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## [Why the Poor Need Property Rights](#)

### **How Property Rights for Street Vendors Can Create Prosperity**

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Early in the morning the streets below my flat would become a beehive of activity. Small stands were scattered everywhere, cramming every available inch of sidewalk. Small bundles of bananas, packets of tomatoes, or potatoes were for sale. Newspaper vendors grabbed the busy corners. Hawkers with every imaginable product had set up business.

As the day waned the activity didn't cease, though it did slow down. The vendors of vegetables went home. Now the streets were perfumed with the aroma of boerewors (sausage) on the grill. Walking down the streets well after dark, I was surrounded by food vendors hoping to cash in with those looking for a late-night snack.

These vendors are among the first memories I have of living in Africa. Not only was I in Africa, I was in the most densely populated area on the entire continent—the Hillbrow section of Johannesburg. Those vendors were a key element of the life in Hillbrow. Some even say they were responsible for its demise. Today Hillbrow is a slum, filled with prostitutes, drug pushers, illegal aliens, and rundown buildings. But just ten years ago it was the center for the chic of Johannesburg.

The hawkers were blamed for much of the demise because their stands were run down. Each day they left behind growing piles of rubbish and rotting food. Just walking down the sidewalk became impossible as each square foot was crammed with more and more hawkers as the weeks went by.

The honorable attempt to make a living had become a nuisance. As the politics of South Africa changed, government enforcement of hawking regulations changed. At first the new government attempted to curry favor with the hawkers and no regulations were enforced. As time went by the central business district became a no-go area. The luxurious Carlton Hotel closed its doors and 50 floors of hotel rooms now sit empty. Even the Johannesburg Stock Exchange fled Johannesburg for the cleaner affluence of Sandton. Where I once walked well past midnight I refuse to enter in broad daylight. As the inner city crumbled the government fluctuated between strict enforcement and no enforcement of the hawking laws.

But whatever sins are ascribed to the hawkers, can you really fault them? In a nation of over 40 million, less than 25 percent are employed—a problem exacerbated by new labor laws. Sidewalks were designed for pedestrians not for street trading. Yet without street trading, the hawkers' children would go hungry.

Anger would flare up over the hawkers, and to this day the conflict continues, since even now the sidewalks are considered public property or a commons. Economists have written of the

“tragedy of the commons,” and this is just one more example of how communally owned property is overexploited in ways that end up counterproductive for just about everyone.

Even the litter problem is a problem of common ownership. Economist Walter Block has noted that litter is something that takes place only on public property. Sure, trash is thrown down on private property open to public use—places like shopping malls, ballparks, and movie theaters. But in those venues the owners, instead of sending police out to give tickets to litterers, send out cleaners. Cleaning is just part of doing business.

But the world of street trading lacks property rights, and that brings a plethora of problems. The traders have no property right to their stands and know that they may be evicted at any moment. Periodically battalions of police sweep down on them and confiscate their goods and their stands. As a result, the traders never bother investing in decent trading stands. Any old piece of cardboard on the ground will do. Anything else would represent an investment they couldn't afford to lose.

Hernando de Soto noticed the same problem with street traders in Peru. He wrote: “The threat of eviction always hangs over street vendors, especially when there is traffic congestion or growing pressure from residents. Practically speaking, this rules out any long-term investment in improving the location, forcing the vendors to keep selling from barrows rather than from stalls made with proper building materials and equipped with running water, electricity, refrigeration, storage, display space, or any of the other facilities that permit the supply of a steady volume of merchandise. The installation of such improvements as toilets, parking lots, or gardens would be impracticable.”<sup>1</sup>

One solution for the conflict that arises when competing interests attempt to grab a commons is privatization. As I have pointed out before, the only alternative is the use of authoritarian measures, such as police enforcement, fines, and confiscations.<sup>2</sup>

## **Property Works**

In one area of Johannesburg the private solution has been tried and is working. Private management districts have been created by business owners in attempts to solve the problems. One such district is just down the road from me, the Rosebank Management District (RBMD).

There was a hawker problem there. A small stretch of Craddock Avenue runs between the Mall of Rosebank and a few smaller malls across the road. Some 140 hawkers crammed into this two-block area. Attempts to restrict the amount of sidewalk used were fruitless since once the enforcement stopped, hawkers would capture as much space as possible for themselves. Pedestrians were often forced to walk in the street. Just one person stopping to look at a curio for sale would block the walking space that was left. Each hawker, acting in his own rational self-interest, had engaged in behavior that collectively was detrimental—all because no one had a right to the property he was using.

