AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

THE CALL FOR ECONOMIC LIBERTY IN THE ARAB WORLD

HEARING

BEFORE THE

COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRTEENTH CONGRESS

FIRST SESSION

MAY 21, 2013

Serial No. 113–35

Printed for the use of the Committee on Foreign Affairs

Available via the World Wide Web: http://www.foreignaffairs.house.gov/ or http://www.gpo.gov/fdsys/

U.S. GOVERNMENT PRINTING OFFICE

81–166PDF WASHINGTON : 2013

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

COMMITTEE ON FOREIGN AFFAIRS

EDWARD R. ROYCE, California, *Chairman*

CHRISTOPHER H. SMITH, New Jersey
ILEANA ROS-LEHTINEN, Florida
DANA ROHRABACHER, California
STEVE CHABOT, Ohio
JOE WILSON, South Carolina
MICHAEL T. MCCAUL, Texas
TED POE, Texas
MATT SALMON, Arizona
TOM MARINO, Pennsylvania
JEFF DUNCAN, South Carolina
ADAM KINZINGER, Illinois
MO BROOKS, Alabama
TOM COTTON, Arkansas
PAUL COOK, California
GEORGE HOLDING, North Carolina
RANDY K. WEBER SR., Texas
SCOTT PERRY, Pennsylvania
STEVE STOCKMAN, Texas
RON DESANTIS, Florida
TREY RADEL, Florida
DOUG COLLINS, Georgia
MARK MEADOWS, North Carolina
TED S. YOHO, Florida
LUKE MESSER, Indiana

ELIOT L. ENGEL, New York
ENI F.H. FALEOMAVAEGA, American Samoa
BRAD SHERMAN, California
GREGORY W. MEEKS, New York
ALBIO SIRES, New Jersey
GERALD E. CONNOLLY, Virginia
THEODORE E. DEUTCH, Florida
BRIAN HIGGINS, New York
KAREN BASS, California
WILLIAM KEATING, Massachusetts
DAVID CICILLINE, Rhode Island
ALAN GRAYSON, Florida
JUAN VARGAS, California
BRADLEY S. SCHNEIDER, Illinois
JOSEPH P. KENNEDY III, Massachusetts
AMI BERA, California
ALAN S. LOWENTHAL, California
GRACE MENG, New York
LOIS FRANKEL, Florida
TULSI GABBARD, Hawaii
JOAQUIN CASTRO, Texas

AMY PORTER, *Chief of Staff* THOMAS SHEEHY, *Staff Director*
JASON STEINBAUM, *Democratic Staff Director*

CONTENTS

Page

WITNESSES

Mr. Hernando de Soto, president, Institute for Liberty and Democracy 8
The Honorable Madeleine K. Albright, chairman, Albright Stonebridge Group 24

LETTERS, STATEMENTS, ETC., SUBMITTED FOR THE HEARING

The Honorable Eliot L. Engel, a Representative in Congress from the State of New York: Prepared statement 3
Mr. Hernando de Soto: Prepared statement 11
The Honorable Madeleine K. Albright: Prepared statement 26

APPENDIX

Hearing notice 50
Hearing minutes 51

THE CALL FOR ECONOMIC LIBERTY IN THE ARAB WORLD

TUESDAY, MAY 21, 2013

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The committee met, pursuant to notice, at 9:40 a.m., in room 2172 Rayburn House Office Building, Hon. Edward Royce (chairman of the committee) presiding.

Chairman ROYCE. This committee will come to order. Today we will look at the economic factors behind the unrest in the Middle East and the unrest that swept across North Africa. In particular, we are going to look at how the basic lack of access to property rights, the basic lack of access to rule of law, and the basic existence of endemic corruption contributed to the economic hardship of tens of millions.

The upheavals that have swept across the Middle East and North Africa since 2010 have forever altered the region's political landscape. They call into question longstanding U.S. policies toward Arab governments. They also present an historic opportunity to advance reforms that would economically empower impoverished individuals throughout the region and ultimately help stabilize these countries.

Unfortunately, generations of families in the Arab world have been forced to endure human rights abuses, forced to endure political repression. So it would be easy to mistake the Arab Spring for a purely political uprising. But that would mean overlooking a key source of the region's justifiable unrest.

It was not the speeches of opposition leaders that inspired millions to take to the streets. From a fruit vendor in Tunisia to the unemployed youth, these protests were driven by students and merchants and would-be entrepreneurs demanding the opportunity for a better future, demanding their economic liberty.

Economic repression, not ideological strife, is what has driven so many Tunisians and Egyptians and Yemenis to the drastic step of suicide in recent years. Regrettably, this alarming trend of self-immolations has continued along with the calls for change throughout the Arab world.

In a political transition, those giving aid have historically focused on strengthening political parties, on organizing elections, on writing constitutions, on drafting laws, but what happens when the popular uprisings are, in this case, more economic than they are political? What happens in that set of circumstances? If we don't

consider the economic forces behind the Arab Spring, the lack of legal protections for personal property, the endemic corruption, and other constraints to growth, then no amount of U.S. aid will bring prosperity to the region, which is very much in our interest.

We need a major shift in how we view these countries if we are going to respond effectively. For example, can economic growth be achieved in an environment where the majority of citizens are systematically barred from entering the formal economy—where it takes thousands of dollars and up to 2 years to obtain all of the proper permits and all of the proper documentation to get a license to even make a living? How can access to credit programs be sustained when the majority of entrepreneurs don't have secure property rights and, thus, real means to provide collateral?

Unfortunately, overcoming these constraints to economic freedom and growth in the Middle East and North Africa is not going to be easy. It is not simply about getting good laws on the books. In many cases, reasonable commercial and personal property rights laws already exist there on paper, but these laws do not materialize in practice. And that is the problem.

Today we will hear from Mr. Hernando de Soto, an economist who literally wrote the book on the importance of these types of changes and the importance of moving from the informal to the formal sectors in the developing world. He has worked closely on those issues with former Secretary of State Madeleine Albright, who offers her own unique perspective on the relationship between the rule of law and economic prosperity. We are fortunate to have them both here today to discuss how U.S. policy should respond to these challenges.

At this time, I would like to recognize our esteemed guests from the diplomatic community as well as a delegation of private sector leaders from the Middle East and North Africa. We want to recognize those who are with us as well. And they are working to realize the economic aspirations of the people of their region. Thank you.

I will now turn to the ranking member of the Middle East and North Africa Subcommittee, Ted Deutch, for his opening remarks. Mr. Deutch?

Mr. DEUTCH. Thank you, Mr. Chairman. I thank you for holding today's hearing. Thank you to our distinguished witnesses for being here today to discuss this vitally important topic.

Ranking Member Engel couldn't be here because he had to attend a funeral this morning. Mr. Chairman, I ask unanimous consent to enter his statement for the record.

Chairman ROYCE. Without objection.

[The prepared statement of Mr. Engel follows:]

Ranking Member Eliot L. Engel
Opening Statement for Hearing on "The Call for Economic Liberty in the Arab World"
May 21, 2013

Chairman Royce, I want to thank you for calling this important hearing. Mr DeSoto, I am intrigued by your thesis and look forward to hearing your testimony. Secretary Albright, as someone who served this country with great wisdom and courage during a time of great political and economic transformation around the world, you offer unique insight into how the U.S. can best respond to the challenges we face in the Middle East today.

Over the past three years, this Committee has spent much time examining and debating various U.S. policy responses to the Arab Spring. And while it is critical that our Committee continue discussing discrete issues such as support for the Syrian opposition, the rise of political Islam in Egypt, and instability in Yemen, we would be particularly remiss if we did not also focus on understanding the root causes of ongoing political upheaval throughout the region.

That upheaval is often traced to a fateful act of self-immolation by Mohammed Bouazizi, a young Tunisian street vendor, after his produce cart was confiscated for his failure to pay a bribe to a local official. This young man's horrific death by his own hand seemingly encapsulated the frustrations of an entire generation of Tunisian and Arab youths fed up with corrupt and oppressive regimes.

Corruption, cronyism, and lack of mobility for the poor are endemic throughout the region. And this economic discrimination is often exhibited in forms far more pernicious than the confiscation of a vending cart. For example, Cairo is replete with shanty-town neighborhoods in which most residents do not even hold formal title to their homes. Even pro-regime Syrians often privately acknowledged, prior to the rebellion, that the economy was run primarily to benefit the Assad family and its cronies. And in Yemen, economic decisions have long been based on regional and tribal loyalties. Indeed, lack of economic – and political -- freedom has been a common denominator of much of the region, and we've seen its explosive implications over the past two-plus years.

The United States has not been blind to the economic dimension of the Arab Spring. In fact, the President's budget request both this year and last contained a proposal to create a Middle East North Africa Incentive Fund, which would inaugurate a new paradigm for foreign assistance in the region.

Modeled on the Millennium Challenge Corporation, which has been quite successful in encouraging partner governments to pursue policies that promote economic growth, the MENA Incentive Fund has been described by the Administration as a tool to challenge and hold governments accountable for their economic policies. This would be a dramatic departure from the manner in which much, if not most, of our assistance is provided to the region -- that is, largely determined by strategic considerations alone and all too often regarded by recipient governments as an entitlement. The Fund would also give the State Department more flexibility, pending Congressional oversight, to direct funds to wherever breaking events determine they are needed most.

While I have many questions about the Fund's details, and some concerns about the broad authorities requested by the Administration for the program, I am glad that at least some policy-makers at the State Department are thinking big. And I'm hopeful that this year Congress will pass this Fund into law in an appropriate form.

After the fall of the Berlin Wall, Congress reacted by passing the Freedom Support Act, and several years later, the Support for Eastern European Democracies Act. We gave the State Department and USAID the resources and authority to promote democratic and free market transitions in former Communist states. Now the same must be done for the Middle East, where the Arab Spring presents arguably the largest regional political transformation – and the largest political challenge -- since the end of the Cold War.

If we are serious about promoting political and economic liberty in the region, then our foreign assistance programs in the region can't be run on autopilot. Tackling the roots of the Arab Spring will require a radical rethink of how we operate in the region. The Middle East North Africa Incentive Fund is one aspect of this rethinking process, though surely it isn't the last

word. In undertaking this rethinking process, we must accept that it is indeed a process. There are no certainties, but given the stakes – will yet another generation of Arab youth be alienated and led into unproductive and often destructive activity? – I believe we have no choice but to be fully engaged.

I do want to make one additional point, and I direct it mainly to Dr. de Soto. I am skeptical that lack of economic liberty was the main cause of the Arab Spring – and I am convinced that it is not the only cause. Many other, greatly inter-related factors were at play, including ossified regimes, the youth bulge, religion, and – never to be underestimated – the simple yearning for freedom, even by those who understand its practical application imperfectly. That said, I am eager to listen to your message – and to Secretary Albright's – with an open mind. I hope the two of you can provide insights into the roots of this transition in the Middle East, as well as recommendations for how the U.S. can best respond to the many challenges this ongoing, turbulent transition poses.

Mr. Chairman, thank you again for holding this hearing.

Mr. DEUTCH. It has been only 2½ years since the Tunisian street vendor changed the course of history in the Middle East. And, as we all remember, Mr. Bouazizi, an unlicensed street vendor, was being harassed by police and accused of evading an arbitrary fine. The police confiscated six crates of his fruit and his electronic scale, slapped him in the face, and denied him any appeal.

In debt, tired of being harassed, and without recourse, Bouazizi set himself on fire. His act became a catalyst for the Tunisian revolution and wider regional upheaval, inciting demonstrations and riots throughout and protests of social, political, and economic issues.

After years of brutal repression of freedoms and human rights abuses, the people of Tunisia, Libya, Yemen, and Egypt deposed long-time dictators and are now struggling to rebuild their shattered nations. And it has not been easy.

Syria is engaged in a bloody civil war as Assad slaughters tens of thousands of Syrians in a desperate attempt to cling to power. We cannot ignore the impact that this harrowing struggle is having on the region as millions have been displaced from their homes and their country.

As the youth population in the Arab world grows, their calls for a better life will not be silenced. As Mr. de Soto has previously written, there were institutional barriers that kept Bouazizi and others like him from ever ascending into the formal economy. At the time of his death, it would have taken at least 140 days and $3,000 to register his business. The $3,000 is roughly 12 times his monthly net income and subjected Bouazizi to a life with no social or economic mobility.

Today, Egypt's official unemployment rate is 13.2 percent, up from 12.6 percent in the first quarter of 2012. But the reality is likely that it is well beyond 20 percent.

Political unrest has scared away direct investment and tourism. A major economic driver has yet to recover in North Africa.

In the midst of Assad's reign of terror, it is estimated that Syria's economy has crumbled, shrinking between 30–45 percent since the start of the revolution. This continued contraction is impacting its neighbors, Lebanon and Jordan, as they struggle to deal with the sharp decrease in trade and the influx of refugees.

According to reports last week, there has been a sharp slowdown in Lebanon's economic growth since the start of Syria's conflict from 7 percent to barely 2 percent. And Jordan is unable to find employment for its ½ million refugees.

One bright spot is the announcement by the Tunisian prime minister yesterday that the economy grew 3.2 percent.

While its economic inequality was an element of the instability that led to the Arab Spring, I am not convinced that it was the primary cause. We cannot discount the appalling lack of basic human freedoms, the role religion played in the region, sectarian rivalries, and the growing youth population.

U.S. engagement in the region must respond to all of these factors. We cannot ignore gross human rights abuses. We must work to ensure basic freedoms, which will be essential to sustainable economic growth.

There needs to be a true commitment to promoting democracy and human rights, substantial economic investment, and a serious attempt to address corruption so that a new generation of Arab youth isn't subjected to the same stagnant government rule.

USAID currently has $800 million in programs in 32 countries. They are strengthening the resource rights of many of the world's poorest people. And I commend them for their work and encourage them, where possible, to engage in similar programs in the Middle East.

Secretary Albright, as someone who has served this country during a time of great political and economic transformation around the world, we look to you and Mr. de Soto today for guidance in helping our committee develop a policy that facilitates a successful transition to democracy.

Efforts to reform the economic and political systems throughout the Middle East and North Africa will take many years. And results obviously will not be immediate, but we face few foreign policy challenges of greater importance.

And I look forward to your testimony. I thank you. And I yield back, Mr. Chairman.

Chairman ROYCE. Thank you. Thank you, Mr. Deutch.

