

GIVE TITLES, NOT CAKES

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Thousands of miles away in distant Peru lives Hernando de Soto and he has a simple message for us in India . People are poor, he says, because they usually lack formal title to the little property that they own.

Without a legal right they cannot use their property as collateral. They cannot go to the bank and get a loan in order to start a business. Their potential is locked up in "dead capital".

De Soto calculates that the dead capital locked in untitled assets held by the world's poor is around \$9.3 trillion, which is many times the total foreign aid given by all the rich countries to all the poor countries for the past 50 years.

Whether a sharecropper in Bihar or a slum dweller in Mumbai, the vast majority of India 's poor have unclear titles. For decades after Independence , we had socialist minds and thought that property rights were a capitalist idea; so, we ignored this terrible flaw in our governance.

But after the 1991 reforms our mindset has changed and we have lost our hypocrisy towards private property. Today, the best thing that our state and local governments can do for the poor is to simplify and streamline the process of granting property titles.

Two of our states, Andhra and Karnataka, have recognised this problem and have tried to make land transactions easier.

My friend in Guntur district tells me that land records and titles in Andhra are now on the Internet, and corrupt officials who deal with land are the unhappiest people there.

Hernando de Soto observes in his book, *The Other Path*, that most businesses in Peru also lacked titles. To find out why he and his colleagues started a fictitious clothing factory.

It took them 289 days working full time plus Rs 55,400 in bribes and expenses to get all the approvals they needed from 11 departments. Next, he and a group of low-income families petitioned the state for a vacant plot to build housing; it took them six years and 11 months plus Rs 97,020 per person to get all the bureaucratic clearances.

Finally, to get a pushcart licence to sell fruit on the street in Lima took them 43 days plus Rs 26,550. (India is not the only country with License Raj!)

Poor people are not stupid. In countries like Peru and India they naturally avoid this bureaucratic nightmare and simply start businesses without approvals; and this is called the informal or the black economy.

Every Indian city, and especially Delhi , is a hive of this feverish activity. The poor, thus, have houses but no titles; crops but no deeds; business without licences.

The informal economy is people's spontaneous response to the state's failure to do its job. Much maligned, this parallel economy is in many ways more authentic, hardworking, and creative than our legal economy.

When the common citizen has to fight for 10 months with 11 departments just to keep the file moving - this explains why the Third World is poor. The answer to poverty is not the socialist one - for the state to provide all things - but to give people freedom to own property and create wealth from it.

We need the state to quickly confirm title on the citizen and get out of the way. Classical liberals were right in believing that true liberty flows from the right to property.

Curiously, de Soto 's ideas have had so much impact that he was the target of the Shining Path, the Marxist terror group, in the early nineties - the only economist I know with the distinction of an assassination attempt.

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