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Praise for Property

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Abstract
McCloskey's Bourgeois Deal, the process of profit seeking and competition, leads to widely shared prosperity. Free and dignified people living under a system of private property promote exchange, innovation, and wealth. This Bourgeois Deal can be offered in poor countries today: establish property rights and praise private property and the profits generated from such a system. Ideas in favor of free markets make us rich, and these ideas should be reasserted in development economics.

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I. Introduction

Since 1800, the world has become a wealthier, healthier, and safer place. By how much? For some places, like the United States, average income has risen by upwards of 3,000 percent! This remarkable increase in wealth has occurred across the globe, improving lives and how long we get to live them.

Deirdre McCloskey (2006, 2010, 2016) argues that no material explanation, such as capital accumulation, foreign trade, or investment, can fully explain the factor by which income per capita has increased since the Industrial Revolution. What can explain it, she contends, is that the bourgeoisie became free and dignified, directing entrepreneurship into wealth-creating innovation. This ideological shift created the dramatic increase in wealth. Social praise for innovation, trade, and business owners fueled the slow-burning embers ignited by institutions, leading to massive increases in wealth.

McCloskey's analysis is an attractive narrative to explain economic growth over the past two hundred years, but can we use her arguments to bring a deeper understanding to development issues today? Countries like Luxembourg and Singapore record average per capita incomes of almost $80,000, while countries such as Burundi, Democratic Republic of Congo, and Central African Republic have average per capita incomes of less than $800 per person (World Bank 2016b). How can we explain such differences?

Property rights. Property rights provide the context for individuals to act, altering the relative costs or payoffs to engage in wealth-enhancing activities. People innovate, or invest in human or physical capital, or trade, when they have an incentive to do so. These incentives are determined by the institutional structure of property rights that individuals face. Property rights align incentives to maximize social cooperation and prosperity. The social benefits derived from Adam Smith's invisible hand phenomenon occur within a private property context.

Mises (1920, 1949) further illustrates how wealth creation, and thus, the continued existence of modern society, is possible only under a system of private ownership of the means of production. Private property creates incentives for economic exchange, which leads to a price mechanism that enables a system of profits and losses (i.e., economic calculation). The ability to ration and reallocate scarce resources to their highest valued uses occurs because prices convey relative scarcities.

Hayek (1945) elaborates on the price mechanism as a coordinating device conveying dispersed knowledge and information. And both Mises and Hayek emphasize not only that property rights align incentives to maximize efficient resource usage, but also that a private property system creates a price system guides the best use of resources for wealth creation. Thus, Mises's (1978, p. 87) statement that "the continued existence of society depends upon private property" is no exaggeration.

Although not explicitly stated in her work, property rights are the foundation of McCloskey's Bourgeois Deal. Without property rights, there is little incentive for profit seeking and competition, which leads to widely shared prosperity. Free and dignified people living under a system of private property promote exchange, innovation, and wealth. Praise for such activities can magnify the benefit from private property, as McCloskey clearly demonstrates.

This Bourgeois Deal can be offered in poor countries today once constraints are placed on government limiting the expropriation of property. Property rights coupled with praise—praise for ideas favoring free markets—make us rich, and these ideas should be reasserted in development economics.

II. Evidence in Support of Property Rights

Recent research in development economics empirically links property rights with economic growth and development. Property rights facilitate capital investment, technological innovation, and entrepreneurship (Hall and Jones 1999; Kerekes and Williamson 2008). Rodrik, Subramanian, and Trebbi (2004) present empirical evidence claiming that "institutions Rule." They show that the quality of institutions, including property rights, dominates the effects of geography and trade in determining income levels across countries. Acemoglu, Johnson, and Robinson (2001) document large *causal* effects of property rights institutions on per capita income. They also attribute the reversal in relative incomes across countries from 1500 to today to variations in property rights institutions (Acemoglu, Johnson, and Robinson 2002).[1]

The economic freedom literature also provides empirical support documenting the robust association between economic prosperity and economic institutions, including private property. Economic freedom is measured by an index ranging from 0 to 10, with a higher score reflecting greater economic freedom (Gwartney, Lawson, and Hall 2016). The index is grouped into five broad components—size of government, monetary policy and price stability, legal structure and security of private property, freedom to trade without regulations, and regulation of credit, labor, and business. In a survey of the literature utilizing this index, Hall and Lawson (2014) find that an overwhelming majority of academic papers link economic freedom to "good" outcomes such as higher income levels, faster growth, longer life expectancies, and happier lives.[2]

Similarly, the World Bank's *Doing Business* project collects data on the ease of starting and operating businesses across countries. It creates quantitative indicators on the ease of doing business in areas such as starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts,

[1] McCloskey rejects this work, arguing that institutions alone cannot explain large increases in economic growth. However, she is rejecting the narrow view of institutions as the formal rules of the game. Williamson (2012) provides an argument that McCloskey's social praise for entrepreneurship can be considered an institutional change if institutions include both formal and informal rules, norms, and cultural attitudes.

