

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

De Soto has pointed out that the formation of capital is crucial in the development of a country towards the industrialized, western type (De Soto et al. 2002; De Soto 2003). It is assumed that economic freedom—the freedom to choose between different activities—is fundamental to improve the “condition humaine” (Sen 2000). I see the development process of societies as a change in the efficiency of processes producing goods of importance for humans; and I restrict my viewpoint intentionally not to physical goods, but include non-monetary goods and processes like religion, protection of nature, etc. Modern societies have an advantage as they have methods for planning and controlling production and distribution more effectively than traditional societies.

De Soto assumes that accumulation of wealth is primarily in the appropriation and improvement of land with buildings. Indeed in western societies, the value of land and buildings is one of the major investments in production factors. It is comparable in value to the investment in human capital and both amount to estimated 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 formation—and institutions for this—are necessary to transfer goods from the highly productive part of a person’s life to the periods before and primarily after productivity has peaked. Traditional societies achieve this time shift of production through investment in children, which have a moral obligation to support parents in old age. To reduce the reliance on children—and thus to reduce population growth, institutions to accumulate capital for later consummation are the key. With the exception of northern Europe, saving for old age pensions is primarily a private effort, because governmental organizations are, by experience, not sufficiently trusted 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 seemingly universal concept may not apply everywhere 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-arid regions: water and water-rights would be the scarce resource, but evaluation and administration is much more difficult than for the fixed resource land.
- b) Buildings must represent a permanent value. The adobe constructions used in arid and semi-arid regions require constant maintenance; buildings without maintenance depreciate very 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 or wood 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, not dependent on constant costly maintenance. 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 or semi-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. (One may also rethink our economy and ask if investment in buildings creates permanent values, given that modern buildings must be refurbished completely after at most 30 years).

References:

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