graduate easily beyond a somewhat stable but simple subsistence economy. The answer is the lack of stable property rights, and more generally, of the rule of law and especially of economic law that eases their transition into the formal economy.

Absence of well-defined property rights has also been the cause for the widespread misery of poor people, often indigenous groups, that have been displaced by „development-projects“ such as large dams. India

actually abolished the constitutional right to property that would imply full compensation in the case of expropriation by the state precisely to make such projects cheaper. The rhetoric has been directed at big landlords; the reality has meant displacing tens of thousands of poor people without adequate compensation, and the lack of clear property rights has meant that the courts could not offer protection to the poor. Tragically, most of the campaigners against dam projects have never even begun to understand the problem in terms of the property rights issue.

Changing all this is a political process, and it has to be ensured that in the transition to a stable and efficient system of property rights the poor are not elbowed out by powerful groups such as slumlords. This will certainly happen if the process is handled only by bureaucrats and technocrats who serve the forces of the status quo. It needs a liberal revolution – and we might usefully recall at this point that this is actually what took place in the history of the West.

The task before us is therefore not one of devising new and better instruments of transfer payments to the poor. It is to recognise their rights of economic participation and to devise the appropriate legal instruments and institutions that allow them to leave the informal sector and move into the formal sector – a birthright from which they have been excluded far too long.

*Dr. Otto Graf Lambsdorff*, a former German Minister of the Economy, is Chairman of the Board of the Friedrich Naumann Foundation



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(Spring 2003)

Sascha Tamm  
ZUM THEMA GLOBALISIERUNG  
(Spring 2003)

Gerhart Raichle  
UMVERTEILUNG – WOZU, WIEVIEL, WIE?  
(Spring 2003)

Detmar Doering  
FREIHANDEL  
(Spring 2003)

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(Spring 2003)