This morning, we are honored to be joined by Mr. Hernando de Soto and by Secretary Madeleine Albright. Mr. de Soto is the president of the Institute for Liberty and Democracy, a globally recognized think tank headquartered in Lima, Peru. In his notable career, Mr. de Soto has held numerous positions in the public and private sectors, including serving as a governor of Peru's Central Reserve Bank. Mr. de Soto is credited with designing the reform of Peru's property system, which has provided land titles to over 1 million people and helped integrate informal businesses into the formal economy in Peru. He has advised leaders in 30 countries and published numerous works, including his seminal work, "The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else."

Secretary Albright was confirmed the 64th Secretary of State in 1997, making her the first female U.S. Secretary of State. Secretary Albright currently serves as chair of the Albright Stonebridge Group, a global strategy firm; and is chair of Albright Capital Management, an investment advisory firm focused on emerging markets. She continues to serve in numerous positions, including chair of the National Democratic Institute and as a professor in the practice of diplomacy at Georgetown University. She has also authored five New York Times best sellers and in 2012 was awarded the Presidential Medal of Freedom.

We are going to go to two more opening statements for 2 minutes each. And then we will go to Mr. de Soto and Secretary Albright, but let's go to our chairman emeritus here, Ileana Ros-Lehtinen.

Ms. ROS-LEHTINEN. Thank you so much. Thank you, Mr. Chairman.

And welcome to our witnesses. It is a delight to see you both again. And Secretary Albright is a real hero in our community for many reasons.

As we have heard this morning, it is a challenge to understand the root causes of the Arab Spring because there is no one root

cause for this movement, understanding any large-scale social movement is difficult. The image of the Tunisian street vendor self-immolating in protest over government officials confiscating his goods has widely been credited as the catalyst for the start of the Arab Spring, but the tensions have been simmering for years across the region.

These areas, as we know, are rife with poverty, with unemployment. The people lack economic mobility and security. And, most importantly, there is no democracy, no real foundation for democracy, to speak of. Corruption at all levels of the government is endemic. And these countries have large numbers of youth with no jobs; no prospects; and, worst of all, no other options.

In 2009, the unemployment rate for the entire Middle East and North Africa region was 24 percent. In Libya, unemployment for those under the age of 30 before the Arab Spring was 23 percent, while it was 27 percent in Egypt, 31 percent in Tunisia. So it was just a matter of time before it all came to a head.

There is no rule of law. The laws they have are prohibitive to fostering the economic growth that is needed. These countries can't grow their economies. They can't build wealth. And in order to do that, these countries need to dramatically and drastically reform their governments, reform the laws because the government needs to be reformed. And until that happens, the laws can't be reformed.

So, Mr. Chairman, thank you for calling this hearing because if the laws cannot be reformed from the bottom up, the economy cannot grow. There cannot be economic growth without security. And so we are stuck in a vicious cycle unless democracy comes to the Middle East.

And I look forward to hearing from these two excellent witnesses about the way out and the way forward. Thank you so much, Mr. Chairman.

Chairman ROYCE. Thank you.

We go now to Mr. de Soto.

Mr. DE SOTO. Thank you, Mr. Chairman.

STATEMENT OF MR. HERNANDO DE SOTO, PRESIDENT, INSTITUTE FOR LIBERTY AND DEMOCRACY

Mr. DE SOTO. I would like to say, first of all, how we Latin Americans got involved with the Middle East. We have been around for about 30 years. And it was simply because we had been studying what we call in Latin America, much of the Third World the informal economy and had, as a matter of fact, had an important role in Peru and El Salvador and a few other Latin American countries in terms, when there was great violence, of bringing these people into the formal economy and producing in the case of my country, what is today Latin America's highest growth economy. And it was because the aid people came in and made the difference.

Now, when we were called in, we were asked the first thing by the governments we work with, is, "Give us how big the informal economy is." So I would like to define, first of all, what I mean by "big."

Informal economy for us is all those who are entrepreneurs and who do not have the tools to do what entrepreneurs do, which is combine. God gave us natural resources. And He put them all in

the wrong places. And the question is, entrepreneurs come. And they combine them and make things work and make them useful. Not one thing in this room comes from one place. Everything is a combination. And that is what entrepreneurs do.

But entrepreneurs can't bring things together if they don't have nails or things that fix things together. Where do they need to fix things together? Not just the market. What they need is, on the one hand, a title to whatever it is that you have got because you have got to transfer it. And it has got to be a fungible title.

You need limited liability. Otherwise every enterprise you get into, you are risking all the things you have got.

You have got to have property so that you give it in shares. Otherwise, how are you going to raise capital? How are you going to guarantee credit if you do not have the possibility to collateralize your goods? What do you do if you don't have a perpetual succession? How are you going to pass whatever business you own to somebody else? What happens if you have as your only hierarchy, your family, and not a business?

Now, the question then is, how many people, how many enterprises; for example, in Egypt, with a team of 120 Arabs, will be able to determine that they actually don't have these things in our enterprise? And the reply is 84 percent of all enterprises. In every Arab country, we have gone to 84 percent of all enterprises, or about 85, do not have those tools. It doesn't matter what they are called. They don't have them.

When it comes to finding out how much of real estate is actually under the law that you can say, "Mahmoud lives here" and a certificate comes in and joins that, it is only 8 percent. Ninety-two percent are outside the system.

When that happens, then everything that I think Representative Ros-Lehtinen,—and it is very interesting—all the figures, then, on unemployment come into doubt because what happens—your point is very interesting—is that even Bouazizi, who burned up—he was the first to self-immolate—was a member of the unemployed club. And they were all entrepreneurs. And none of them was unemployed. Those statistics are a sham. They are not correct because the statistics don't have place for what we call the informal economy.

Now, what was interesting about the self-immolator, Bouazizi, was the following that, that when he self-immolated, he said, "The reason I self-immolate is for being expropriated." We sent a team there that stayed 20 months, and when we asked if he understands property rights, he said, "No, I do not understand property rights. I understand expropriation." So the other problem we have got is not only that "unemployment" is a decoined word; "property rights" is not. But they were expropriated. In the process, we found out that there wasn't one self-immolator, that in a space of 60 days, literally 64 people have self-immolated. And they all said it was about expropriation. And they all said they all self-immolated the day they were expropriated.

Now, if you add those 64 self-immolators who were capable of dying for that to the fact that it is 380 million Arabs who live outside the world of property rights or the rule of law as we understand a functioning market economy, that kind of explains why

every time you have Arab nations trying to do something together, they are not able to come together. But on this, they did come together. And it had to do with property rights.

Now, here is the big problem. Did they take away his things? No because property rights is more than about things. When Bouazizi's property was taken away, his wares, his goods, it wasn't under the law. It meant simply that everything he had was under the decision of one or two persons in a political system. Those one or two persons when they withdrew his right to sell there, they withdrew his right to credit. He could no longer use his house for a guarantee to buy anything. He could not form a company. He was ruined.

The idea of the rule of law is that these things can't happen anymore. That is what they are missing. And it is there, and it happens to be their agenda.

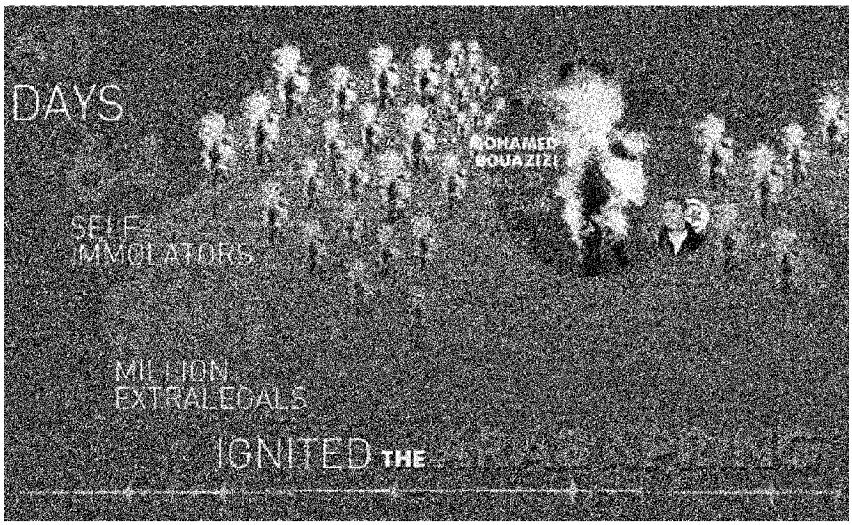
One last comment regarding that. The role that America can play is absolutely enormous because from our point of view, America isn't just something that starts in Canada and ends in Mexico. It is an idea. You were born around the idea of freedom and property. And every country in the world that is born around an idea, it is more an idea than a country. Actually, it doesn't recognize what we consider the hundreds of millions who are entrepreneurs outside the law. The same way your people when your nation was born, these people are not being given the message that they need to be encouraged to do that, instead of doing something else.

[The prepared statement of Mr. de Soto follows:]

HERNANDO DE SOTO
Institute for Liberty and Democracy (ILD)
hds@ild.org.pe

HOUSE COMMITTEE ON FOREIGN AFFAIRS
May 21, 2013

Hearing:
"The Call for Economic Liberty in the Arab World"



HARNESSING THE FORCES OF THE ARAB SPRING TO GENERATE GROWTH AND PEACE

ILD

THE ILD HAS DRAFTED A REFORM STRATEGY AT THE REQUEST OF ARAB GOVERNMENTS AND PRIVATE ASSOCIATIONS
to enable them to remove the following overriding constraints in coordination with all 6 major interest groups:

Politicians · Armed Forces · Business/Finance · Media · Academia · Trade Unions

GROUNDBREAKING FACTS after 20 months of research

OVERRIDING CONSTRAINTS that have to be addressed to grow this region's economy

1. Tunisian street vendor Mohamed Bouazizi was **NOT ALONE** in 2010: **63 OTHERS ALSO LIT THEMSELVES ON FIRE – across the MENA region**

2. [illegible] **PROTESTING AGAINST ECONOMIC CONSTRAINTS MAINLY "EXPROPRIATION"**

3. **380 MILLION ARABS** [illegible]

4. **NO ARAB GOVERNMENT HAS THE INSTITUTIONS** [illegible]

1. MYTHICAL CONSTRAINT: many in the Arab world – and outside it – believe that Arab culture and a market economy are incompatible. As a result, there is insufficient political will to remove economic constraints.

ILD FINDING : *the Arab majority is already in the market - 380 million people in the MENA region derive their livelihood from it, without protection from the law. The reason they perform poorly is the lack of information, confidence and joining devices property rights and business law provide. Without these, it is impossible to use assets to obtain credit or capital, or to combine assets and talents so that the sum may be greater than the parts.*

CONCLUSION: ENTREPRENEURS AND MARKETS DON'T PERFORM WELL IN MENA BECAUSE THEY LACK THE CRITICAL INGREDIENT FOR CREATING WEALTH – PROPERTY RIGHTS.

2. PROPERTY RIGHTS CONSTRAINT: only 8% of land in the MENA region can be used to collateralize credit. Only about 15% of Arab enterprises and families have access to the property rights that facilitate valuable combinations and protect them from the kind of arbitrary expropriation that triggered the Arab Spring.

ILD FINDING: *the average Arab entrepreneur needs to present 57 documents and faces 2 years or more of red tape to obtain a legal property right over land or a business. If all these constraints were removed, annual growth could increase by 2% after 5 years.*

CONCLUSION: MENA PROPERTY RIGHTS SYSTEMS ARE NOT THAT BAD. THE ISSUE IS LEGAL APARTHEID: THE MAJORITY OF ARABS DON'T HAVE RIGHT TO THOSE PROPERTY RIGHTS.

3. PRE-INDUSTRIAL REVOLUTION CONSTRAINT: 1. from an entrepreneurial perspective, one cannot remove constraints by focusing on one or two government departments. Obstacles underpin the entire legal system. In Egypt, for example, to legally open a business requires dealing with 29 different government agencies and navigating 215 laws and regulations.

ILD FINDING: *the challenge to removing these constraints is twofold: (1) adapting the whole system to a society that is in the midst of a transition from a premarket to a market order; (2) giving the majority not just better property rights but rights to property rights.*

CONCLUSION: REMOVING CONSTRAINTS REQUIRES A DIFFERENT SET OF SKILLS THAN ADAPTING SOCIETY TO THE INDUSTRIAL REVOLUTION. FIGHTING ECONOMIC APARTHEID IS A POLITICAL RESPONSIBILITY AT THE HIGHEST LEVEL

4. POLITICAL MOTIVATION CONSTRAINT: for any politician – even the most reform-minded one – to challenge the status quo carries extreme political costs. What makes them so high is the lack of procedures for systematically achieving consensus.

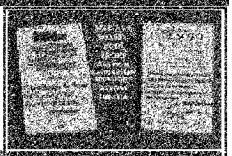
ILD FINDING: *only by displacing these four categories of overriding constraints will Arab governments be ready to address their ultimate objective of removing their economic constraints to growth. To do that they have to complement growth techniques with the ability to manage a traditional society's transition to one that is compatible with the industrial Revolution.*

CONCLUSION: SINCE THE WEST HAS FORGOTTEN THE NUMBER AND SIZE OF INSTITUTIONAL REFORMS IT HAD TO IMPLEMENT TO ACCOMMODATE THE INDUSTRIAL REVOLUTION OVER THE LAST 150 YEARS, IT'S GOING TO BE A PRETTY LONELY VOYAGE FOR ARAB LEADERS.

ILD INITIATIVE: DIED FOR PROPERTY AND THE RULE OF LAW

POLITICAL PARTIES [illegible] **HAVE EMULED**

LARGEST BUSINESS ASSOCIATIONS [illegible]



ANTI-CONSTRAINT COALITION [illegible] **SUPPORT THROUGH LARGE CONFERENCES OF BUSINESS PEOPLE, MEDIA BRIEFINGS AND UNIVERSITY WORKSHOPS**

INTERNATIONAL MEDIA IS PICKING UP

www.ild.org.pe

HEADLINES IN THE MIDDLE EAST AND NORTH AFRICA

Harnessing the Market Forces of the Arab Spring to Generate Growth and Peace

Written Statement by Hernando de Soto for the Hearing
"The Call for Economic Liberty in the Arab World"

A Proposal already under Discussion for Implementation by Arab Governments and Private Sector Leaders that Would Increase Annual GDP Growth by 2%, according to Egyptian and U.S. Estimates

May 2013

The Arab Spring represents an unprecedented opportunity to remove the constraints to broad-based economic growth in the Middle East and North Africa (MENA). Few have realized that the persistent unrest in the Arab world is a symptom of a pro-market revolution sparked off by hundreds of small entrepreneurs protesting constraints such as expropriation. But removing these constraints cannot happen without dealing with the underlying causes behind these constraints. We refer to them as the "overriding constraints" or the main barriers to creating sustainable development in MENA.

