

Q&A With Hernando de Soto

“The Power of the Poor”

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On PBS Stations Across the Country**

Hernando de Soto is an economist who in 2004 Time magazine named as one of 100 leaders for the new millennium. De Soto is president of the Institute for Liberty and Democracy, the Lima, Peru-based think tank that advocates for property-rights reforms in developing nations. He is the author of several books, including The Other Path: The Economic Answer to Terrorism (1989, 2002) and the landmark The Mystery of Capital (2000).

How does “The Power of the Poor” make a difference in the way we think about the poor – who make up about two-thirds of the world’s population?

Traditional approaches explain poverty as a general defect in the culture; a number of academics have even relegated an entire continent (i.e. Africa) to poverty because its people have the wrong kind of culture for development. This film shows that the poor are as ambitious and hardworking as anyone in the developed world. What keeps them from improving their lives are burdensome, costly and discriminatory laws – and the lack of legal tools that you take for granted in rich countries: property rights to control resources, legal business organizations to develop them, and identity devices to operate and be recognized in expanded markets beyond the confines of family, friends and neighbors.

One major iconoclastic aspect of my take on poverty is that I don’t view the poor as the problem but as a major part of the solution: they – and their assets (mainly, for the moment, real estate and small businesses) have the potential to generate capital and credit – as a matter of fact I don’t think you can create any meaningful and reliable amount of either without property.

There is now much talk about “globalization” – pro and con – but the fact is that globalization as it now stands is only globalizing the elites: those that have the tools and identities to reach across borders without leaving their neighborhoods. The poor – who are over 4 billion people, two thirds of mankind – are entrepreneurs who need the economies of scale and to be part of the division of labor that the global economy can provide. But right now they do not have the legal tools to have their assets and track records examined, to structure complex deals, sign reliable contracts, accumulate or leverage the value of their resources.



The poor do not even have the tools to access their own national economies never mind global trade. Globalization is just not on their radar. If their governments can provide the adequate legal tools, poor people will be able to lift themselves – and their countries – out of poverty. They have resources hundreds of times greater than all foreign aid and direct investment – provided they can be made fungible through law. Only then will “globalization” sound like a global proposal to ordinary people and not another scheme to help elites.

Why do you think this program is important and why is it relevant now?

The global economy has grown more in the past 60 years than it did in the previous 2,000 years. But the poor in Peru and other developing nations are trailing behind with no hope of improving their lives significantly. For the first time on television, their story will be told, and US viewers will be fascinated to know how much they take for granted. In recent years, there has been a big push in the West for more aid to developing countries like Peru. This film will explain why aid is not enough to solve the problem of massive poverty and exclusion.

Compassionate people and governments are eager to reduce poverty. This film will help them see what they’re up against, show what has been done in Peru, and help them formulate and support policies that will actually reduce poverty worldwide.

What are some of the more surprising facts that stem from the new scholarship presented in this series?

First, that most people in developing countries have already accepted property and market systems as the way out of poverty, but the law has not reflected that. Second, that developing governments haven’t yet become totally aware of the former. Third, that property is much more than ownership. The American philosopher Paul Weiss would have described it as “one of those things that turns out to organize everything else.” Fourth, that viewing property as a right wing formula in the West has made it a divisive issue which percolates to developing countries. Fifth, what underlies nearly all conflicts and grave social problems in developing countries are unresolved property issues.

How does your Latin American perspective shape your understanding of global economics?

Living day to day in the Third World gives us firsthand, constant experience of exclusion and informality – and the entrepreneurial drive and ingenuity of poor business people who seem to be able to make a living out of nothing. With knowledge and experience about making effective reforms in our native Peru, the ILD was able to adapt its research to understanding the shadow economies of other countries – in Asia, the Middle East, Africa, post-Soviet Europe as well as elsewhere in Latin America. In spite of differences in culture and religion, people seem to cope with poverty and exclusion similarly in underground economies, no matter where they are located.

How do you relate the current economic crisis to the principles discussed in the program?

As I watched the global economic recession unfold and investigated the problem of the “toxic assets” on bank balances that had caused credit to freeze all around the world, I realized that I was looking at something very familiar to a Third Worlder – a shadow economy. The main advice that the ILD gives to heads of state in developing countries eager to create modern market economies is that they need to build a legal system where all the documentation for property and businesses is located, collected, standardized, and registered in transparent ways for everyone interested to see. Our problem is that most of the proprietary paper in our countries (titles, licenses, contracts, wills etc.) is toxic – created outside the law, not-standardized, not registered, and dispersed willy-nilly throughout our shadow economies. As a result of all this bad paper, our entrepreneurs face a chronic credit crunch.

When I researched the financial instruments at the center of the global credit crunch – the infamous “derivatives” (\$600 trillion worth!) – I realized that they constituted the only proprietary paper in the US financial system that was not registered, standardized, and transparent. In fact, these derivatives had been sliced and diced and repackaged and sold so often that they were disconnected from their original underlying assets. Their inventors had, in effect, created a shadow economy. To me, the solution was obvious: Authorities had to do the same thing that the ILD does in our client countries – find the bad paper, isolate it, weed it out, and bring it into the legal property system. (See my articles in Newsweek, along with an interview related to this very question, “Slumdogs and Millionaires”, the *Wall Street Journal*, and the *Los Angeles Times*).

How and why did you get involved with Free To Choose Media?

Free To Choose Media contacted me about the possibility of doing a film about the ILD’s work fighting poverty in Peru. When I found out that they had produced the PBS series of the same name starring the late Milton Friedman – a blockbuster – I agreed to discuss what they had in mind. Bob Chitester and Tom Skinner struck me as consummate professionals, with decades of experience producing serious television and well-informed about my ideas and the ILD’s work. I was very impressed. And once I spent a few days in the shantytowns around Lima with their production crew – Jim Taylor, Barbara Potter, and Roger Brown – on what became a five-minute short film to prove that there was a worthwhile documentary project in our work and to help raise money for the project, I knew I was in expert hands. In spite of the fact that we are all friends now and share the cause, I think that the final result proves us all right.