

The Importance of the Cadastre for Capital Formation: Is It the Same Everywhere?

Amartya Sen wrote in “The Development of Freedom” (2001) that economic freedom—the freedom to choose between different activities—is fundamental to development. De Soto has pointed out in “The Mystery of Capital” (2003) that the formation of capital is crucial in the development of a country towards the industrialized, western type and stressed the importance of the cadastre for it. The World Bank and national development agencies have then supported cadastral projects in many countries.

De Soto assumes that accumulation of wealth is primarily in the appropriation and improvement of land with buildings. The value of land and buildings in western societies is one of the major investments. It is comparable in value to the investment in human capital and both amount to 5 to 10 times the Gross Domestic Product.

Capital formation is crucial for the transformation to “modern” society, which is characterized by reduced reliance on family ties and lower reproduction rates. Capital formations are necessary to transfer goods from the highly productive part of a person’s life to old age. Traditional societies achieve this time shift of production through investment in children, which have a moral obligation to support parents. To reduce the reliance on children institutions to accumulate capital for later consummation are necessary. With the exception of northern Europe, saving for old age pensions is primarily a private effort, because governmental organizations are not trustworthy enough to provide long term stability. Savings are invested in land and buildings and the cadastre allows a flexible use of the capital so bound.

Observations in Iran suggested that this concept may not be universal and points to two conditions for it:

- a) Land must be a scarce resource with a market value. This is less the case in arid and semi-regions (water and water-rights would be the scarce resource).
- b) Buildings must represent a permanent value. The adobe constructions used in arid regions require constant maintenance; buildings without maintenance depreciate rapidly. I saw ruins of palaces where people lived as recent as 1970! If the relation between construction cost and maintenance cost is different than that for the western stone building technology, value of buildings is less permanent and buildings are less useful for capital formation.

De Soto’s plan for development is based on scarce land with a predictable and stable market value and on long-term value of buildings. This path to economic development is limited to regions in the world where these conditions are met, i.e., moderate climates with the corresponding agricultural and building technology and excludes nomadic lifestyles, and arid regions (possibly also tropical regions). These regions are hindered in the development along the “western” path by lack of a form of investment to shift productivity along the life span to satisfy old age needs.