It is conventional wisdom in the West that market-based entrepreneurship and investment are the primary drivers of economic growth. For broad based growth to happen in the depressed Middle East and North Africa (MENA) the economic constraints that get in the way must be identified and removed.[1]

As Latin Americans involved in reducing transaction costs for governments worldwide, we at the Institute for Liberty and Democracy (ILD) could not agree more.[2] We know that most well-trained Arab elites also agree. *(See Annex 1 for our measurement of some constraints in MENA and, as an example, our estimate of the size of Egypt's constrained economy)*

Why doesn't Tunisia – and the rest of the governments in the MENA region – just get rid of "the **constraints to growth**"?

For us, there are two ways to answer that question:

First, the reason it has always been difficult to remove constraints to growth in developing and transition economies is because the real constraints are found at a higher institutional level. Another way of saying this is that western countries got good at removing constraints because they previously solved what I call the "overriding constraints to the constraints – what I want to call the "constraints to the constraints."

Our second answer is what I imagine would have been what Mohamed Bouazizi would have replied – if, in addition to being the Tunisian street vendor whose public self-

[1] "Towards a New Economic Model for Tunisia: Identifying Tunisia's Binding Constraints to Broad-Based Growth"; a joint study by the African Development Bank, the Government of Tunisia and the U.S. Government – commissioned by the Millennium Challenge Corporation (2013).

[2] *The ILD is a Peru-based, think tank and problem solving organization dedicated to understanding – through fieldwork – the extra-legal origins of market economies and providing developing countries with strategies to establish the rule of law.*

immolation on 17 December, 2010 sparked the Arab Spring, he reincarnated in your Congressional Hearing with a degree in institutional economics. I have the nerve to make this statement because just after his death we dispatched a team to Tunisia that ended up spending 20 months in the region to find out why someone would commit suicide after authorities confiscated a cartful of fruit and a used scale. In the course of our research, we located 63 more men and women who replicated Bouazizi's blazing protest within the first 60 days of the Arab Spring –in one country after another. Like him, they were all entrepreneurs, who had also been expropriated. We have their stories, not only because we interviewed their families, colleagues and their authorities, but also because we had the opportunity to interview many of the 37 who had survived.

Since you are politicians, you know better than I do that politics is as much about government as it is about people. That is why a day ago I tore up my long-winded professional testimony because Bouazizi's story really brings across what it means not to have property rights governed by the rule of law, something that Westerners take for granted. My plan is to touch on the professional angle in order to spend more of my limited time reporting to you what I learned from the Arab self-immolators.

I begin with what I want to call --

THE OVERRIDING CONSTRAINTS to MENA GROWTH – AND THEIR SOLUTIONS

We have organized these overriding constraints and solutions into four categories:

1. **MYTHICAL CONSTRAINTS:** Many in the Arab world – and outside it – believe that Arab culture and a market economy are incompatible. As a result, there is insufficient political will to remove economic constraints.

ILD FINDING: *The Arab majority is already in the market – 380 million people in the MENA region derive their livelihood from it, without protection from the law. The reason they perform poorly is the lack of information, confidence and joining devices property rights and business law provide. Without these, it is impossible to use assets to obtain credit or capital, or to combine assets and talents so that the sum may be greater than the parts.*

Conclusion: Entrepreneurs and markets don't perform well in MENA because they lack the critical ingredient for creating wealth – property rights.

2. **PROPERTY RIGHTS CONSTRAINTS:** Only 8% of land in the MENA region can be used to collateralize credit. Only about 15% of Arab enterprises and families have access to the property rights that facilitate valuable combinations and protect them from the kind of arbitrary expropriation that triggered the Arab Spring.

ILD FINDING: *The average Arab entrepreneur needs to present 57 documents and faces 2 years or more of red tape to obtain a legal property right over land or a business. If all these constraints were removed, annual growth could increase by 2% after 5 years.*

Conclusion: MENA Property rights systems are not that bad. The issue is economic apartheid: the majority of Arabs don't have right to those property rights.

3. **PRE-INDUSTRIAL REVOLUTION CONSTRAINTS:** From an entrepreneurial perspective, one cannot remove constraints by focusing on one or two government departments. Obstacles underpin the entire legal system. In Egypt, for example, to legally open a business requires dealing with 29 different government agencies and navigating 215 sets of laws.

ILD FINDING: The challenge to removing these constraints is twofold: (1) adapting the whole system to society that is in the midst of a transition from a premarket to a market order; (2) giving the majority not just better property rights but rights to property rights.

Conclusion: Removing constraints requires a different set of skills than adapting society to the Industrial Revolution. Fighting economic apartheid is a political responsibility at the highest level.

4. **POLITICAL MOTIVATION CONSTRAINTS:** For any politician – even the most reform-minded one – to challenge the status quo carries extreme political costs. What makes them so high is the lack of procedures for systematically achieving consensus.

ILD FINDING: Only by displacing these four categories of overriding constraints will Arab governments be ready to address their ultimate objective of removing their economic constraints to growth. To do that they have to complement growth techniques with the ability to manage a traditional society's transition to one that is compatible with the Industrial Revolution.

Conclusion: Since the West has forgotten the number and size of institutional reforms it had to implement to accommodate the Industrial Revolution over the last 150 years, it's going to be a pretty lonely voyage for Arab leaders.

WHEN THEORY MEETS REALITY: BOUAZIZI'S STORY

Let's begin with the widespread view that property and markets are not important to the average Arab. If this belief is left unchallenged, there is little likelihood politicians will put the task of removing constraints at the top of the agenda.

The only thing that can overpower a hypothesis that has lasted so long is factual evidence to reveal that it is a myth. Over the past 13 years of research in the MENA region to help governments remove constraints and create inclusive markets – involving 15 Peruvian and 120 Arab researchers and some 300 grassroots facilitators – the ILD has turned up enough factual evidence to discredit the argument that Arabs and markets are incompatible. In Egypt alone, the "constrained" private market accounts for between 40% and 68% of the nation's labor force, depending on how you count it, and 84% of businesses and 92% of land parcels. In fact, ILD has estimated that some 380 million Arabs derive most of their income from the constrained market.

How could something so big be so invisible? The simple answer is bad categorization. If business in any developing nation doesn't produce wealth, its government will consider it "informal", "traditional", "customary", "tribal", "cultural", "refugee," "micro" or simply the poor man's response to unemployment. Such enterprises get labeled as outside the realm of real business are then shelved and forgotten – disguised in official government statistics about the nation's economic activity. When poor entrepreneurs do get labeled as a proper business, the system gives them a legal status with none of the legal mechanisms that enable a modern business to scale up its operations, such as: property rights that facilitate buying and selling for combinations, limited liability, and asset sharing to reduce the risk of expropriation; the ability to make commitments to contractual documents instead of speech acts; a hierarchic structure independent from family or political organizations to divide labor among specific sub-functions submitted to a single-control system; limited liability to reduce risk and separate what is personal from business; perpetual succession so as to transfer capital and reputation over time; asset

partitioning to pull and distribute resources in the abstract without having to physically separate them; to issue shares representing property against investment; to create a moral personhood to establish a separate entity independent from its owners within which collaborative efforts can be objectively organized; asset collateralization to generate mortgages, guarantee credit, and encourage compliance by attaching owners to assets, assets to addresses, and addresses to enforcement.

Without these legal tools, there is no way an entrepreneur or an investor can be efficient in the 21st century. In short, what I'm saying is that the absence of property, the rule of law, and their benefits are the mother of all constraints. It is only when a society knows who owns what, what is where, and how to divide labor and combine talents and resources that it can call its economy truly unconstrained. Without property systems, entrepreneurs cannot hold, transfer, assess, certify value, and know that they and the rest of the world are playing according to the same rules, procedures, and standards. Property provides knowledge and connectivity; and without that, markets don't work.

The publication of such evidence earned our tiny organization in deepest, darkest Peru a worldwide reputation in development, academic, and journalistic circles. Not only was our analysis considered interesting but the experts also paid attention to our proposal that for development purposes the world should be divided between those who operate under property rights and the rule of law (two billion people, according to ILD estimates) and those who don't (four to five billion people). That poor majority scrambling for a living in the shadows of the legal system – we have advised the governments that contract our assistance in their reform efforts – is their major source of conflict and violence and producing a huge social rift in their societies

The ILD's approach to development has been adopted by international organizations and governments. To be sure, we were controversial but we were also influential, but not to the point of bringing down the myth that ordinary Arabs were culturally unfit to enter global markets. We figured that it would take a generation or two for the facts that we have gathered about the huge amount of market activity going on throughout the MENA region – unless something tremendously dramatic happened.

Bouazizi spoke for 380 million Arabs without property rights

Well, something tremendously dramatic did happen when, on 17 December 2010, the street vendor Tarek Mohamed Bouazizi set himself on fire in front of the governor's offices in the small Tunisian city of Sidi Bouzid to protest having been arbitrarily put out of business. The Arab Spring itself – sparked by the self-immolation of entrepreneurs protesting their lack of property rights and driven by the sympathy of millions of Arabs – is evidence enough to demolish the hypothesis that Arab do not want to live in a modern market economy.

ILD also discovered that Bouazizi's blazing protest was not an isolated phenomenon but part of a spontaneous collective action: within the next 60 days, at least 63 more men and women in Tunisia, Algeria, Morocco, Yemen, Saudi Arabia and Egypt also set themselves on fire. All were extralegal entrepreneurs (builders, contractors, caterers, ITC businessmen, etc.); during extensive interviews with their families – and with a dozen of the 37 self-immolators who survived – we heard the same word to explain their motivation for staging a public suicide: "expropriation" – i.e. the lack of enforceable property law. When we asked Bouazizi's family what they believed he had died for, they answered, "For the right to buy and sell."

ILD research also revealed that upwards of 380 million people depend on the region's massive informal economies for their livelihood – sharing the same fears of expropriation. Little wonder that millions went into the streets to demand change and topple governments.

Massive suicide in defense of property rights is hard for the modern Western mind to understand. Especially since we're talking about a man like Bouazizi, who set himself on fire to apparently only protest for the loss of an electronic scale and fruit –that the ILD estimates at a total value of US$225. Yet it would have been quite simple for a US frontiersman to comprehend: Bouazizi's right to hold on to things, buy and sell them, were not protected by law but by the arbitrary and personal good will of local authorities. So, when they took away his goods and his location and refused to change their minds, the only source of nearly all of his rights was shut off.

Bouazizi had no law to appeal and was thus immediately ruined: he had no possibility of getting another location, since it was not only the location that authorities took from him but also the right to a location; since he could no longer repay the loans he had taken to buy his confiscated merchandise, he was also bankrupt and no longer credit-worthy; nor could he sell his business and move elsewhere because he had no documented "legal person" to pass on to buyers; he couldn't get a fresh injection of capital because he had no right to issue shares.

The majority of MENA entrepreneurs operate in an economic system that is, in effect, where most ordinary people were at the beginning of the Industrial Revolution. They are beginning to understand that as old traditions and local rules fade, they need the legal property and business tools that their counterparts in the West – and the elites of their own countries – take for granted; they also know in their bones that their governments and legal systems have excluded them from those rights; and after their revolutions, they are no longer willing to depend on their only alternative – the crony protection of local authorities who can expropriate their property on a whim and ruin them.

That is why Bouazizi and so many others lit themselves on fire – because they lost more than the wares that meet the eye; they were also expropriated of the few tools they had to make a living as entrepreneurs. And that is why within a few days of Bouazizi's self-immolation, millions of people with the same transitional property rights he had went into the streets and toppled governments throughout the Middle East and North Africa.

Property rights is about more than protection of ownership

Property rights are taken for granted and ill-defined in the West. But for developing and transition economies, all 5 billion of us Latin Americans, Arabs, Africans, and Asians, property rights are more than a selfish argument in defense of the real estate of the very rich. In fact, if we agree that economic growth is primarily driven by entrepreneurship and investment, then no one can even begin to think seriously about making societies like those in the MENA region that are in transition to grow on the basis of broad based entrepreneurship unless they are given access to the information and joining devices that property and business law provide so that they can make valuable combinations.

Making "combinations" is what entrepreneurs do. Mother Nature provides us with all the resources we need, but most of them are useful only if entrepreneurs are able to combine them into more complex wholes. The higher the value of these aggregations, the more economic growth there will be. Humanity's most innovative achievements – from the 120 parts that make up my clock to the countless financial deals and developments that produced the Internet and flight navigation systems – all result from joining people and things to each other.

To make those combinations for producing growth, entrepreneurs need information and joining devices – found in documented property systems and business law. For entrepreneurs and investors to locate suppliers, infer value, take risks and combine even such simple things – to borrow a famous example – as graphite from Sri Lanka and wood from Oregon into pencils requires knowing who owns – and owes – what and where, and then fixing that information in public records. Property does not just establish that Smith owns the factory but also describes that factory as an address where mortgages can be foreclosed; debts, fees and taxes collected; deliveries made; where credit can be secured; shares can be issued against capital; utilities services can be controlled; and bills collected.

That's one of the principal reasons why Western entrepreneurship has triumphed for the past 150 years, according to ILD's research into the history of how the world's greatest economies evolved out of their own chaotic, dispersed and lawless markets into engines of growth: progress came part and parcel with property rights that provided the best available knowledge to explore economic combinations. So no matter how many economic constraints governments remove or transactions costs they lower, no broad-based entrepreneurial class will emerge until all of society has access to legal property rights.

This is a little understood fact, mainly because too many in the West tend to view property rights as essentially the protection of ownership – whether controlling assets, transferring real estate, distributing land or marking the boundaries of parcels of land. What they miss is that property rights have evolved from those original functions to play other roles in modern society – like the feathers of a bird that might have evolved to keep that creature warm but later were adapted for flight (a process that biologists call "exaptation").

Similarly, as markets grew beyond feudal, tribal and other small-scale units people realized that if they were to take advantage of expanding markets, divide labor and trust others on a large scale, they needed more written information on far away places and situations than was available locally. And the place where that information started being gathered, organized, recorded, updated and directed was in what we call "property systems". Over the last century and a half, the West has recorded and classified – in rule-bound and publicly accessible registries, titles, balance sheets, and statements of account – all the knowledge available relevant to the economic situation of people and the assets they controlled, whether they were intangible (stocks, commercial paper, deeds, ledgers, contracts, patents, companies and promissory notes), or tangible (land, buildings, boats, machines, animals and books).

