



Interview:

Hernando de Soto

Leading economist Hernando de Soto comments on recent events in the Arab world and explains why legal reform is essential to improving the lives of the world's poor and vulnerable. He spoke to *YOUth* magazine from his office in Lima, Peru.

You have spent your life committed to improving the economic prospects of the poor and vulnerable. What inspired you to follow this path?

This came very naturally to me, as I come from a country where there are so many class differences and disparities. My father was a diplomat, so I lived most of my early life outside Peru, mostly in Europe. My brother and I returned home for summer vacations. My parents called these visits the "Peruvitization of the boys." I could not help but see the enormous differences between European countries and Peru, and somehow I felt an obligation to do something. When I returned to my country to attend university, I began to learn how important the rule of law was, and how giving people the tools of enterprise and property was a way to empower them. It was intellectually exciting to find something I could do beyond charity. To me, this path was simply irresistible.

What can we learn from the tumultuous events of the "Arab Spring"?

This revolution was sparked by 26-year-old Mohamed Bouazizi, a young man in Tunisia who was reduced to making US\$10 a day selling fruits and vegetables on the street, and could no longer afford to pay the bribes of a corrupt system or the required government fees. One day, a government official took away the scales he needed to weigh his produce. He struggled to get them back, and when he failed, he poured paint thinner over his body and set himself on fire. But the story begins even earlier, when

Mohamed was a young boy and his father died. Local laws and customs made it impossible for his widow to keep legal ownership of the property. As a result Mohamed's mother could not leverage that land to help support her family or grow a business, leaving her son increasingly frustrated and desperate.

Many of the young people out in the streets in the Arab world are trying to create or grow a business but don't have the legal rights or protections to do that. In addition to democracy, they want entry into business. So yes, citizens need to fight for their identity and their dignity, but they also need to fight for the right to make a living.

Leaders and governments may change and more democracy may come to this region of the world. But if the existing legal institutions are not reformed to allow for economic growth from the bottom up, then people's hopes for a better life will simply remain unrealized.

Why have you made property rights and legal reform the cornerstone of your plan to lift up those at the bottom of the economic ladder?

Empowering the poor begins with property rights. Unfortunately, most developing countries fail to give the majority of people these basic rights, so it's impossible for them to legalize their property and their businesses, no matter how well-intentioned they are. The poor remain poor when their assets in land or housing or a small business are not legally integrated into the formal economy. As a result, they



When introducing Mr. de Soto at the 2004 World Economic Forum in Davos, President Bill Clinton described him as “the world’s most important living economist.”

end up owning what I call “dead capital”—assets they can’t benefit from economically.

If, for example, you want to sell your home but don’t have a title, the value of the property goes down substantially. But if you do have legal ownership, the value of your home can go up 20% or 30%. By formally registering ownership of a farm, a poor farmer can more easily secure a loan to expand his livelihood. So property rights are the “root” of reforming the system so that the poor can improve their lives.

What has been the impact of your consultations with governments around the world on how to implement legal and economic reforms?

There are plenty of success stories, starting with our work in Peru, where the economy has grown and where there are more legal tools available to poor people to create their own wealth. We’ve worked in five continents—in places like El Salvador, Tanzania, Egypt, Albania, Ethiopia, and the Philippines. Some countries who see the value of these reforms don’t work with us directly. Leaders from Russia and South Africa, for example, have visited the Institute for Liberty and Democracy (ILD) headquarters in Peru, and then return to their countries and implement ILD-inspired legal and economic reforms on their own.

What has been the role of government and business leaders in enabling reform?

Governments manage and control property. The only way to change the existing order is by getting the government to make those changes. But this whole process is like dismantling an eagle’s nest: you need to do it one branch at a time, so that the eagle won’t wake up and get angry. That’s why we so often work

directly with heads of state. If we don’t have their support and authority to make these reforms, it won’t work.

We’ve seen that after these legal changes and reforms have been made in a particular country that a lot of private firms come in after us, such as banks and construction firms. We clear the territory for them. Before we go in, many companies often aren’t even considering investing in these countries.

The vast majority of young people work in the informal sector. How would these reforms change their lives?

There’s very high unemployment among youth today—not just in the developing world but in places like Spain—where unemployment among youth

is up to 40%. We need to think about more than employment to address this problem; we need to think about entrepreneurship. There are so many opportunities in these countries for young people to start their own businesses. But they face so many barriers. It should not take 500 days to open a small bakery, or ten years of dealing with red tape to get legal title to a vacant piece of land, as was true in Egypt. The easier we can make these business transactions, the better it is for young entrepreneurs and everyone else. So all the reforms and the work that we do will help young entrepreneurs to be successful, no matter where they live.

What advice would you give to young entrepreneurs just starting out on their own?

They can be such a positive and driving force in the economy. My advice to young entrepreneurs would be to specialize their business so they can take it to scale. Too many young people have two or three little businesses that they are running. That means they are not doing any one of them very well. They need to specialize to increase their productivity. If you have a small shirt factory and cultivate a small vegetable garden on the side, you will not be producing a great shirt, or great buttons, or productive gardens. You need to do one thing and do it well. **Y**

Hernando de Soto is President of the Institute for Liberty and Democracy (ILD), a Peruvian-based NGO and one of the world’s leading economic think tanks. Among other leadership positions, Mr. de Soto served as an economist for the General Agreement on Tariffs and Trade and as CEO of Universal Engineering Corporation (Europe’s largest consulting engineering firm). Among other works, he is the author of “The Mystery of Capital”, which has sold over 2 million copies worldwide.