[2] Murphy (2016) presents evidence that Gwartney, Lawson, and Hall's measure of economic freedom is an appropriate measure of institutional quality.

and resolving insolvency. The overall ease of doing business index aggregates all ten categories. A high ease of doing business ranking means that the regulatory environment is more conducive to starting and operating a local firm.

Not surprisingly, countries that impose fewer regulatory burdens on businesses tend to experience better economic outcomes. For example, differences in the regulation of new business entry, one component of *Doing Business*, have important economic consequences. Djankov (2009) surveys 201 academic articles and concludes, "easier regulation of start-ups increases entrepreneurship, raises productivity, and cuts corruption" (p. 190). Klapper, Laeven, and Rajan (2006) find that the number of entry procedures is negatively correlated with new firm development. Djankov, McLiesh, and Ramalho (2006) also show that entry regulation is negatively associated with growth across countries.

Tables 1 and 2 present 2014 data on income per capita (World Bank 2016b), life expectancy (World Bank 2016b), economic freedom (Gwartney, Lawson, and Hall 2016), and *Doing Business*'s ease of doing business and ease of starting a business rankings (World Bank 2016a). Table 1 presents the top ten and bottom ten countries based on income per capita. The richest countries in the world have average incomes ($62,316) that are more than three standard deviations higher than the average incomes in the poorest countries ($1,129). Individuals living in the wealthiest countries tend to live, on average, twenty-one years longer than those in the poorest countries.

Partially explaining these income differences are the differences in economic freedom and ease of doing business across the two groups. Rich countries are among the highest scoring in the economic freedom index while the poorest are some of the lowest. The average difference in economic freedom between the two groups is more than two standard deviations. Wealthy countries also tend to create a business friendly environment, whereas poor countries do not. It only costs about 2 percent of income per capita, on average, to open a business in a wealthy country, whereas it costs more than 94 percent in a poor country.

Table 1: Income and Doing Business, Sorted by Income

	Income per capita	Life expectancy	Economic freedom		Ease of doing business	Starting a business	
				Rank (1–189)	*Rank (1–189)*	*Time (days)*	*Cost (% income pc)*
Top ten countries							
Luxembourg	91,368	82	7.70	57	76	18.50	2.00
Singapore	79,551	83	8.53	1	6	2.50	0.60
Kuwait	69,878	75	7.28	100	150	31.00	2.00
United Arab Emirates	64,563	77	7.75	32	57	8.00	6.30
Norway	64,161	82	7.48	8	21	5.00	0.90
Switzerland	55,271	83	8.24	26	66	10.00	2.00
Hong Kong	52,610	84	8.93	5	8	2.50	1.40
United States	51,708	79	7.75	7	44	5.60	1.20
Ireland	48,384	81	8.15	19	19	6.00	0.30
Netherlands	45,662	81	7.82	25	20	4.00	5.00
Bottom ten countries							
Haiti	1,653	63	7.39	179	187	97.00	246.70
Rwanda	1,585	64	7.33	55	117	6.50	59.80
Madagascar	1,371	65	6.67	166	112	12.00	44.80
Togo	1,337	60	5.91	152	136	10.00	94.90
Guinea-Bissau	1,336	55	5.85	181	176	9.00	50.10
Malawi	1,115	63	5.52	144	158	38.00	106.60
Niger	902	61	5.57	164	177	15.00	76.70
Burundi	734	57	6.07	151	18	5.00	13.40
Congo, Dem. Rep.	711	59	5.64	187	172	16.00	30.00
Central Afr. Rep.	544	51	5.50	185	188	22.00	226.00
Top ten countries	62,316	81	7.96	28	47	9.31	2.17
Bottom ten countries	1,129	60	6.15	156	144	23.05	94.90
All countries	17,768	72	6.90	95	95	23.00	26.09

Note: Income per capita is GDP per capita, PPP (constant 2011 international dollars). Life expectancy is at birth in years. Data for both variables are measured in 2014 and collected from World Bank (2016b). Economic freedom is measured as of 2014 (Gwartney, Lawson, and Hall 2016). *Doing Business* data are measured in 2014 (World Bank 2016a).