Thus property systems evolved from being exclusively a means to protect ownership into a short cut to economic knowledge, a tool kit and the rules for joining things owned. They produce the trust that allows credit and capital to flow and global markets to work.

Arabs and the fear of expropriation

Bouazizi and his fellow entrepreneurs in the bazaars and shantytowns of Tunisia and the rest of the MENA region do not have access to such knowledge. The only property rights that poor entrepreneurs have are those that they receive not through law but through the good will of local authorities. Bouazizi, for example, had the informal right to park his fruit stand in a particular place every day in the Sidi Bouzid market – until the authorities who gave him that right decided to take it away, along with the fruit he was selling and the scales he used to win the trust of his customers.

Like Bouazizi, the majority of Arabs cannot make the market work to their advantage because they are fragmented in non-specialized economically sterile groups where labor cannot be efficiently combined. One has to understand that they live in a world where Western categories are not present and rebellion is there to compensate frustration by turning to violence. This is hardly new: At the time of the Industrial Revolution, Marx witnessed this same phenomenon and concluded that violence was a natural response to conditions of extreme inequality and alienation. And not so long ago, we at the ILD saw with our own eyes during our participation in the war against the Shining Path insurgency in Peru, how the entrepreneurial frustrations of ordinary Peruvians could easily be whipped up into terrorism – in spite of the fact that that they were quite familiar with the ideas of property and entrepreneurship.

At present, all our interviewees in the extralegal economy single out "expropriation" as the main constraint and the source of their woes. Interestingly enough, if a plan to remove constraints centers around the property of assets and enterprises, it can cut right through most of the constraints that afflict Arab economies because, as we have seen, property is the rhizome that cuts right across the whole economic system. In the small city of Sidi Bouzid, where Bouazizi lived and died, there where 9 property systems, which means that Tunisia must have hundreds more. There's no way that you can reach economies of scale with that many separate loose property arrangements.

Thus, any effort at reform must begin by integrating property law.

So how do you integrate?

Doing exactly what all developed countries have done over the last 150 years, consciously or not: you pull together all the conventions on property into one codified law that respects local norms where they make sense, which means that any process of bringing everyone under one unconstrained law requires feedback from the different Arab constituencies. If done properly, there would be no resistance to the shifting of ownership from local to larger arrangements because it will make business more profitable and burdensome parochial politicking more irrelevant. *(See Annex 2 for an infographic description of our on-going and past work to assist MENA governments with "breaking the bell jar that discriminates between Arabs").*

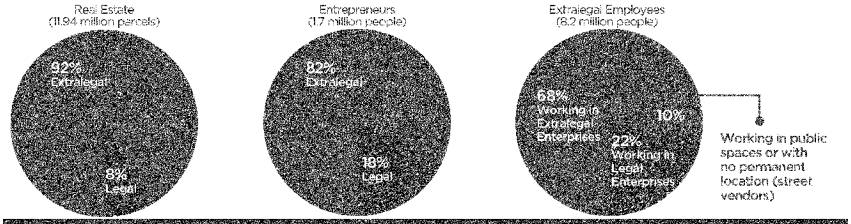
To repeat: Property reforms to pave the way for entrepreneurship and investment in the country will require all sorts of specialties. But given the complex nature of passing people from a traditional to a modern order, strategic minds must lead the specialists. Together with our Egyptian colleagues, we have written a description of our project for you in a 1,000-page document, the contents of which can be broken into 12 representative groups of reforms that remove 40 major constraints. *(See Annex 3, using Egypt again as an example for, its 12 overriding constraints and the institutional solutions to those blockages.)*

Thank you for your attention.

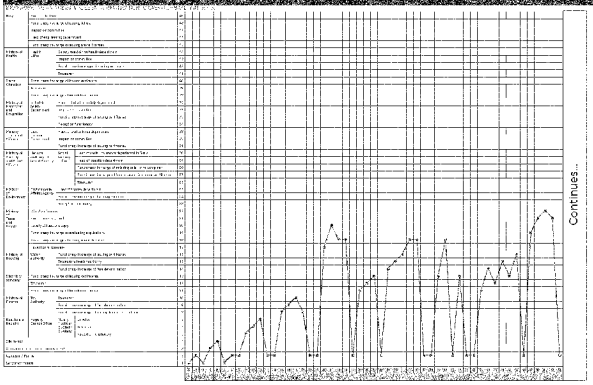
ANNEX 1
SOME CONSTRAINTS IN THE MIDDLE EAST AND NORTH AFRICA

ILD

THE SIZE OF EGYPT'S CONSTRAINED ECONOMY



EXAMPLES OF ILD'S WORK ON IDENTIFYING ECONOMIC CONSTRAINTS ON USING PROPERTY AND DOING BUSINESS IN EGYPT

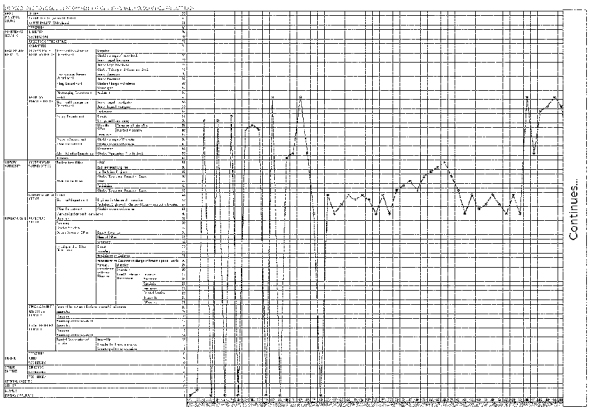


INCORPORATING AND OBTAINING LEGAL AUTHORIZATION TO OPERATE A BAKERY

STEPS: 136

TIME: 549 DAYS

COST: 27 MONTHS AT A MINIMUM SALARY



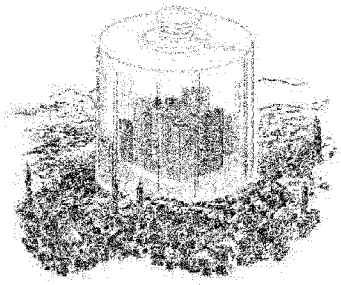
PROCEDURES TO REGULARIZE OWNERSHIP OF INFORMALLY SUBDIVIDED PRIVATE LAND

STEPS: 358

TIME: 1,371 DAYS

COST: L.E. 27,205

ANNEX 2
BREAKING THE BELL JAR THAT DISCRIMINATES BETWEEN ARABS



A. AWARENESS AND CONSENSUS BUILDING

- Initial assessment of the extralegal economy and key groups of interest.
- Customization of Orientation/Training Program.
- Implementation of the Orientation/Training Program.
- Build consensus around a formalization program.

B. INTERIM COMMISSION AND "QUICK WINS"

- Ensure that the highest political level assumes responsibility for the program.
- Staff and put into operation an organization (Interim Commission) responsible for the implementation program.
- Obtain feedback from citizens on legal constraints and implement rapid changes in the legal and administrative procedures ("Quick Wins").
- Implement a communications strategy.

C. REFORM PROGRAM

Diagnosis

- Identify, locate and classify extralegal assets (dead capital).
- Quantify the actual and potential value of extralegal assets (dead capital).
- Analyze the interaction of the extralegal sector with the rest of society.
- Identify the extralegal norms, which govern informal property.
- Identify the principal institutional obstacles to transform extralegally held assets into more productive formal property and determine the costs of extralegality to the country.

Reform Design

- Put into operation a specialized entity and government agencies that will permit rapid change.
- Remove administrative and legal bottlenecks.
- Build consensus between extralegal and legal sectors.
- Draft statutes and procedures, which lower the costs of holding stock legally below those of holding it extralegally.
- Create mechanisms that will reduce risks associated with private investment in emerging markets.

D. REFORM IMPLEMENTATION

Implementation

- Design and implement field operation strategy, procedures, personnel, equipment, offices, training and manuals that enable government to gather, process and recognize property rights in the extralegal sector.
- Design and implement communications strategies to encourage participation of the extralegal sector, support in the business community and the government sector and acquiescence among those with vested interests in the status quo.
- Re-engineer the record keeping organizations and registration processes so that they can bring out and pull together all the economically useful descriptions about a country's extralegal assets and integrate them into one data/knowledge based computer system.

Operation and Maintenance

- Registry operations, transactions and enquiries
- Insurance and risk reduction services.
- Monitoring to keep costs of holding assets legally below those of holding them extralegally.

E. ACTIVATE THE ENFORCEMENT AND INFORMATION MECHANISM TO ENABLE THE PROVISION OF:

- Banking/mortgage/credit.
- Public utilities
  - Energy
  - Water, sewage
  - Telecommunications
- Collection systems
- Credit, rates, taxes
- Insurance products
  - Property damage, life insurance, credit insurance, liens, title insurance
- National identification systems
- National security
- Other value added information services
- Housing and infrastructure

ANNEX 3
EGYPT'S 12 OVERRIDING CONSTRAINTS

ILD
www.ildeurope.org

1. Too many laws to get into business: the legal devices that entrepreneurs require to combine resources, divide labor and raise credit and capital are packaged in a business organization. To access any of these legal tools, entrepreneurs have to deal with 215 separate laws.

ILD Solution: consolidating incorporation into one law.

2. Too many agencies to deal with: to enter business requires dealing with 29 different agencies.

ILD Solution: creating one agency - the New Business Public Registry (NBPR) - that eliminates $200 million in unnecessary constraint-related costs.

3. Too much time to register: registering and licensing a single-person business takes 189 days, 86 steps and LE 8,362.

ILD Solution: a redesigned registry procedure that will decrease time by 90%.

4. No limited liability: 90% of all businesses are single-person without limited liability – to shield personal assets from business risks.

ILD Solution: legislation that will extend limited liability to all businesses.

5. Redundant documentation: registering a business requires 57 documents for six agencies containing the same information.

ILD Solution: legislation that will require an entrepreneur to present an I.D. and only four documents to one government entity, the NBPR - thus wiping out constraining effects of redundancy and excessive discretion.

6. No Accounting Standards: no clear standard accounting principles for providing reliable economic information.

ILD Solution: reform legislations that create a Special Accounting Council to regulate accounting principles.

7. Arbitrary procedures: lack of predictable procedures, standardized forms and payment schedules for tax, labor and social insurance obligations undermines compliance and encourages arbitrary inspections, unpredictability and redundancies.

ILD Solution: draft legislation creating a Simplification System that will coordinate the rules, information, fee schedules and hours of the Tax Administration, Ministry of Manpower and Social Insurance Agency.

8. Inadequate information: obtaining credit to purchase goods and equipment is difficult because most of the businesses are informal and creditors are unable to obtain up-to-date information on a business' financial status.

ILD Solution: a new Business Information System with mechanisms for exchanging data among government agencies and utility companies.

9. Too many risks: a foreclosure to recover even a debt of LE 20,000 secured with real estate involves 162 steps, 411 days and LE 7,286 (if appealed, it takes 8 years); credit secured by a pledge of the same amount is even more costly.

ILD Solution: legislation for a special system for resolving disputes that reduces foreclosure period for mortgages by 55% – and pledges by 77%.

10. Too hard to globalize: importing and exporting goods is time-consuming and costly: To import spare parts for vehicles by air, for example, takes 46 steps, 116 days, costing LE 6,799.

ILD Solution: the proposed NBPR will handle all import/export authorizations; the proposed Simplification System will fine-tune procedures.

11. Difficult to exit the market: the procedures for exiting the market are not clearly established or regulated.

ILD Solution: legislations that consolidate regulations for voluntarily leaving the market legally into a single text under the NBPR.

12. Property not fungible: because rules for assigning, recognizing and protecting property rights are dispersed through at least 132 norms applied by 44 entities, 92% of Egyptians hold their real estate extralegally: formalizing the acquisition of a piece of private state owned land, for example, involves 174 steps, 460 days and LE 17,911; registering a simple transaction in the Real Estate Public Registry involves 102 steps, 198 days and LE 20,581.

ILD Solution: creating a formalization and registration system that consolidates legislation into one law and one agency – the New Real Estate Registry for formalizing different types of property and their transactions.

Chairman ROYCE. Thank you, Mr. de Soto.

We will go now to Ambassador Albright. We know you have a previous commitment at 10:30, but we very much appreciate your testimony and being with us until then. Ambassador Albright?

Ambassador ALBRIGHT. Thank you very much, Mr. Chairman and members of the committee.

Before I begin, I would like to express my condolences and sadness for what happened to the people in Oklahoma. I think that, as we react to that, we will see how democracies really do behave vis-à-vis the people that support it.

STATEMENT OF THE HONORABLE MADELEINE K. ALBRIGHT, CHAIRMAN, ALBRIGHT STONEBRIDGE GROUP

Ambassador ALBRIGHT. I am delighted to be here this morning. And, at the outset, let me say that I am testifying solely in my personal capacity and not on behalf of the National Democratic Institute, which, as you mentioned, I chair. I will, however, draw on lessons learned from my association with NDI, which has been supporting democratic principles for more than a quarter of a century.

Mr. Chairman, I am really very pleased to be here this morning with my friend and colleague Hernando de Soto. And we served together on the Commission on the Legal Empowerment of the Poor, sponsored by the United Nations. And I learned a great deal from him. And, as he has testified, Arab countries, like all countries, would benefit from an economic system in which access to the protections of law are available to the rich and the poor alike. People want to vote, but they also want to eat. And economic frustration has contributed much to the unrest that we see in many places, including in the Arab world.

Through their research, Mr. de Soto and his institute have established an intimate connection between legal rights and economic development. And this is a fact that we should bear in mind when observing the events in Arab countries and when we contemplate our own regional role.

As a perpetual student, I think that one of the things I have learned is the constant argument about what goes first: Political development or economic development? They clearly go together. That is what I have learned.

And, as we know, Tunisia, Libya, Yemen, and Egypt have overthrown dictators and are in the process of building alternative governing structures. And, in so doing, they face two fundamental risks. The first is that, fearing disorder, they will retreat from real change and, instead, offer the same kind of centralized power that ultimately destroyed the old regimes.

The second danger is that the new leadership will be so fragmented and, thus, unable to govern effectively, causing a decline in public services, economic disruption, and popular discontent. To succeed, these governments must be more open than their predecessors, but they must also take practical steps to deliver on the promises of a better life. And that requires creating institutions that will address urgent problems in a visible way, ensure fair representation for all, make sure that human rights are there, and give citizens a chance to take charge of their own economic futures.