The RBMD had a solution. First, the street itself was ceded to it. The street was closed off to through traffic. Second, most of the street was turned into an outdoor area for the public. A two-story market for street traders was built and a private flea-market firm was hired to run the premises. Some 60 street traders were then chosen to occupy the building at minimal rent. Just below the building, where the hawkers used to trade, the RBMD has traditional African

dancers putting on regular shows. Restaurants in the area have tables outside. The district, which was starting to run down, has become a major tourist attraction.

The RBMD also hired a team of security guards and cleaners. With improved security, shoppers, formal traders, and hawkers benefit. In addition, the city no longer has to worry about cleaning up, as the RBMD takes care of that as well.

Previously, conflict was inevitable, because clashing incentives were allowed to operate. Once the informal traders were brought into a market system with property rights, formal and informal traders could cooperate for mutual benefit.

Another way to end the commons is the creation of street-trading stands. Here specific sites are established, and traders who operate there are given ownership of the stand itself. By granting a property right in the land they are using anyway, the city can create a new set of incentives for street traders.

Under current law, each stand represents dead capital: its value can't be used properly because it lacks legal recognition. Throughout the Third World, as de Soto has so aptly pointed out in *The Mystery of Capital*, there exists vast amounts of dead capital.<sup>3</sup> Informal housing without title, underground businesses, street traders—all represent a portion of the Third World's dead capital. Legal recognition alone would create vast amounts of wealth almost over night, wealth the poor could tap into for expansion and to create further wealth.

### **Transferable Sites**

A property-rights system allows transfer of sites. Current trading regulations amount to a law of capture. A trader can use a site provided he has grabbed it before other traders do so. But transferring sites under such a system can be difficult, since the traders have no property rights. This creates economic stagnation and makes it difficult for street traders to take advantage of an evolving marketplace. It will quickly become apparent that not all sites have equal economic value for all traders. If traders have property rights, they will be able to arrange site usage according to economic value. Some sites will increase in value, and just as formal businesses sort themselves out according to profitability in a specific location, the same thing will happen with these street traders as well. In Peru, de Soto discovered that extralegal systems of property ownership eventually evolved allowing vendors to sell specific sites. And like all products, the sites varied in price.

Flexibility in usage could also mean that one vendor might use a site in the morning while a different vendor uses it in the afternoon. Exactly such flexibility was noted among the informal traders by de Soto. He writes:

It is not unusual, for instance, to see the pitch occupied by the breakfast seller in the early morning hours who then, around 9 or 10 in the morning, makes way for the juice seller who, at midday, makes way for the lunch seller who, after four in the afternoon, is followed by the vendor of herbal remedies, who later gives way to the vendor of Chinese food, who stays until the end of the day. These shifts enable a single barrow to operate like a large store, maximizing its commercial value. On their own, the different vendors offer only a small range of goods and services. When proximity does not operate satisfactorily, they try to improve it by establishing shifts, adapting the barrow's use to the different demands of consumers as

they arise in the course of the day, thus exploiting the location's commercial value around the clock.<sup>4</sup>

The creation of property rights will also change the behavior of street traders. It gives them new incentives to improve their businesses. It allows for investment that is currently discouraged. And it permits the transfer of business rights. Such a system of property rights will help move informal traders into the formal arena. Instead of being a dead end, street trading could become the incubator for vibrant, growing businesses. An entire class of entrepreneurs could be created, with all the benefits such individuals bestow on society.

A property-rights approach induces not only greater flexibility but also more efficient policing of trading areas. Local management districts know their areas. They know who should or should not be on a specific site. They are aware when a trader is causing problems for other traders and who is responsible for refuse problems. So they are better able to micromanage specific street locations. A mega-city with millions of people and tens of thousands of streets can't possibly compete in flexibility with such localized management.

In Lima, Peru, the city government came to recognize that attempts to ban street trading were useless. The city government then decided to create specific market locations for street traders. But according to de Soto, the municipality "did not try to monopolize the building of markets. On the contrary, with the agreement of the central government, it exempted anyone interested in building such markets from paying taxes and even fees for building permits, and it even established more favorable rules for vendors' organizations." The result was that between 1964 and 1970 informal traders "built four markets for each market built by the state."<sup>5</sup>

Street traders represent the beginning of what de Soto calls "a long march" to capitalism. When hampered and harassed by government, the natural evolution of property rights is prevented. The result is decline and decay. But when, instead of controlling, government acts as a protector of property rights, then street trading is the first step toward prosperity.

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## Notes

1. Hernando de Soto, *The Other Path* (New York: Harper & Row, 1989), pp. 66-67.
2. "Liberty, Property and Crime," *Ideas on Liberty*, November 2001, p. 11.
3. Hernando de Soto, *The Mystery of Capital* (New York: Basic Books, 2000).
4. De Soto, *The Other Path*, p. 67.
5. *Ibid.*, p. 81.