Hernando de Soto: Right Wing Revolutionary

By

Ian M. Schmutte

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Introduction

“The hour of capitalism’s greatest triumph is its hour of crisis.” With this portentous sentence, Peruvian economist Hernando de Soto begins his most recent work *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. The message that follows in the book, and in much of what De Soto has expressed in the 22 years since he became involved in development issues is equally as grand as this title. In this post-Cold War era in which the message of extreme libertarian thinkers such as Milton Friedman and Friedrich Hayek have been long in the ascendant, de Soto is attempting to carve out an intellectual space that both advocates for capitalism and free market ideology, yet simultaneously threatens the political status quo.

It is a status quo that must be threatened; that is in fact threatened. Following the collapse of the Soviet Union, proponents of laissez-faire capitalism were quick to declare victory. But all is not well. With no obvious alternative system, fingers in the developing world point to the capitalist west, reaching for a path out of poverty. For decades, a vast array of free market reforms, structural adjustment, currency stabilization programs, and various other development tools were applied in developing countries. The implicit promise of capitalism, the panacea of rapid growth has been largely absent.

De Soto has observed that people are not satisfied with the results of capitalism. He does much of his research “on the ground”, interacting with the poor of the developing world. People there increasingly feel that the libertarian capitalist philosophy touted by western and third world leaders is a smokescreen in defense of their privileged position. While still unpopular, the questions of equity and justice that may be addressed

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by socialist ideology are stirring ever more, both in the developing third world countries, and in the former Communist countries of Eastern Europe.²

Observations like these lead De Soto to argue that the fact that capitalism is apparently the only alternative left for development does not ensure its success in the third world. De Soto describes capitalism as a “bell jar” that only covers the elite in the third-world.³ People are sick of being left out of the bell jar. If it is not lifted to cover them, they are likely to smash it. So De Soto does not believe that capitalist development is an inevitable path for the third world, but he believes it is the best one. To him, capitalism in its purest form is a system for the poor to generate wealth, but that the elite class of westernized leaders is holding it hostage behind a set of antiquated institutions⁴. De Soto’s work centers on pointing out these privilege-preserving institutions and demonstrating the potential for capitalism to improve the lives of the global poor once these institutions are altered.

De Soto’s work is novel in several ways. In his development economics, he proposes that a system of formal property rights for the poor is crucial for third world development. He develops a new capital theory that separates the physical attributes of assets from their legal representations. While it is physical capital that is used in production to increase the productivity of labor, it is really the legal representation of capital assets that inspires continuous accumulation and growth. As long as the poor in developing countries cannot obtain formal property rights, they will always lag behind the developed world.

² Witness the immense success of Lula, the socialist president recently elected in Brazil
³ Hernando de Soto, op. cit. p. 67. Here De Soto is borrowing explicitly from the brilliant French historian, Fernand Braudel.
Beyond this positive contribution, De Soto adds a normative element. To build systems of property rights in the developing world, de Soto begins from the theory of institutional convergence. A property rights system is not something to be handed down to the people from a benevolent government. On the contrary, he observes that where formal property systems are absent or too costly, the poor are adept at generating informal property institutions. In any country, there may be a multitude of informal property systems organized according to geography, kin groups, or other social forms. Ultimately, de Soto believes that people, desiring to trade with more people, will push the boundaries of their property networks until a point of convergence is reached on a single system. In this sense, his view is akin to that of Carl Menger on monetary convergence, and more generally Adam Smith and his followers in the neo-liberal school who believe that institutions emerge as a kind of spontaneous order. His prescription for collective action is therefore limited to the acceleration of this convergence process. To develop a property system, a government will do best to pay attention to what people are already doing, to “discover the natural law”, and try to formalize it.

