



Egypt's Self-Inflicted Poverty

Why is it that Egyptians do well in the U.S. but not Egypt? We could make that same observation and pose that same question about Nigerians, Cambodians, Jamaicans and others of the underdeveloped world who migrate to the U.S. Until recently, we could make the same observation about Indians in India, and the Chinese citizens of the People's Republic of China, but not Chinese citizens of Hong Kong and Taiwan.



Let's look at Egypt. According to various reports, about 40 percent of Egypt's 80 million people live on or below the \$2 per-day poverty line set by the World Bank. Unemployment is estimated to be twice the official rate pegged at 10 percent.

Much of Egypt's economic problems are directly related to government interference and control that have resulted in weak institutions vital to prosperity. Hernando De Soto, president of Peru's [Institute for Liberty and Democracy](#), laid out much of Egypt's problem in his *Wall Street Journal* article (Feb. 3, 2011), "Egypt's Economic Apartheid." More than 90 percent of Egyptians hold their property without legal title.

De Soto says, "Without clear legal title to their assets and real estate, in short, these entrepreneurs own what I have called 'dead capital' — property that cannot be leveraged as collateral for loans, to obtain investment capital, or as security for long-term contractual deals. And so the majority of these Egyptian enterprises remain small and relatively poor."

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Egypt's legal private sector employs 6.8 million people and the public sector 5.9 million. More than 9 million people work in the extralegal sector, making Egypt's underground economy the nation's biggest employer.

Why are so many Egyptians in the underground economy? De Soto, who's done extensive study of hampered entrepreneurship, gives a typical example: "To open a small bakery, our investigators found, would take more than 500 days. To get legal title to a vacant piece of land would take more than 10 years of dealing with red tape. To do business in Egypt, an aspiring poor entrepreneur would have to deal with 56 government agencies and repetitive government inspections."

Poverty in Egypt, or anywhere else, is not very difficult to explain. There are three basic causes: People are poor because they cannot produce anything highly valued by others. They can produce things highly valued by others but are hampered or prevented from doing so. Or, they volunteer to be poor.

Some people use the excuse of colonialism to explain Third World poverty, but that's nonsense. Some the world's richest countries are former colonies: United States, Canada, Australia, New Zealand and Hong Kong. Some of the world's poorest countries were never colonies, at least for not long, such as



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Ethiopia, Liberia, Tibet and Nepal. Pointing to the U.S., some say that it's bountiful natural resources that explain wealth. Again nonsense. The two natural resources richest continents, Africa and South America, are home to the world's most miserably poor. Hong Kong, Great Britain and Japan, poor in natural resources, are among the world's richest nations.

We do not fully know what makes some societies more affluent than others; however, we can make some guesses based on correlations. Rank countries according to their economic systems. Conceptually, we could arrange them from those more capitalistic (having a large market sector and private property rights) to the more socialistic (with extensive state intervention, planning and weak private property rights). Then consult Amnesty International's ranking of countries according to human rights abuses going from those with the greatest human rights protections to those with the least. Then get World Bank income statistics and rank countries from highest to lowest per capita income.

Having compiled those three lists, one would observe a very strong, though imperfect correlation: Those countries with greater economic liberty and private property rights tend also to have stronger protections of human rights. And as an important side benefit of that greater economic liberty and human rights protections, their people are wealthier. We need to persuade our fellow man around the globe that liberty is a necessary ingredient for prosperity.

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