For example, Singapore, the second richest country in the sample, is the highest ranked for ease of doing business, minimizing the time (2.5 days) and cost (0.6 percent of income per capita) to open a business. At the other extreme, Central African Republic has adopted burdensome business regulations creating one of the most unfriendly business environments in the world. It costs more than 200 percent of average income and 22 days to comply with regulations to legally open a business.

Table 2 utilizes the same data but sorts countries based on ease of doing business instead of income. The top ten and bottom ten are listed along with their respective indicators for starting a business, income per capita, and life expectancy. The best countries for conducting business include Singapore, New Zealand, Denmark, South Korea, and Hong Kong. Among this group, it only takes about six days and costs 2.0 percent of income to start a business. Business friendly countries are also wealthy countries with per capita incomes averaging almost $48,000. This is three times higher than the average among all countries and almost ten times higher than countries with the worst business environment.

The worst ranked ease of doing business countries include Venezuela, Central African Republic, South Sudan, Democratic Republic of Congo, and Libya. These countries are among the poorest in the world with an average per capita income of $5,111. Individuals in these countries have much lower life expectancies—about 23 years less, on average, compared to business friendly countries.

Collectively, these two tables suggest that not only do rich countries manage to limit burdensome business regulations, but also that countries creating a business friendly environment are richer and their citizens tend to live longer. These data imply that as long as legal restrictions are removed, individuals take advantage of profit opportunities, making everyone better off.[3]

[3] See Brown (2016) for a historical comparative case study analysis of the factors influencing institutional change toward economic freedom.

Table 2: Income and Doing Business, Sorted by Business Rankings

	Ease of doing business	**Starting a business**			**Income per capita**	**Life expectancy**
	Rank (1–189)	*Rank (1–189)*	*Time (days)*	*Cost (% income pc)*		
Top ten countries						
Singapore	1	6	2.50	0.60	79,551	83
New Zealand	2	1	0.50	0.30	34,263	81
Denmark	3	24	5.50	0.20	43,157	81
South Korea	4	16	4.00	14.50	33,640	82
Hong Kong	5	8	2.50	1.40	52,610	84
United Kingdom	6	43	6.00	0.30	38,085	81
United States	7	44	5.60	1.20	51,708	79
Norway	8	21	5.00	0.90	64,161	82
Sweden	9	32	16.00	0.50	43,976	82
Finland	10	26	14.00	1.10	38,577	81
Bottom ten countries						
Liberia	180	30	4.50	17.40	804	61
Guinea-Bissau	181	176	9.00	50.10	1,336	55
Chad	182	184	60.00	150.60	2,074	52
Angola	183	174	66.00	118.80	6,956	52
Venezuela	184	182	144.00	49.90	16,769	74
Central Afr. Rep.	185	188	22.00	226.00	544	51
South Sudan	186	178	14.00	242.40	1,926	56
Congo, Dem. Rep.	187	172	16.00	30.00	711	59
Libya	188	142	35.00	19.90	14,880	72
Eritrea	189	183	84.00	41.50		64
Top ten countries		22.1	6.16	2.10	47,973	82
Bottom ten countries		160.9	45.45	94.66	5,111	59
All countries		94.96	23.00	26.09	17,768	71

Note: Income per capita is GDP per capita, PPP (constant 2011 international dollars). Life expectancy is at birth in years. Data for both variables are measured in 2014 and collected from World Bank (2016b). Economic freedom is measured as of 2014 (Gwartney, Lawson, and Hall 2016). *Doing Business* data are measured in 2014 (World Bank 2016a).

III. Praise Matters, Too

First and foremost, individuals must be able to own and exchange property; start a business, if they so desire; and believe that their property and profit will be secure against private or government expropriation. Without such confidence, little or no exchange takes place and poverty is the norm. Once property rights are secure and individuals can successfully operate businesses, wealth creation begins.

Praise for wealth-creating activities can incentivize others to allocate their talents toward them. As more individuals participate in the market process, everyone is made better off. Property rights make gains from trade possible, and additional gains from trade are captured if competition, entrepreneurship, and innovation are viewed favorably. On the contrary, social norms against owning a business or generating profits can limit such gains. Even if government removes artificial barriers to trade and entrepreneurship, social constraints may discourage entrepreneurial activities (Baumol 1990).

This argument suggests that ideas have consequences, and these consequences are generated by the social infrastructure. Currently, many bad ideas are espoused in development economics, with one in particular dominating development discussions. As explained by Easterly (2006, 2013), the conventional approach to development is based on a technical illusion, the belief that poverty is merely a social engineering problem that can be solved by applying technical expert solutions. These solutions, while technically "correct," lack the required local knowledge to make scientific solutions effective in practice.