Finally, in his popularizing approach to economic writing, while maddening to an academic, de Soto simultaneously creates something like a guru status for himself, but also has the potential to make *The Mystery of Capital* something of a manifesto. In many places, De Soto rails against elite privilege, the corruption of third world governments, and the complacency of the western nations. These statements are at odds with his benign treatment of current governments as plausible agents of reform. Given de Soto’s populist sentiments, I argue that he hopes to inject a treatise for reform that will come not from frequently corrupt third-world governments, but from grassroots organization
In this way, De Soto’s engagement with the world as a development economist is itself innovative. While working in the vein of more traditional development economists, he has popularized his work among Peru’s poor. In his belief that dissatisfaction among the world’s poor is reaching a revolutionary pitch, De Soto tries to present capitalism as a potentially liberating force. He wants a voice at the grassroots level that is simultaneously distrustful of the present power structure, but that is also supportive of capitalism.

**informality, information, and institutions: unraveling De Soto’s economic theory**

If the headline of De Soto’s thought were “Development in the third world”, the dateline would read “the informal sector”. To him, informal economic activity is any activity that occurs without the sanction of the formally recognized legal system. Squatting, street vending and unsanctioned taxi operations are just a few of the types of economic activity with which De Soto is concerned. The existence of these “informals” both inspire his perspective on economic development, and are the subject of a massive empirical research project.

De Soto is rightly criticized for his failure to acknowledge the giants on whose shoulders his theory is built (Bromley 334) and for his lack of academic rigor (Woodruff 1218-19). Aside from publishing two books, *The Other Path* (1986) and *The Mystery of Capital* (2001), De Soto has written very few articles, mostly restatements of arguments put forward in these two books. Otherwise, his contributions to economic thought come in the form of numerous interviews in the popular press. In all cases, it is generally left to
the reader to meld De Soto’s thought into the corpus of economic thought. Fortunately a few writers (more savvy than this author) have taken the time to trace some of the intellectual history of De Soto’s thought, and to identify by name the economic arguments behind his rhetoric. Combining these reviews with a critical appraisal of De Soto’s own writing, it is possible to present a capsule summary of what De Soto is getting at, and where he gets it.

In empirical research, De Soto is famous for measuring the size of the informal sector of the economy, and for documenting the massive obstacles to legality present in the bureaucracies of developing countries. His study of the Peruvian informal sector in the early 1980s formed the basis for his first book, *The Other Path* (1986). De Soto and a team of researchers found that the informal sector was responsible for a majority of the economic activity in the capital city of Lima. “90 percent of all small industrial enterprises, 85 percent of urban transport, 60 percent of Peru’s fishing fleet (one of the biggest in the world), and 60 percent of the distribution of groceries emerged from the city’s extralegal sector” This finding complemented De Soto’s earlier research on the length of time required to license a small business. To obtain legal license for a small business took “289 days and cost 31 times the average monthly minimum wage.”

From a theoretical perspective, these empirical results gave substance to De Soto’s positive theory. Informality is the result of people comparing the costs and benefits of becoming formal. Excessive bureaucratic procedure puts a high cost on formality, with the outcome that the majority of people opt out of the formal system.

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5 Though this is not unique in the history of economic thought – Adam Smith was a well-known plagiarist whose innovative synthesis of all hitherto existing economics is sufficient to let him off the hook – it is problematic.

Because formal legal systems are inadequate, people operating in the informal sector develop their own spontaneous institutions to protect their property rights. Nevertheless, the choice to operate in the informal sector is the choice to participate in an extralegal system that involves paying bribes to officials, mafias, and other predators. But de Soto’s point is that these choices ought to be regarded as rational choices of people acting to maximize their interests.

De Soto finished his study of the Peruvian informal sector in 1984 and went public with his results. He seemed to be on to something when Peruvian President Fernando Belaunde Terry summarily approached him for advice on how to reform the legal system. Along with the Instituto de Libertad y Democracia (ILD), his research organization, De Soto began to work on legal reforms that would lower the costs of formality. For the following six years, the ILD worked with the Peruvian government on a number of legal and policy reforms. De Soto’s reputation grew with their work, and in 1990, he and the ILD went global, responding to requests from Haiti, Egypt, the Philippines, and many other countries.

