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Summary

Hernando de Soto has won the Cato Institute's biennial Milton Friedman Prize for Advancing Liberty for his ground breaking research on how to reduce poverty in developing countries. His findings stress the importance of property rights and personal responsibility and also apply to developed nations.

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“Empower the poor through upholding property rights and encourage responsibility.”

Helping the Poor Help Themselves

by John Blundell

Economists can rarely claim to be heroes. Few have suffered murder attempts for their views. Too many economists get lost in their footnotes. Their graphs describe the largely fictional formal economy when most of mankind has little connection to the matters described in statistics.

With the debate in Oregon heating up over high hunger statistics, better job access for the poor and a depressed economy, it is good to look outside state boarders borders for solutions. This year, the biennial Milton Friedman Prize for Advancing Liberty of \$500,000 has just been awarded by the prestigious Cato Institute in Washington DC to Hernando de Soto—a man who has dedicated his time to solving the poverty problem.

De Soto has been working on critiques of poverty and the techniques persistently deployed to keep people poor. He is a true hero—both intellectually and physically. A middle-class Peruvian, de Soto had a successful business career in Europe. At 38, he had made more than enough to retire. On returning to Lima in 1979, he was jolted by the poverty. Why was it so different from Europe?

On the surface it was no different. The people were as energetic and as dexterous. They wanted to make life better for their families. Yet outside a tiny group of elite, all very close to the Peruvian state, everyone was officially poor.

What de Soto found was complex in detail but simple in essence: The poor lacked property rights. “They had houses but no titles; crops but no deeds; businesses but no statutes of incorporation,” he wrote.

Some 95 per cent of Peruvians are locked out of the highly regulated formal or legal economy. Of course, the informal economy is thriving. It is the reality of the economy for most people in what we call the third world.

In short, they are all rather richer than we are told and could easily be vastly richer if they could only establish the property rights on the fruits of their labor.

De Soto has two hugely important books to his name: *The Other Path* (1989) and *The Mystery of Capital* (2000). These two texts are truly revolutionary. The key to bequeathing prosperity is to relax all restrictions and grant tradable property rights—the rights that the elites all enjoy.

In 1980, de Soto created the Institute for Liberty and Democracy. It seems to have transformed Peru's understanding of itself. Yet de Soto's influence is far wider than his Andean city. He is tendering his ideas on every continent. He exasperates conservatives and socialists alike. This is because his sensibilities are left wing (to lift those in poverty), but his prescriptions are radically libertarian.

In every case, he avoids the usual mixture of charity or alms. The poor do not need the transfer of goods, but the transfer of rights. The oppressed of the poorest nations just need functioning markets and the rule of law.

“Five-sixths of the world's population are locked out of the capitalist system. Most are as marked off as apartheid once separated black and white South Africans,” he writes.

His ideas lead to conclusions that upset the Marxist brutalists who want to obliterate all property rights.

The Shining Path terrorists have tried to kill de Soto several times. The corrupt agencies of the Peruvian state have tried to ruin him. Drug barons hate his ideas because they would empower the poor peasants who currently grow the coca bean.

He remains ruefully amused at the cruelty of the stupidity of it all. Condescending “aid” programs or “development” experts are positively damaging. Men and women of the third world are not children or incompetents; they simply lack the institutional tools we take for granted such as the enforcement of laws and the transferability of property. How can banking or credit fulfill their functions without contracts? The poor lack collateral; their assets cannot be traded.

Reading de Soto is an enjoyably subversive experience. He teaches that every formal institution has vast informal consequences. The grander the title and the more superior the claims, the less competent will any public agency be.

Empower the poor through upholding property rights and encourage responsibility. Discourage the build up of large regulatory institutions likely to be avoided by the rich designed to keep the poor in place. Allow the market economy to thrive based on supply and demand, thus bringing all to a better quality of life. These are all lessons that Oregon should learn.

John Blundell is the director general of the London-based Institute of Economic Affairs, a judge of the Milton Friedman Prize for Advancing Liberty and an adjunct scholar at Cascade Policy Institute, a Portland, Oregon think tank. This essay was adapted from an editorial by Blundell published in The Scotsman, (Edinburgh, Scotland).

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