Such a process begins, but only begins, at the ballot box. True democracy demands a Parliament that functions, an independent judiciary, a culture that rejects corruption, and an economic system that generates opportunity. As we have seen, revolutions and other sudden changes in government are often accompanied by a sharp rise in public expectations. People have taken to the streets in support of new leadership, and they naturally hope to see improvement in their own lives. But it is much easier to demand reforms when out of power than to implement them when confronted by the hard realities of public office.

Across the Arab world, officials without a background in democratic government are striving to draft constitutions, write legislation, organize ministries, and forge new political coalitions. And it is little wonder that there are many in the region who would like to learn from the experience of others. In my view, we have to do everything we can to assist that.

Every situation is unique, but the road from autocracy to democracy has become in recent decades a well-traveled one. And there is much to be gained by bringing people in the Arab region together with the authors of change in central Europe, Southeast Asia, Latin America, and South Africa. And we, too, can offer help in cooperation with other democratic governments in such tasks as organizing elections, establishing political parties, training judges, fostering pluralism, and extending to all citizens the protection of the law.

Mr. Chairman and members of the committee, the United States has neither the desire nor the power to dictate what happens in the new Arab democracies, but we can still exert a positive influence by fulfilling requests for technical aid and by remaining steadfast in support of democratic principles.

We must have faith that, as complicated as the democratic system often is, it is still far more likely than any other to produce societies that are at peace with themselves, with their neighbors, and with us.

So let us not forget that the alternative to democratic support is embracing governments that lack the blessing of their own people. And that leads not to stability but to counterfeit, leaving us shackled to dictators, at odds with Arab democrats, distrusted by Arab populations, and unsure of ourselves.

Make no mistake. We will all do better if Arab societies are able to create a new model for governance in their region and if the next Arab generation is known for its commitment to intellectual inquiry, its openness to fresh ideas, and its ability to thrive in freedom.

Thank you very much again for inviting me. And it is nice to be back in this room.

[The prepared statement of Ambassador Albright follows:]

Statement of Madeleine Albright
House Committee on Foreign Affairs
The Call for Economic Liberty in the Arab World
May 21, 2013

Thank you, Mr. Chairman and members of the committee, good morning.

At the outset, let me be clear that I am here today solely on my own behalf, not representing any organization, including the National Democratic Institute for International Affairs , which I chair.

I will, however, draw on lessons learned through the work of NDI, which has been supporting the democratic cause for more than a quarter century.

Mr. Chairman, I'm pleased to be here with my friend and colleague, Hernando de Soto, with whom I served in 2008 as co-chair of the United Nations Commission on Legal Empowerment of the Poor.

As Mr. de Soto has testified, Arab countries, like all countries, would benefit from an economic system in which access to the protections of law are available to rich and poor alike.

People want to vote but they also want to eat and economic frustration has contributed much to the unrest we see in the Arab world and elsewhere.

Through their research, Mr. de Soto and his Institute for Liberty and Democracy have established an intimate connection between legal rights and economic development.

Experts in fighting poverty are now agreed that legal rights are essential for the poor to acquire assets, build capital, obtain credit, and lift themselves into the middle class.

This is a fact we should bear in mind when observing events in Arab countries, and when contemplating our own regional role.

As we know, Tunisia, Libya, Yemen, and Egypt have overthrown dictators and are in the process of building alternative governing structures.

In so doing, they face two fundamental risks.

The first is that, fearing disorder, they will retreat from real change and instead offer the same menu of opaque decision making and centralized power characteristic of the old regimes.

The second danger is that the new leadership will be so fragmented that it lacks the capacity to govern – causing a decline in public services, economic disruption, and popular discontent.

To sidestep the risks, these governments must be more open than their predecessors, but they must also take practical steps to deliver on the promise of a better life.

That requires creating institutions that will address urgent problems in a visible and effective way, ensure fair representation for all, and give citizens a chance to take charge of their own economic futures.

Such a process begins – but only begins -- at the polling booth.

True democracy demands a parliament that functions, an independent judiciary, a culture that rejects corruption, an economic system that generates opportunity, and a free and vibrant civil society.

As we have seen, revolutions and other sudden changes in government are usually accompanied by a sharp rise in public expectations.

People who have been promised change and have supported new leadership naturally hope to see improvements in their lives – but it is much easier to demand reforms when out of power than to implement them when confronted by the hard realities of public office.

Across the Arab world, officials without a background in democratic government are striving to draft constitutions, write legislation, organize ministries, and forge new political coalitions in an environment where most everyone has the means – in particular through social media -- to publicize every mistake.

It's little wonder that there are many in the region who would like to learn from the experience of others.

In my view, we should do all we can to help.

Every situation is unique, but the road from autocracy to democracy has become, in recent decades, a well-travelled one.

There is much to be gained by bringing people in the Arab region together with the authors of change in Central Europe, Southeast Asia, Latin America, and South Africa.

And we too can offer assistance, in cooperation with other democratic governments, in such tasks as organizing and observing elections; establishing viable political parties; working with legislative bodies; training judges; fostering pluralism; and extending the protections of law to include all citizens.

Mr. Chairman, the United States has neither the desire nor the power to dictate what happens in the new Arab democracies – but we can still exert a positive influence by fulfilling requests for technical aid and by remaining steadfast in support of democratic principles.

We must have faith that, as complicated as the democratic system often is, it is still far more likely than any other to produce societies that are at peace with themselves, with their neighbors, and with us.

Let us not forget that the alternative to democratic support is embracing governments that lack the blessing of their own people.

That leads not to stability but to its counterfeit -- leaving us shackled to dictators, at odds with Arab democrats, distrusted by Arab populations, and unsure of ourselves.

Make no mistake, we have an interest in seeing these democratic movements succeed; we will all do better if Arab societies are able to create a new model for governance in their region; and if the next Arab generation is known for its commitment to intellectual inquiry, its openness to fresh ideas, and its ability to thrive in freedom.

Mr. Chairman and members of the committee, thank you once again for your invitation to be here.

I look forward to our discussion.

Chairman ROYCE. Thank you, Secretary Albright. It is good to have you back in the room with us.

I was going to go first to Mr. de Soto with a question. I just remember some of the work that you were doing in Egypt some years ago and your frustration at the time with the lack of commitment to reform. I think it was the Mubarak administration that asked you to leave the country.

You were in the process of advising them on the need to address this issue—and corruption was a part of the issue. But I wondered if you could go through that because I think it was interesting in terms of what you found in Cairo at the time, and what the response of the Mubarak government was at the time, in order to give us an understanding of the lack of adjustment to rights in these societies.

Mr. DE SOTO. Thank you, Mr. Chairman.

Yes. We were called in in the year, about 1999 and started a project in the year 2000 that went into 2005 by the government. And we reported directly to the prime minister and to the ministry of the treasury. And the general idea was to draft the laws that would allow a population that was about 60–64 percent, maybe 40 percent depending on how you calculate it, but it was 85 percent of enterprise and involved 92 percent of all plots of land to come to the legal sector because it didn't have all of that information and those tools that property gives, which allows it to combine and create wealth.

Well the proposal was actually accepted by the Council of Ministers, and it was made operational. It just had one problem. It was that we had insisted that we had to get rid of the notion that property is real estate. Property is a condition under which you hold and exchange things. It is a much bigger phenomenon.

Before you Americans, for example, are able now to have title insurance, you have got titles, you have got deeds, you have got paper, whatever you have got, you have got about four generations of reforms that, first of all, made that paper credible. You had a constituency for property, even before you had a full democracy. You had homesteading. You had preemption acts where Congress turned down certain opinions of the Supreme Court. And you made sure that people got into the place first. And that is how you started identifying them because they had to have property before they could vote. So property has to come in, more or less, at the same time.

And then you had manifest destiny. The whole thing why manifest destiny worked was because you empowered people in the country. And they had animals on their heads, if I recall, Davy Crockett and Daniel Boone. And the Arabs have rags on their heads. And those are the constituents of a market economy when they came in.

So the general idea was, are the existing property rights institutions, what they called property rights, the ones to carry the reforms, and the reply is that they are not because what is happening in the Middle East is not just about growth. It is essentially the Industrial Revolution. These people walking on the streets are essentially protesting about the rights being there.

We have the films that we were going to show if we would have had the time, but they are going to be on record, the films of what these people said at the time that they were lighting up and dying. There was no religious implication. There were no political implications. In the case of Bouazizi, he said, "I want to see the poor people have the right to buy and sell." Everything had to do with all of the symptoms that you have with what we call Industrial Revolution; that is to say, the passing of one society to another where you work at a much larger scale.

So the issue at this time is not property rights, which is what the Egyptian Government and Mubarak tried to do with our plans. It is having the rights to property rights. It is meta rights. It is what you first did all throughout the nineteenth century. Do Afro-Americans have the right to the rights? It isn't that you didn't have property law. It is who had the right to it and did settlers have it. So that is the issue.

And that means the following thing. That means that one of the recommendations that I came with is that those reforms that actually made the United States as we have studied them were not technical reforms. They were essentially political reforms.

And I think that when one doesn't understand that in the Middle East, what you are talking about is essentially an emerging class of people who are acting alone for the moment, being the only ones to be able to mobilize a rebellion throughout all of the Middle East. You are not going to be able to grasp it. You have got to be able to have politicians that are able to see, for example, when it comes to unemployment that there is none of that unemployment.

If you are poor in the Middle East, if you are poor, and you are as poor as Mr. Bouazizi and you are not employed for more than 3 months, you are dead because you have got no way to feed yourself. So all of those people are not unemployed. They are like your early settlers who are working. They are just working outside the law.

The question is how you make them come in. How do you then change the basic statistics in countries throughout the world, like us in the Third World, where the International Labor Organization gives you two categories: Employed and unemployed? How about employed formally, making your own way through life, and then employees? There is a third category, which is a huge category, which is, as a matter of fact, about 380 million Arabs who have invented their own way of creating wealth.

Just two images might help "de-confuse" what may sound very confusing. Steve Jobs had an Arab father. Bouazizi had an Arab father. Both of them were adopted fathers. Steve Jobs went to school because his father was able to mortgage the garage three times because he had a property right, and that put him through school. Bouazizi, we have got the whole history of how he tried to get mortgages and he couldn't. And he couldn't get access to credit, couldn't get anywhere.

Entrepreneurs are as good as their legal environment. And the legal environment of the Middle East is very bad. And it is not going to be solved by technicians because this is not a technical problem. This is essentially a civilization that we have seen in Latin America based on old ideas that are anti-market. And poor

people are the ones adopting market ideas. And it is not coming through universities.

Chairman ROYCE. Thank you, Mr. de Soto.

Let's go to Mr. Deutch.

Mr. DEUTCH. Thank you, Mr. Chairman.

Secretary Albright, with your experience as Secretary of State and the chair of the NDI, you have got unique knowledge and experience observing political transitions to democracy. And, as you just observed, the United States has neither the desire nor the power to dictate what happens in the new Arab democracies, but we can still exert a positive influence.

You talked about being steadfast in support of democratic principles. You spoke about the need for democracies and for economies to flourish. That is where they have functioning Parliament, independent judiciary. If we could just explore that in a little more detail? What are the factors that contribute to a successful transition? And what role can the United States or should the United States play in helping to affect that transition?

Ambassador ALBRIGHT. Thank you very much.

I think that in listening again to my friend Hernando de Soto, there is no question that people want to be able to make a living and to be able to monetize what they have. But in order to do it, they have to have access to justice. The legal empowerment of the poor is what we were talking about. So how, in fact, do you get that?

What I believe is that as we studied how the National Democratic Institute should exist, we said, obviously, elections are necessary but not sufficient. In order to have a functioning democracy, you have to have the rule of law. You have to have a legislative branch. And actually we decided have to have an opposition party because that, in fact, gives the voters a choice and provides accountability by those who are in office. And it is very hard to, I think, have the kind of property rights that Hernando talks about if there is not a rule of law in some form or another to enforce it.

So my sense more and more is that what we have to help countries with is not just with the American model but other models in providing governance, that elections are important but governance and trying to figure out how democracies deliver is the part that we have to explore.

Now, I also believe, as much as I believe in American democracy, we are not the only democratic system. And, therefore, what I think helps in this whole project is to get people from other countries that have gone through transitions to help in this transition process, to help those that do not have the experience of writing constitutions or developing an independent judiciary to help in providing training. And while I believe an awful lot in economic rights, as I said earlier, economic development to go forward has to be encapsulated within political development because my quote that I think is the simplest one to give is people want to vote, and they want to eat.

Mr. DEUTCH. And when you talk about bringing together those from central Europe and Southeast Asia, Latin America, South Africa who have been through this, is that convening of those meet-

ings a role for the United States to play? Is it a role for us to play? Is it something we should not just be encouraging but providing?

Ambassador ALBRIGHT. Well, I happen to think we do play a very important role. So, for instance, NDI, which I know best of all, we started out in Chile, trying to help with the technical assistance on the No campaign. A lot of people from Chile we asked to go with us in some of the countries in North Africa, specifically in Egypt. We have had people from Central and Eastern Europe that went through the experience go with us into these countries in order to talk about their experiences.

And I do think that the U.S. role—we cannot impose democracy. Imposing democracy is an oxymoron. What we can do is to help promote democracy and provide the nuts and bolts training; bringing people out of their countries; and, in fact, being the conveners. I do believe that that is an important role for us.

Mr. DEUTCH. And, just in my remaining time, could you speak to the way that some of those meetings may have gone when you were able to bring Chileans who were involved in the No campaign to North Africa?

Ambassador ALBRIGHT. Well, I think that what we learned was that people are very interested in their experiences. They understand that they have gone through similar, not exactly the same but similar, aspects of how you write a constitution, how you develop an electoral law.

I can tell you specifically—this goes further back into central Europe—I was born in Czechoslovakia. And when I first went to meet President Havel, I said, "How can we help you?"

And he said, "You can help by helping us write an electoral law." And we brought experts from a number of different countries to help them write an electoral law.

That has been similarly translated in work that we have done throughout the Middle East and also in North Africa. And I think we do provide kind of the credibility, not just of the American system but of bringing democrats, small "d," from everywhere in order to show how a system can work and what are the elements of a governing, functioning democratic system.

Mr. DEUTCH. Thanks for your insight.

Chairman ROYCE. Thank you.

We will now go to Ileana Ros-Lehtinen, our chairman emeritus and chair of our Middle East and North Africa Subcommittee.