De Soto’s *The Mystery of Capital* is the synthesis of the empirical and theoretical insights of the ILD afforded by their multinational work during the nineties. In this new work, De Soto tries to show that reforming property law is the key to capitalist development in the third world. The message of *The Other Path* was that the informal sector is a demonstration of the entrepreneurial capacity of the poor in developing countries, who are willing and eager to work and invest, and even create their own market institutions when the formal system shuts them out. In *The Mystery of Capital*,

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this message remains, but the comparative analysis made possible by applying the ILD model across several nations allows De Soto to broaden his ideas about participation in the formal legal system and to make more general claims about the requirements of economic development.

In terms of empirical research, the methodology in *The Mystery of Capital* is similar to that of *The Other Path*, but extended to include Egypt, Haiti, and the Philippines. He again measures the length of time needed to obtain formal property titles, and estimates the size of the informal economy. The key difference is that here De Soto also presents a measure of the value of assets held informally. From these four countries, he extrapolates to the rest of the developing world to conclude that the world’s poor hold assets worth 9.3 trillion dollars. This astonishing figure is more than double the circulating US money supply, and more than ninety-three times the value of all aid packages from developed to developing countries over the last three decades.\(^8\)

Leveraging this result, De Soto takes his analysis of informality to another theoretical level. The informal sector, with all of these assets, holds the key to capitalist economic development. This immense collection of assets documents the capacity of the poor to save and to invest in numbers that far outstrip any probable foreign aid package. The problem is that these assets cannot be used to mobilize new production. Even though the poor have established informal ways to create and hold property outside the legal system, that they have done so limits their access to capital markets – access that is crucial for economic growth.

\(^8\) de Soto, *The Mystery of Capital*, 2000, p. 35.
To extend his theory of informality to a theory of economic development, De Soto starts with the premise that third world countries suffer from their inability to produce capital. Capital raises the productivity of labor and “creates the wealth of nations”. While the poor possess wealth in the form of assets, these assets cannot be used to deploy new production and create more wealth. Without formal legal title, these assets cannot be traded outside of a close network of people, cannot be used to collateralize loans, and cannot be used as shares against investment. For this reason, world countries are, like firms that issue fewer securities than their income and assets would justify, undercapitalized.

“Capital” is a term with two meanings in De Soto’s theory. First, it describes an asset with the capacity to be used in a production process. At the same time, capital refers to the “potential to create surplus value”. A capital asset can always be used in production, but it is only the legal representation of an asset that gives it the potential to create surplus, or so De Soto claims. His discussion on this point is filled with majestic and mysterious phrases that are difficult to dissect. What he calls “dead” capital are assets that have only the physical property of capital: they can be used in production. By contrast, “living” capital is capital that has a representation in a formal property system. With this additional commodity status, living capital cannot only be used in production processes to increase the productivity of labor, but can also be used to deploy entirely new production processes.

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9 Ibid. p. 5-6
10 Ibid. p. 28
11 Ibid. p. 41
De Soto spends perhaps too much time waxing philosophical on the dual lives of capital assets, one in the physical world and one in the world of ideas. He is more succinct when outlining the effects that formal property systems produce that allow their participants to generate living capital. First, he says, property systems “fix the economic potential of assets”. Taking the example of a house, he points out that the house has many properties that are relevant to its occupants and users. However, within an economic and social system, the house has a few properties that are essential: ownership, certain physical attributes, the presence of encumbrances, boundaries, zoning variances, etc. By recording these economically significant features in a universally recognized and enforceable property document, all relevant economic features are summarized in one place. This enables the property document itself to serve a role in economic transactions. If there is agreement on the validity of the property document and the enforcement of property rights, then all transacting parties can regard the property document as representative of something of value. Without this document, there is no certainty of the condition and characteristics of the asset without physical inspection, and no certainty about the enforcement of a property claim against its owner.

The second effect of the property system on dead capital is the integration of dispersed information into one system. Even where informal property systems capture the important information about assets, this information is only available to the system participants. This necessarily limits the extent of the market in which assets are traded. As a network good, the property rights system is subject to externalities that make the process of convergence to a single system take longer than necessary. This argument is discussed in greater detail below.
The third effect of the property system is to make people accountable. Informal property systems constrain people’s ability to dispose of property as they see fit. With property rights defended in informal systems, people are limited by the parochial and social constraints of the group. Therefore, they are not always free to transfer property with outsiders. It also means that threats against their property are meaningless. Without a credible system for the enforcement of property rights, contracts based on the disposition of assets have no teeth. For example, to get a bank loan against a house I am squatting, the bank must be convinced that it can seize my property should I default. But if it has no relationship with my group, such certainty is impossible. This, of course, means that it is very difficult to use informal property to secure a loan.