These development experts are not the solution but are part of the problem. Technical experts, with their scientific knowledge and foreign aid funds, rely on poor national governments, many of which are authoritarian, to implement top-down technical solutions. This further empowers dictatorships who face minimal constraints. Ironically, he argues, if individuals were given economic and political freedoms, they would discover their own solutions to their technical problems. The root cause of poverty, according to Easterly, is the lack of rights, including property rights.

Easterly encourages the development community to at least debate these opposing ideas, recognizing that ideas have consequences. For example, he criticizes the World Bank for not being willing to mention the word "democracy." Development experts often praise the technocratic approach without mention of any rights, including property rights. One potential consequence from such omission is that individuals living in poor, aid-receiving countries will start believing that the only path to prosperity comes from technical experts.

Table 3 presents 2015 data collected from a *Pew Global Attitudes and Trends* survey (Pew Research Center 2015). Nine aid-receiving countries are surveyed and asked, "Please tell me how confident you are that the following organizations or groups will help solve the major problems in our country. Are you very confident, somewhat confident, not too confident, or not confident at all? (1) Foreign aid organizations, such as the United Nations, (2) national companies, and (3) foreign companies." The percentage of respondents answering "very confident" and "somewhat confident" are summed for each category.

Table 3: Confidence in Foreign Aid, National and Foreign Companies

	Confidence to solve major problems (%)			**Income per capita**	**Foreign aid**	**Ease of doing business**
	Foreign aid	*National companies*	*Foreign companies*	*$*	*% of GNI*	*Rank (1–189)*
Burkina Faso	65	60	52	1,546	9.2	149
Ethiopia	66	65	58	1,431	6.5	148
Ghana	76	65	70	3,894	3.1	112
Kenya	74	66	67	2,819	4.4	129
Nigeria	70	73	68	5,639	0.5	170
Senegal	68	71	58	2,215	7.2	156
South Africa	59	69	58	12,436	0.3	69
Tanzania	76	79	67	2,421	5.6	140
Uganda	81	63	60	1,689	6.2	135
Average	**71**	**68**	**62**	**3,788**	**4.8**	**134**

Note: Confidence data are collected from the *Pew Global Attitudes and Trends* survey (2015). Income per capita is GDP per capita, PPP (constant 2011 international dollars). Foreign aid is net ODA as a percent of GNI. Data for both variables are measured in 2014 and collected from World Bank (2016b). *Doing Business* data are measured in 2014 (World Bank 2016a).

In five of the nine countries, individuals have more confidence in foreign aid organizations than in either national or foreign companies. Nigeria, Senegal, South Africa, and Tanzania have more confidence in national companies than in foreign aid agencies. In all countries, individuals have more confidence in foreign aid than in foreign firms. It seems that individuals in these countries believe foreign aid may provide greater benefits than trade and competition from foreign firms. It is not surprising that this subset of countries is relatively poor, with an unfriendly business environment.

Even though data are limited, table 3 provides insight into how global interactions shape attitudes that may have development consequences. Individuals in aid-receiving countries may praise foreign aid organizations at the expense of entrepreneurship and business ownership. Talented individuals may prefer to work for foreign aid or other government agencies instead of pursuing wealth-generating activities. To complicate matters, starting and operating a business tends to be more difficult in poor, aid-receiving countries. Thus, individuals may face both legal and social barriers to market activity—a reversal of McCloskey's Bourgeois Deal.

IV. Conclusion

Property rights and praise for profit-seeking activities determine incentives to engage in productive versus unproductive activities ranging from economic exchange to rent seeking. The complementarity between formal and informal rules surrounding private property is what leads to the highest economic payoff. Williamson (2012) states:

> McCloskey's "sweet talk," which gave way to dignifying the bourgeoisie, may only be sweet because of some minimum, pre-existing liberty that allowed the change in ideas to actually have an effect. It was the match between the informal and formal institutions, or cultural values coupled with economic freedom, or dignity *and* liberty, that sparked the industrial revolution (p. 768).

The same can happen in poor countries today. However, an additional barrier currently exists that was not present during the 1700s–1800s. The development community, full of technical experts, focuses on technical, top-down solutions instead of promoting property rights, praising entrepreneurship, and encouraging a debate on development ideas. Ideas in favor of free markets make us rich, and these ideas should be reasserted in development economics.

The Bourgeois Deal can be offered in poor countries. Dignity and liberty will start to take hold once constraints are placed on government, limiting the expropriation of property.

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