Ms. ROS-LEHTINEN. Thank you so much, Mr. Chairman. And excellent testimony. Thank you.

It has been nearly a year since Morsi and the Muslim Brotherhood took control over Egypt. Yet, Egypt's economy continues in a downward spiral. Morsi has failed to institute any economic reforms to address this situation. And the political reforms that he has instituted have served to constrain the populace, rather than liberate them from the economic malaise in which they have been mired.

Yet, the United States continues to give Morsi over $1.5 billion a year in foreign military financing, FMF, and $250 million in economic support funds, ESF.

Dr. Albright, you testified that the U.S. has neither the desire nor the power to dictate what happens in the new Arab democ-

racies. Yet, we can exert a positive influence in countries like Egypt, as you stated, remaining steadfast and supportive of democratic principles.

The United States has a vital interest in the outcome of this Arab Spring, not just for our national security but for our ally, the democratic State of Israel. We do indeed have the power. We have the power of the purse.

So I would ask you. These countries depend on financial assistance from outside powers. Instead of just forking it over to them, no questions asked, shouldn't we condition that money, use it as a leverage to press these governments to accept and implement economic, political, legal, social reforms? And wouldn't you agree that, instead of giving Egypt $1.6 billion in American taxpayer money in foreign military financing assistance, that money would be better spent going directly into programs on the ground that promote democracy, promote human rights, religious freedom, economic growth, and job creation?

Ambassador ALBRIGHT. Let me repeat that I don't represent anybody here. I speak in my own personal capacity.

I do know the history of how this money has been going, both to Israel and to Egypt, as part of the Camp David accords. It has been longstanding. And an awful lot of it does have to do with Egypt's very important role in its agreements with Israel. And we know in the last couple of days problems in the Sinai and generally where we depend on Egypt being able to help keep the peace in the region.

I think that there are a number of aspects that you raised. I had believed in conditioning on certain circumstances, where you could actually effect change. But I personally would not withdraw funds from Egypt. I quote that it is important to make sure that they continue on a path where, in fact, the government begins to realize that it has to open itself up to some of the forces on the ground.

I would like to see more money going to the various democratic forces that you are talking about and also try to figure out a way where, in fact, there could be training in a variety of democratic means. One of the problems has been that the government makes it very difficult for those organizations to function. And, therefore, part of what NDI has been doing is bringing people out of the country in order to provide them training.

Ms. ROS-LEHTINEN. If I could interrupt you, Madam Secretary? Would you favor any type of conditioning for this aid, benchmarks that the government must meet in terms of democratic reforms, religious liberties, et cetera, in order to get continued U.S. funds?

Ambassador ALBRIGHT. Again, I would like to see us say what kinds of things we want, but I would not like—again, personally, I would not like to see us in a position where we would, all of a sudden, stop giving assistance because ultimately what has to happen here is for the economy to get in some kind of good enough shape so that the IMF loans come through. And, in fact, there is that combination of political and economic will together.

Ms. ROS-LEHTINEN. Let me interrupt you there. So you believe that perhaps if we give benchmarks, that is, you believe that that would mean that we would be cutting off aid? I mean, it is not a

cutting off aid. It is conditioning the aid. Do you believe that we should have Egypt or any country meet certain benchmarks?

Ambassador ALBRIGHT. I think that they should know what we expect, but I would not have it be a way that we would use it to cut off aid.

Ms. ROS-LEHTINEN. Thank you very much. Thank you, Mr. Chairman.

Chairman ROYCE. Thank you.

We will go now to Mr. Sires, ranking member of the Western Hemisphere Subcommittee.

Mr. SIRES. Thank you, Mr. Chairman. Thank you for being here.

You know, as a follow-up, Madam Secretary, to Ileana's question, with the money that we give Egypt, if we don't use the money as leverage, how do we speak to these governments to stop abuses, for example, on the Coptic Christians in Egypt? How do we pressure them to do something about the abuses that are going on now if we don't threaten them that we are going to cut off all of their help? Because, obviously, they don't seem to move unless there is some sort of pressure placed on them.

Ambassador ALBRIGHT. Let me just say I teach a course in which I talk about the national security toolbox. There are not a lot of tools in it. One of the problems is if you totally cut off aid, then you lose whatever leverage that you have had. Therefore, in some ways, you cut off your nose to spite your face.

What you need to do I think is to nuance it in ways where you say what you want and keep the leverage on them in a particular way. And then always keep in mind that a lot of the money that we give to Egypt has to do with the Camp David accords. And there is no question that this is an extremely complicated part of this and makes it difficult to use the tools, but if you totally cut off, then—this is just, again, my personal view—you lose whatever leverage you have; whereas, if you put out what you would like to see and make sure that our policies are clear, it is possible that you would continue to have that leverage.

Mr. SIRES. Thank you.

Mr. de Soto, I know you have had extensive study throughout Latin America. And, as we know, there have been many, many revolutions in many of these countries. I was just wondering, what can we learn from all of these revolutions and the regime changes in the Western Hemisphere? Can we apply any of those lessons into the Middle East?

Mr. DE SOTO. Yes, Congressman. I think that there are lots of similarities between what we have gone through and we are going through in Latin America and what is happening in the Middle East. As a matter of fact, we were talking about the fact that there are more and more private and public Middle Eastern, Latin American organizations being formed, as a matter of fact, to try and look into the process. But I think it is fundamentally the same.

And to address the issues that my friend Madeleine Albright has been talking about, I think a lot of it in all of these revolutions are to a great degree about property. Now, this might sound to you nearly religious. But if you go back to—we had a meeting recently with the Prime Minister Cameron of the United Kingdom, who is very strong on property rights. And the whole issue is we made a

list to him of since the Second World War, how many wars has the United Kingdom been involved in, which were about territory or were about property rights?

And they are really all about property rights. Whether it is Libya's invading territory, it was about who owned what. When you criticize Israel where they have got settlements, it isn't that they invaded territory; it is about property rights. Whenever you look at any issue that you have been involved, who actually controls the people that are funding whether al-Qaeda or funding your enemies in Afghanistan, it is about property. It is who owns the fields and who gets a right to the fields.

So the first thing I want to say is you are going to ask, what does this have to do with my question? What it has to do with your question is that until you address that issue, you won't know who you are talking to.

In the United States, when you started forming a democracy, before you really got your act together, you started moving West through Manifest Destiny and other places and put in temporary agreements that actually went from the California Gold Rush to Little Miami River. You empowered people. And you started identifying who they were, what they were. Otherwise they would have fallen in your unemployment categories.

And by saying, "You have got so much corn here. Under the corn bill of right," said the U.S. Congress, "we will identify you. You have got so many logs. And under the log cabin bill of rights here" at this Congress, you are identifying people by the amount of logs with which they made their homes. By using other pre, shall we say, formal democratic means, you were able to identify a large part of the American population that was not within the law. And by identifying them with your government, they wanted them to vote. And that is how you started assimilating them.

One of the most interesting parts about your democracy were not the ones that you created in the twentieth and the twenty-first century but the nineteenth century. In the nineteenth century is where you started creating the idea of pre-publishing laws, of having comment and notice periods, of having cost-benefit, of having callback systems.

All the systems that Western countries have that keep their governments informed about what people do are actually outside the electoral system. And our fear is when we Latin Americans see what is happening in the case of Arabia, you are putting in a sixth floor of a building, which is elections, without having all of those other means that allow those elections to be meaningful. We elect governments, for example, in Latin America that are going to stay for 5 years.

In the case of Peruvian Government, it is going to produce 28,000 laws over the next 5 years. And we have no way of having comment and notice periods. We have no way of intervening, of doing cost-benefit analysis. We have got no way of participating in anything except the elections.

Your President Jimmy Carter comes in and says, "It has been a good election" or "It has been a bad election." But none of our congressmen, none of our congressmen, are elected by district. So we have got no way of actually following the row. So I think that the

important thing is if you are going to create an Arab democracy, you root it in people.

And I think you have an incredible opportunity as Americans to have a guiding voice. And the guiding voice isn't necessarily in the intellectual classes. And you should remember that by your Nineteenth and Eighteenth Centuries. It was very simple people who did it. And they had to do it how they were administering their economic areas. And you can reach them.

And you have been able to do that before. When MacArthur went into Japan, which was a successful transformation, along with its two colonies, Taiwan and South Korea, of a feudal system into a market economy in 6 years, you had a plan. And you didn't address the Japanese Government. You addressed the people, literally. You titled the whole place and empowered them and destroyed the feudal class in the process or brought it together with the rest of the feudal.

So I think what you have got to really do—what do I know? I am not an American. But what I see is this. The people who did your democracy were your granddaddies. And your granddaddies did a series of very practical things, all of which involved talking to and addressing the poor.

I think, for example, if this committee or any part of the United States Government were to understand that all the martyrs, all the martyrs that we have been able to see that tumbled those governments—there were 64 identified—were all entrepreneurs, all protesting about property rights, all dressed in blue jeans and all dressed with sneakers that looked like they were made in the United States, all with t-shirts that looked made in the United States. We talked about buying and selling. We would get from the only country in the world that actually represents those ideas, were addressed to. You would actually be moving much more than you think you would be moving because, among other things, the new democratic leaders, or those that are being elected in the Middle East, essentially understand that.

We have been called in by every political party that you can think of in Egypt. And we have been called in by Tunisia and in other countries. And all of them are pro-market. But if the United States addresses only those conflicted issues and doesn't recognize the other ones, you have got a whole constituency that is up for grabs because it isn't a constituency formed in markets. They are not absolutely conscious of what they are doing.

So I think what you can do in the United States, just your voice, your encouragement from the only country that represents freedom and property rights from the point of view of everybody would be absolutely immense. But you have got to do it thinking of granddaddies, nineteenth century, before the rule of law is in. What did you do before the rule of law was in in California at the Gold Rush, in the Little Miami River, and throughout "Manifest Destiny?" You empowered them before you had a full constitution. You empowered them. And there are ways of doing it.

Thank you very much.

Chairman ROYCE. Thank you, Mr. de Soto.

As previously noted, Secretary Albright will now depart. And I thank you again, Madam Secretary, for joining us in this important discussion today. We very much appreciate it.

Ambassador ALBRIGHT. Thank you very much.

And I am delighted to be here with Dr. de Soto and also to be able to make clear that America has a role. I fully believe that we need to support democracies and political development and economic development. We don't spend an awful lot of money on it. And the bottom line is that we have a huge influence and are able to make our voices heard. And I appreciate very much having been invited to speak here.

Thank you so much.

Chairman ROYCE. Thank you, Madam Secretary.

Next we go to Mr. Tom Cotton of Arkansas.

Mr. COTTON. Mr. de Soto, thank you for your time here today. Thank you for your eloquent words in defense of freedom and property. James Madison wrote in the Federalist that one of the true objects of government is the defense of property rights that yield from the diverse faculties and efforts of man. He also wrote that democracies have something of a checkered history of defending property rights, either because they tend to elect a strong man and you have the situation of one man, one vote, on time, or they led to majority tyranny. And that is why I said that governments need internal controls as well as the external controls of elections.

I think sometimes we focus too much on the democracy side overseas, not as much on the constitutional side of constitutional democracy. Some of the institutional controls you have mentioned: An independent judiciary with life tenure and salary protection, rights of property, free press, freedom of religion, and so forth.

In your opinion, is the United States Government policy as well as international institutions, like the IMF and the World Bank, doing enough to focus on those constitutional arrangements or are we overemphasizing the simple fact of having elections in developing countries?

Mr. DE SOTO. I think elections are obviously the right way to go, but they are obviously not only not sufficient. They may not even be the most important part of it.

When we were doing the transformations in the Peruvian situation in the 1990s, when we were fighting one of the most deadly terrorist systems, which I was in charge of the civilian policy for fighting the Shining Path, democracy was part of it, but, really, if you do not have congressmen who do not respond to districts that, therefore, can be accountable to districts that can go and shake people's hands and find out what the hell is going on down there, okay, that democracy is not really a democracy. It doesn't feed into day-to-day decisions. It is really sort of a beauty contest. And it happens all throughout Latin America. We do not have elections by district.

So what is important in each of these cases is the following. If you want to do whatever it is that you want to do, you want to elect people, you want to make sure that your electoral lists, for example, as opposed to the ones that occur in Latin America, are really all alive, everybody that is voting for this political party, whether it be in Mexico or Peru, you had better have an idea of

who is living where because otherwise your lists are going to be full of dead people that are going to swing this way and that way. You see that in Egypt. You see that in every Latin American country.

Mr. COTTON. You see that in certain places in America.

Mr. DE SOTO. That, too. Pardon me? In certain places in America?

Mr. COTTON. Certain places.

Mr. DE SOTO. Okay. Sure. It probably happens everywhere, but to the degree that it happens, everything that goes wrong with us goes wrong in the United States. It is a question of degree, the degree to which we can be accountable without the information that property provides. Let me explain this, which is very important.

One of the reasons that democracy doesn't know what to do according to our opinion where we have lived in Latin America is essentially because there is no feedback. The only way you know if things are wrong is feedback. As Madeleine said, there is no international formula for feedback. The Swiss have Bundesversammlungs, which are consultations of laws among people. They have got Landsgemeinde. They have got referendums. They change the Congress people once a year. They have got a variety of things that makes them make the pertinent decisions and know what their people want.

The Japanese don't look like it because they have got a vertical government, but they have shingikais, kojokais, and a variety of means where they don't make a decision on one law without actually a proper consultation that can take years. There isn't one developed country that doesn't have a mechanism whereby it is continually accountable to the people. That to me is what distinguishes the West, but there is not one formula for it. The British have——

Mr. COTTON. Is the policy of the United States Government as well as organizations like the IMF and the World Bank? Are we focusing on that kind of institution, some of our member districts, along with things like independent judiciary to the degree we should?

Mr. DE SOTO. Well, what happens is the following, I think. The IMF, that isn't in their role. It could be or it should be. But you have to bring in that part of it along with the IMF. I mean, we see, for example, in the case of our Egyptian friends when they told us "Okay. We are going to move on issues like property, empowering the poor. But let's settle with the IMF before." What we tell them is that the reason we made successful negotiations with the IMF and turned the country around was because you can't just squeeze people, put them into an austerity program, and give them nothing instead.

If everybody is already on land, if everybody already owns a business, if there are ways too easy to recognize who is on what parcel through a variety of different means that you were able to do in the United States, just two centuries and a century ago, and MacArthur was able to do it in Japan just 50 years ago, why don't you launch that at the same time?

So one of the problems that the world has, of course, is that you specialized different organizations in different aspects, macroeconomics. And for the issue of property or, if you want to, the

rights of common people who happen to be the majority of the population of the Third World but, by far, there is no organization that deals with this. You have ideals. There is no organization that deals with that.

But what you can do certainly with your aid is condition into the looking to the legitimacy of the decisions that are taken. But IMF doesn't have them. IMF is macroeconomics. The other thing we are talking about is microeconomics. And that is why I also said before that I really think because we have got such little time on this that one of the major moves that you can make in the United States is understand that all of these things that we are talking about, you have left and abandoned to the hands of technicians. In the case of property, it is realtors. You are measuring land. That is not what it is about. The problem is access to law. And what you can do in that sense is look at your success in the past.

MacArthur's policy was when he got into Japan to change the feudal system and to make sure that it had roots and it was sustainable over time. He prepared a plan in 1942 that started with a man called Wolf Ladejinsky in Hawaii. And the plan was, how do we win the war, of course, and then how do we win the peace? And whole Japan was restructured and put in a democratic system, where all the Bouazizis were empowered.

When that was done, he said and as time went by and he said, "Our man Chiang Kai-Shek is losing the war against Mao. We will, on the other hand, be empowering these other three countries. They will get rich. They will be like thorns in the side. And eventually China will turn to being in a market economy." Quote MacArthur. Quote Wolf Ladejinsky.

So there are things that you can do, even if you are not winning a war, that you can tell people how to do it, how to do these things. You have to remember what were your successes and what was your own past. And it wasn't only about macroeconomics.

What has happened with economists, unfortunately, is that everything that relates to growth, we economists have become monopolies on that. And everything that relates to experience we have passed to the history departments. So it is about time you got both of them together and remembered were you were able to win in Japan. Why weren't you able to do it in Afghanistan? Who holds the property rights in Afghanistan? Who holds the rights of oil in Libya? Why do settlement policies actually gain territory versus territorial policies?

These are things that you have done, you have seen in the past, and you have got to bring back but you have got to bring back from another century. This is nothing that can be solved with global positioning systems. This is about people. And you have got people in blue jeans, I repeat, sneakers, and t-shirts buying and selling.

You might take the entrepreneurs that are willing to march the streets of Arabian countries in defense of their right to property, in defense of their right to do business, you will outnumber al-Qaeda 100,000 to 1. You have got to find ways to recognize those who are on your side. And you don't have them. And you are not going to get that through technical committees. If you keep on putting real estate vendors in charge of your property programs, you are just going to get better measurement.

This is the time for politicians. That is what politics is about. They will figure their own way out, but you can push them in the right direction since people do look up to you. You are successful. They might not like you. Lots of us in the Third World don't like you. But we can't help but recognize that you are the most successful nation in the world. But you have to understand we are all in the Third World in the nineteenth century. You can't address us as if we were in the twenty-first century.

Chairman ROYCE. Thank you. Thank you, Mr. de Soto.

We go now to Mr. Bera, Dr. Bera.

Mr. BERA. Thank you, Dr. de Soto.

You have pointed out a few things that I find fascinating and I find quite accurate. You know, being a congressman, we go back to our, all of us go back to our, districts. And that is where we are held accountable. That is where we hear what is exactly happening.

You know, when I go back on a weekly basis, you know, my constituents who I work for let me know exactly how they feel, what they are happy about, and what they are unhappy about. And I am sure all of my colleagues can share that.

You also touched on something that I think is fascinating, you know, the importance of property rights, the importance of having something that is yours, that is your family's, that is worth fighting for, that is worth moving forward.

What are some actionable things that we can do within this body or, you know, to bring those reforms? And I think about Egypt. You know, it is another 2 to 4 years before you see Presidential elections coming up.

The Muslim Brotherhood obviously is the most organized political party, but we have got to help those other politicians, those other political parties.

You know, Ambassador Albright brought up part of our success is that we do have two parties. We do have two parties that hold each other accountable. So one thing we clearly have to do is help Egypt develop and organize an alternative party. At the same time, we do have to create these reforms that bring that shadow economy and those individuals into the mainstream economy where they can earn a living, they can buy land that is theirs and so forth.

So what are some actionable things that you would have us do?

Mr. DE SOTO. Okay. The first thing that I would have actionable is it starts off with your own mindset, which is very important. You are a country where property is essentially the result of the evolution of common law, judge-made law, a back and forth with Congress, a back and forth with a Supreme Court justice, but essentially judges.

You have to, first of all, understand the following thing that MacArthur did. I am just talking about the only successful American that I have seen win a war and win the countries at the same time. It is understood that the rest of the world goes under statutory law, Napoleonic law. It is not your law. So the importance for you is not to try and fill them with judge-training programs because judges don't make the laws in our countries. They apply the law. That is the first thing.

The second thing is to understand property as it was understood in the Eighteenth and Nineteenth Centuries. When you said, "the pursuit of property," it wasn't only about ownership. As a matter of fact, property, probably ownership is the less of the important parts.

The important part about property is that everybody has got to live and work somewhere. And you want security for it. And what happens is that when you bring it under the law, you get people to tell you what they need and want. In other words, people mistrust government everywhere. From a Tarzan film I saw since I was a child, they don't like government. They rebel against government. And you come and say, "I want" in any Arab country, in any Latin American country, "I want information so as to be able to provide the government services," are you really for a market economy? Are you really for entrepreneurship, which I believe the majority of the world, at least since you won the Cold War, the reply is, "I am not going to tell you."

But if you come in and say, "I know you live here. And I want to give you rights so you will not be expropriated again. I am going to tell you how much tax you are going to pay. I am going to make sure that there is no way that we can tamper with your rights, that you are going to be able to use them to leverage credit. I mean, if you cannot leverage a credit from a piece of property. Okay? You can't even have subprime markets and credit markets working in the United States. I am going to do all of that for you. And you are going to be able to issue shares, let's just say, pieces of property against investment. Now, give me your name and tell me where you are. And report back to me every year or every 6 months. And I want to know where everybody is so that everybody can locate everybody on this wide-scale market," property will change the relationship between government and the people because people will then provide information to do something that they can clearly see is in their benefit.

Mr. BERA. So how do we create that context, though, because, obviously, we can't mandate that onto that country? We have to create that context where it rises from——

Mr. DE SOTO. Let me tell you my experience. We were called in very early on when we published our findings for each of the other countries by the Muslim Brotherhood in various countries. Everything I am telling you they understood.

Now, I am not saying that the Muslim Brotherhood is the solution or the other one, but everyone in the Third World, everyone in the Third World, understands the following thing, and anybody who has been in government. If you know where one-third of your country is in, what addresses they have, where they really are, that is a lot. The majority of us know that in two-thirds of the country, we don't know where people are.

And so even when we went now to, say, Tunisia and talked to the private sector organization, which seemed like in Algeria, and said, "You have an informal economy. It seems to be 85 percent. And that 85 percent is obviously in business, small business. And if you don't bring them in, they could take another agenda because basically they are angry," everybody understood.

So there are hundreds of ways of bringing it in. So how the United States has got to formulate this is a strategy. You have done it before. You did it in Japan. You did it in Asia at the right moments. You have done it in Latin America. And I think that the basic thing is to come in and start saying that you want to talk about the issue at the level of politics.

When you formed the United States republic, the issue was, did America belong to the colonials or did it belong to the indigenous people? The issue was, was George Washington's title the right one or was it the Sioux's or was it the one that is handled by George III? You had to settle that first. And you built your democracy on that.

Without that information, it doesn't work. And you have to remember the people who settled your property rights issues were all politicians. You have got to I think at first level bring it to that level so that you are talking about politics, about finding out what people want, as opposed to measuring things.

Mr. BERA. Right. Thank you.

Mr. ROHRABACHER [presiding]. Hello, Hernando.

Mr. DE SOTO. Hey.

Mr. ROHRABACHER. Good to see you again.

Mark Meadows from North Carolina?

Mr. MEADOWS. Thank you, Mr. Chairman.

And thank you so much for your testimony. Very rarely am I impressed. And I truly am impressed, not only with your ability to articulate the points but to get to the crux of the matter. So I want to thank you.

I am going to follow up a little bit. Last night I was with a group of seven members from African countries. And their desire was truly the economic well-being of their people, more so than the political stability or anything else. And so I would agree and concur with some of your conclusions when we started to look at it. This is an economic renaissance that we are looking at.

Right now we have got—the current administration has proposed a budget of some $580 million for the Middle East and South African incentive fund. The focus of that, however, is probably more on the political process, the democratic process, as we see it. Should that money be more spent on the encouragement of property rights and the formalization of this informal sector to once again grow? Would that be a better use of that money than establishing a two-party system or a four-party or a six-party system, whatever it might be?

Mr. DE SOTO. Yes. At least a good part of the money should go to that, among other things because it will make democracy viable. And, you know, let me tell you why.

Regarding the details that you were talking about, how do you get this thing done, in our written report to you, we have pointed out that we have got programs 1,000 pages long. We know what you did over 200 years to get it until you finally got it right. We know it. And you are the——

Mr. MEADOWS. How do we compress that?

Mr. DE SOTO. That is right. Now, here is the first thing how you can compress it. The first thing to understand—and I will repeat. I know it sounds tremendously ideological, but it has got to be un-

derstood. Your issue with the Soviet Union before you defeated communism was about how you held property. That is what it was about.

Mr. MEADOWS. Exactly.

Mr. DE SOTO. That is what mobilizes people. But now you weren't going around throwing surveyors against engineers. You had political people who decided, "I am going to find out what people really want and how it is going to be organized." Nobody wrote it. Adam Smith just picked it up. John Locke just picked it up.

So the first thing is find ways for people to speak up. And people speak up when they feel secure about their business and they feel secure about the assets they have.

So stop considering, I would say, that property is a technical issue. Consider it the essence of a political issue. All the areas you have been into and you have actually fought militarily in the last 50 years were conflicts on property rights. And so when you come in politically but you don't have the tools of property rights, you are imposing in face of an enemy that does go around titling. Ho Chi Minh titled the great part of Vietnam.

Mr. MEADOWS. Right.

Mr. DE SOTO. All right? And whoever gives the right of way actually has the—the first thing you need to do is I think understand that you may not—it takes humility. Twenty-first century Americans have got to learn not from us Peruvians but from nineteenth and eighteenth century Americans. First of all, settle who gets what according to what custom, what according to what law because it is not clear. Once that's in place, the democracy part will come along.

Mr. MEADOWS. So let's look at this massive amount of money that we are looking at: $580 million. Instead of it being a government-led political system, where would you put the emphasis? Less than 25 percent of that going toward government reform and most of it on the private sector, private property side of things? How would you—you know, if you were Congress, how would you divide up that money?

Mr. DE SOTO. Okay. I would, first of all, have to note that, first of all, the budgets for putting property into place are not that big. They are not huge, large budgets.

I would essentially put the emphasis on the fact that political reforms that do not attend the reasons for which people started marching——

Mr. MEADOWS. And those would be primarily economic is what you are saying?

Mr. DE SOTO. And they are all economic?

Mr. MEADOWS. Not political, not religious? You are saying they are economic?

Mr. DE SOTO. I am saying that anybody that we have talked to, starting from Bouazizi in Tunisia to all of those, have all mentioned economics. Now, the people that do the talking are the people that may be thinking about other things, like religion and others, but the guys who moved were economics.

So the first thing I think that you want to do—I can't think of the quantities now—is say that the objectives have got to be that everybody's business, everybody's home has got to be identified.

And to do that, they have got to be secure enough so they can speak up and we can then find out what it is the Egyptian people want.

How can you find out what people want and where they want it from if you don't have phone books, if you don't have address books, if you don't know where they are, how many they are? How can you put in a line of electricity into a shantytown when you don't know how many machines are working or are not working?

Those things that underlie—that is why we call them the overriding—underlie your possibility of even having a private sector are the essential ones. And that means that I think the most important thing you can do is pass the issue from a technical level to a political level.

Mr. MEADOWS. Okay.

Mr. DE SOTO. And that political level means people's identities. And people's identities will come up the moment you guarantee them that their property rights are in place. Then they will tell you. But not only will they tell you. They will update that information because you have titled the United States up and down, but people with all the titles when it gets so expensive make it sustainable over time.

Mr. MEADOWS. My time has expired. Thank you. I yield back, Mr. Chairman.

Chairman ROYCE [presiding]. We will go to Mr. Yoho and then Mr. Rohrabacher.

Mr. YOHO. Thank you, Mr. Chairman. And, Mr. de Soto, I appreciate your testimony and your thoughts here.

We talk a lot about democracy. And going back to our founding fathers, they said that was the worst form of government. And I think we are all aware of that. You know, democracy was two wolves and a sheep deciding what to have for dinner. And the sheep always lost in that. And that is why we were so blessed in this country to have a republic. And that republic came out of people leaving oppressed nations coming over here for the freedom that they were seeking, whether it was religious, economic, or whatever. And we formed the country we have through trials and tribulations. And we are at where we are at now. And we respect property rights, life, liberty, and the pursuit of happiness. And that is what makes America unique.

You are talking about the little people in South America rising up, wanting the economic freedom because, as we have learned, you can't have freedom without economic freedom. And so it is so important. And property rights play a large portion of that. And I know you view the property rights. We are accustomed here with land and things like that to something different in Tunisia and Peru.

What form of government allowed that in Peru so that they could develop that kind of entrepreneurship to where they raised themselves up? I mean, what do you see over there that you have that they don't have in Egypt?

Mr. DE SOTO. What we have been able to obtain over the last 25 years is a variety of mechanisms that—it is not just one. It is a variety of mechanisms that allow us to find out what people want, which we didn't have before. So we have now, for example, copied

your comment and notice periods, a Latin American version but essentially people have the right on big laws to be able to see the law coming. And it is not going to be a surprise and feedback to government.

We have already begun regionalizing. We have got a defender of the people. We have got an office that is close to being your Office of Management and Budget whereby you have got cost-benefit analysis so that you can see the quality of the law. There are certain laws that have got to be consulted before, which they didn't have to be consulted before.

Essentially the biggest reform, though, has been in the area of property. The result is now when you do that, you start finding out who is where. This doesn't sound like a big deal, but let me tell you what just happened to us in the Amazon jungle. Now that we are starting to find natural resources all over the Third World, huge amounts, gold, uranium, et cetera, all of a sudden, big companies are interested in coming in. And, all of a sudden, the locals are rebelling.

We were told in the Peruvian Amazon, that there were 1,500 tribes. By the time we finished counting them to find out who we have to title and not to title, we found 5,000 tribes.

When the Indians started looking at the area where they have got oil now and decided that they were not going to tend necessarily that problem, they have now found out that there is an army that is called the—I am trying to find—Naxalite army, it has risen to defend the farmers. It is about 200,000 strong in India. Forty thousand of them are AK–47s. And they are Maoists. And they are quoting our past Shining Path leader.

What I am trying to say is that reform on who owns what and where, as we discover natural resources wherever you go, is going to produce conflict unless we have those mechanisms that relate to property the way you have them in the United States. So you have to be able to have a conduit to know who is where. It sounds so simple, but we really don't know in the Third World who is where.

Mr. YOHO. Okay.

Mr. DE SOTO. I want to ask a question, if I may. Landing in Nigeria, the Niger Delta, you get more oil, I understand, from Nigeria than you do from the whole Middle East. And here is the part that is interesting. You land in the Niger Delta. And they say, "Welcome to the Niger Delta, the pearl of the Atlantic, population somewhere between 15 and 30 million."

Mr. YOHO. Right.

Mr. DE SOTO. That is it. You have got to know where people are before you can serve them.

Mr. YOHO. But, going back to South America, Peru, you have a government system that allows that to happen. And you were talking about how well we did in Japan, but, you know, remember what happened before General MacArthur went in there. We had a war. We crushed the Japanese Government so that we could deal with the citizens to teach and get away from feudalism and promote entrepreneurism and things outside of the government. How do you do that in the country like Egypt because we want to take this back to the Middle East? How do you do that in a country like Egypt, where they have a sovereign country, they have a sovereign

government, without meddling and become the outside meddlers promoting our interests or our ideals in a country that may not want them?

Mr. DE SOTO. I think you are so close to that because my experiences as we have been called in over the last 1½ years and we have been dealing with business organizations and with practically every political party, every political party, they were very much inclined to do this. Let me give you the personal interpretation, which is the only one I have.

When I first went and visited the Muslim Brotherhood in Egypt at their behest, the supreme guide handed me his card over. And it said, "Khairat El-Shater." This probably meant that he was a head and he runs the place. And it said under deputy supreme guy to the Muslim Brotherhood. And the third line was "Businessman." And everybody around him was a businessman.

Now, when a Peruvian goes there and they ask him for technical assistance, which is my case, that is interesting. They want to find out how they can get to the people, and they found out that we have a formula.

But if the most powerful country in the world doesn't address that particular feature, it is not going to encourage them. What I am trying to tell you is that the way you talk about the Middle East and how you refer to everybody is much more important than you even think it is. You are the only power in the world. And if you say, I see like you do now, that "You have got entrepreneurs there. You are doing business," and I think we should put emphasis on that, every political leader in the Middle East is going to turn around and say, "Ah. That is what the United States wants. It is not asking for this type of reform or this religious reform or this type of democratic reform. It also wants us to evoke the entrepreneurial side and recognize those heroes that they've got on their postage stamps," you will get the kind of atmosphere that you need to then begin a dialogue down that right direction.

Mr. YOHO. My time has expired. I appreciate it, Mr. Chairman.

Chairman ROYCE. Thank you, Mr. Yoho.

We go now to Dana Rohrabacher, chairman of the Subcommittee on Europe and Emerging Threats.

Mr. ROHRABACHER. It is always good to see my old friend Hernando de Soto. And we met during the Reagan days, when we really were trying to save the world from communism. Communism is much different than the threats that we face today, Hernando. Under communism, obviously, the theories that you presented were, of course, incredibly relevant to the fact that communists don't believe in private property for anybody, even the little guy.

I note that in Vietnam, that when the American troops would go into a certain area that they hadn't been in for a number of years and that the Saigon Government hadn't controlled for a long time, they were usually followed by people who had pieces of paper claiming that, actually, the owner of all of that property was living in Saigon and that the peasants would now have to be providing rent in order to stay on the land that they had been farming for over a decade. That didn't do us much good there, I don't think.

But today radical Islam that we are talking about, that force that I would say is the main force that we are trying to battle, as com-

pared to communism, radical Islam does not necessarily—in fact, I don't think that Islam itself or radical Islamic characters believe that entrepreneurship and ownership is a bad thing. So we are not actually fighting that inclination on their part.

So your message, while it really helped in the Cold War, perhaps may not help us defeat this radical Islamic enemy as well as you helped us defeat communism.

Mr. DE SOTO. Excuse me. The last part you said? I missed the last part, where you said——

Mr. ROHRABACHER. Radical Islamic forces are not opposed to ownership and not opposed to entrepreneurship. When we first forced active the ultimate threat in the world to our safety with Soviet communism—and, yes, communism was opposed to those things. And your theories went right to the heart of the matter——

Mr. DE SOTO. Yes.

Mr. ROHRABACHER [continuing]. And helped us win the Cold War.

Mr. DE SOTO. Right.

Mr. ROHRABACHER. In fact, I would give you some good credit there.

Mr. DE SOTO. Yes.

Mr. ROHRABACHER. But in terms of radical Islamic things, the entrepreneurship is not necessarily—they are not necessarily opposed to that.

Mr. DE SOTO. Yes. Well, I think where the factor comes in is the following one. It is that they are not opposed to entrepreneurship, but, you know, entrepreneurship, like I tried to say at the beginning works provided that you have got the legal environment that works. All people in the world are not entrepreneurial. Britain 300 years ago, 30 percent of the population was already in manufacturing, way before you had the possibility of even calling it a market economy.

The issue isn't that. The issue is, are the rules of the game uniform for everybody? That is what a property right is, not whether you possess that because you have got a bigger dog, because I have got two bodyguards but whether it is ruled by law.

Mr. ROHRABACHER. I see.

Mr. DE SOTO. That makes the difference. Now, that is where the challenge of the Middle East is.

Mr. ROHRABACHER. Okay.

Mr. DE SOTO. The challenge of the Middle East is that at this moment, you are never secure as to what you own or what you have if you are 85 percent of the population. The problem is I repeat the statistics. If you look at the statistics as they are implied today, it says the majority of the population or a good part is unemployed. There is no such thing as a poor man unemployed who hasn't died the death of famine. Those people are working. They are working the extralegal economy. And they are not even in the statistics.

That is why I am saying that the transformations that have got to take place are those whereby they have got—it is not about getting property rights, and it is not about getting paper. It is about getting the rights to those rights. Once you get those rights to those rights and the paper starts getting good, there is no way any

Arab government of any possible inclination is going to find out how they are going to title and award people a property right without consulting them and without putting them in control.

Mr. ROHRABACHER. Okay.

Mr. DE SOTO. Because no GPS system in the world is going to tell you—they are going to tell you where the land is but not where the people are. And that is essentially a very—was the initiation of all democracies.

That is why, Dana, I talk about coming in and talking like the nineteenth century. In the nineteenth century, the whole issue wasn't who had the property of the United States. The whole issue was whether everybody was informed.

Mr. ROHRABACHER. Okay. I noticed that you are mentioning more now today the idea of districts has been important to democracy. And let me just note that you were right on target on that as well.

For example, in the Philippines, the biggest problem is they elect the Senate totally and nationwide. And, thus, all the senators come from one geographic area representing one power group in the Philippines. And so districts are very important. And I noticed that you have emphasized that now.

One last note. In our own revolution, it was when King George I think decided he was going to start enforcing laws by kicking off the people who really were the owners of the property and give all that land to his nobleman cronies. And you can still see that here in Virginia with Lord Halifax and the rest of them. I think that is when the American Revolution really started because the people who were on that land working it. And they were the ones who really owned it, and it is the king's right to give it away.

So thank you very much, Hernando, for all you have done to help us in this struggle for freedom and individual personal dignity of every person. So thank you.

Mr. DE SOTO. Can I make a comment on that, Mr. Chairman? Just I will try to be as brief as I can. One of the hardest things we have—we are called all over the world. I mean, we come from a tiny, little country with no importance. I mean, Peru, you could be anywhere. We are ⅓ of 1 percent of the world's population. Yet, we are called in by 40 heads of state.

I have not found a head of state in the Third World that has called us in that hasn't understood what we are talking about. And I wonder why we have so much difficulty in the United States because at an ideological level, there is a connection. We say the word "property." We say the word "freedom." We say the word "capital."

And I think it is the problem with all of us people who believe in freedom and fought against Marxism, where our shortcoming is, that we don't understand the world of class. That was very clear to Marx. People get into collective action to do one particular thing. It is a class. Okay?

What I am trying to tell you is the following thing, that in all the Third World, the biggest class of people is entrepreneurs, poor, not in pinstripe suits. They are starting off like you or I started off many, many, many years ago, and like you see them in the "Gangs of New York," to take a film. You see them in any of these Clint Eastwood films. They are all there. They are fighting it out with

guns. There is an old system that is collapsed. And they are trying to build a new system. And that new system awards. There is a lot of violence here. You are a U.S. marshal now. Go out and defend yourself until you get the whole act going.

That kind of people in the Middle East according to our figures is more or less than 60 and 70 percent. And it is not in the official statistics.

And until you get a sense that you have actually got entrepreneurial class that is the majority, that is the one that moves and shakes the way our associates in the Middle East now, which the private sector have seen because when you demonstrate that these people are burning for entrepreneurial reasons and they have seen, you have got a class that then you have got to address because it is the same class of people that your government addressed once it was born or to even make the American revolution.

So it is not about the employers and the employees. It is not about the AFL–CIO and these other guys. There is something in the middle that is much bigger. And that is what occurred during the Eighteenth and Nineteenth Centuries. These poor people had large amounts of employment. You had that other class, which you have got to address because it looks just like their nineteenth century class.

Chairman ROYCE. Well, thank you.

I should mention we also have four individuals who flew in from the Maghreb Board for Investment and Integration. They flew in here from the Middle East. If I could ask them to stand? If you could just stand for a minute? Go ahead. Thank you very much for being with us.

In closing, I want to again thank Mr. de Soto for his participation in this important hearing. The United States already has marshaled $1.5 billion to support democratic transitions in the wake of the Arab Spring. Hundreds of millions more have been requested by the administration for the next fiscal year. But if we do not understand the underlying causes of the conflict in the region, all of this assistance will be wasted. I believe we need to bring greater focus to the economic drivers of unrest—corruption, weak institutions, unenforceable property rights—as we work to support the Arab voices for change.

You have helped shine a spotlight on these issues, Mr. de Soto, and I support you in your efforts. We stand adjourned. Thank you again.

[Whereupon, at 11:15 a.m., the committee was adjourned.]

APPENDIX

Material Submitted for the Hearing Record

FULL COMMITTEE HEARING NOTICE
COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515-6128

Edward R. Royce (R-CA), Chairman

May 21, 2013

TO: MEMBERS OF THE COMMITTEE ON FOREIGN AFFAIRS

You are respectfully requested to attend an OPEN hearing of the Committee on Foreign Affairs, to be held in Room 2172 of the Rayburn House Office Building (and available live on the Committee website at http://www.ForeignAffairs.house.gov):

DATE: Tuesday, May 21, 2013

TIME: 9:30 a.m.

SUBJECT: The Call for Economic Liberty in the Arab World

WITNESSES: Mr. Hernando de Soto
President
Institute for Liberty and Democracy

The Honorable Madeleine K. Albright
Chairman
Albright Stonebridge Group

By Direction of the Chairman

The Committee on Foreign Affairs seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202/225-5021 at least four business days in advance of the event, whenever practicable. Questions with regard to special accommodations in general (including availability of Committee materials in alternative formats and assistive listening devices) may be directed to the Committee.

COMMITTEE ON FOREIGN AFFAIRS

MINUTES OF FULL COMMITTEE HEARING

Day *Tuesday* Date *05/21/13* Room *2172*

Starting Time *9:40 a.m.* Ending Time *11:14 a.m.*

Recesses *0* (____ to ____) (____ to ____) (____ to ____) (____ to ____) (____ to ____) (____ to ____)

Presiding Member(s)

Chairman Ed Royce

Check all of the following that apply:

Open Session ☑
Executive (closed) Session ☐
Televised ☑
Electronically Recorded (taped) ☑
Stenographic Record ☑

TITLE OF HEARING:

The Call for Economic Liberty in the Arab World

COMMITTEE MEMBERS PRESENT:

See Attached Sheet

NON-COMMITTEE MEMBERS PRESENT:

None

HEARING WITNESSES: Same as meeting notice attached? Yes ☑ **No** ☐
(If "no", please list below and include title, agency, department, or organization.)

STATEMENTS FOR THE RECORD: *(List any statements submitted for the record.)*

Rep. Engel
Mr. de Soto

TIME SCHEDULED TO RECONVENE _____
or
TIME ADJOURNED *11:14 a.m.*

Jean Marter, Director of Committee Operations

HOUSE COMMITTEE ON FOREIGN AFFAIRS

"The Call for Economic Liberty in the Arab World"

May 21, 2013

Present	*Member*
X	Edward R. Royce, CA
	Christopher H. Smith, NJ
X	Ileana Ros-Lehtinen, FL
X	Dana Rohrabacher, CA
	Steve Chabot, OH
	Joe Wilson, SC
	Michael T. McCaul, TX
	Ted Poe, TX
	Matt Salmon, AZ
	Tom Marino, PA
	Jeff Duncan, SC
	Adam Kinzinger, IL
X	Mo Brooks, AL
X	Tom Cotton, AR
X	Paul Cook, CA
	George Holding, NC
X	Randy K. Weber, Sr., TX
X	Scott Perry, PA
	Steve Stockman, TX
	Ron DeSantis, FL
	Trey Radel, FL
X	Doug Collins, GA
X	Mark Meadows, NC
X	Ted S. Yoho, FL
	Luke Messer, IN

Present	*Member*
	Eliot L. Engel, NY
	Eni F.H. Faleomavaega, AS
	Brad Sherman, CA
	Gregory W. Meeks, NY
X	Albio Sires, NJ
X	Gerald E. Connolly, VA
X	Theodore E. Deutch, FL
	Brian Higgins, NY
X	Karen Bass, CA
	William Keating, MA
X	David Cicilline, RI
	Alan Grayson, FL
	Juan Vargas, CA
	Bradley S. Schneider, IL
X	Joseph P. Kennedy III, MA
X	Ami Bera, CA
X	Alan S. Lowenthal, CA
	Grace Meng, NY
	Lois Frankel, FL
	Tulsi Gabbard, HI
	Joaquin Castro, TX

○