A fourth effect is asset fungibility. When it has a representation as property, an asset can be used in a number of transactions, and exchanged for a number of different things. Property rights over an asset may be infinitely divided, as in shares of a stock, and claims for one asset can be easily exchanged for claims over another asset of similar value. This means that even while the asset itself remains dormant, its representation, which is liquid, can effect many more economic transactions (De Soto 2000 p 49 – 61).

These effects give a sense of what De Soto means of the distinction between living and dead capital. Whether or not this distinction is useful is not entirely clear. Certainly it is true that property rights systems are necessary institutions for the functioning of the market system. But asserting the ability of institutions to “waken” dead capital, while a clever rhetorical device, does not give a clear contribution to capital theory.\(^\text{12}\)

\(^{12}\) For the specific details of de Soto’s capital theory, refer to chapter three of *The Mystery of Capital.*
Effective property rights over assets make it possible to write contracts about the disposition of those assets. This is the sort of thing that scholars in new institutional economics have been writing about for decades following Coase’s observation of the importance of transaction costs. Oliver Williamson points out that matching contract types to transactions can serve efficiency purposes. Transactions that are very predictable, occur frequently, and involve little uncertainty can be executed easily in spot markets. As the conditions of the transaction become more specific, uncertain, and unique, contractual forms that stipulate the behavior of the transacting parties are required. If asset disposition cannot be legally stipulated in contracts, these transactions will not occur. This means that if there are not sufficient property rights over real estate, then there will be inefficiency in real estate markets.\(^\text{13}\)

**property rights, property systems, property law: unraveling De Soto’s policy**

De Soto’s policy recommendations focus on the role for government in establishing a formal property system. Recognizing his contribution is difficult due to his failure to embed his own theory in a larger body of prior economic and public policy literature. Unraveling his policy, it seems that his contribution lies not in the fundamentals, but in the details. De Soto contributes a unique justification for a very particular type of collective action. Suggesting that the government create property rights

is not new, but De Soto gives us a new perspective on why the government should do it, and what it should do that is decidedly different from what has come before.

In his empirical work, De Soto observed that where legal institutions are not already present people spontaneously create informal property systems. He also believes that good formal property rights systems emerge from a process of institutional convergence. In this way, his theory of property rights is akin to Carl Menger’s theory of monetary convergence. Menger showed that monetary systems are not created by benevolent governments, but emerge from a market-like process of exchange. By analogy, De Soto imagines that people spontaneously generate property institutions to facilitate transaction and to protect wealth. Successful property laws are really just formalizations of the *ad hoc* institutions people create amongst themselves.

As evidence, he presents a reading of the history of property law in the United States. On his view, the crucial moment in this history occurred when state and federal governments decided to recognize the property claims of squatters over the more arbitrary, but legal claims of railroads and eastern elites. By incorporating the property systems generated by people who used the property, he argues that the US unintentionally created the basis for robust property rights, and by extension of his capital theory, the basis for accumulation and growth.14

The idea of accelerating the convergence process drives De Soto’s policy recommendation. It is not so much a matter of stipulating outcomes as of stipulating processes. He is smitten with the development of property rights systems in the U.S. From his perspective, the history of U.S. property rights is essentially a story of the formalization of the *ad hoc* property systems used by squatters and homesteaders. What

he imagines for the developing world is a managed process in which convergence on a property system takes place in a matter of years rather than over a period of centuries. His historical analysis of the development of property rights in the west is also as a guidebook policymakers can use to accelerate the convergence process in the developing world.

To formalize the argument for collective action, De Soto argues that property systems have the characteristics of a “network good”.

Our argument can be summarized as follows. At the most general level, legal systems are analogous to standards and thus to features of what economists have recently come to label as network externalities: the greater is the number of people who use a network, the more valuable is it for all to be “hooked” to the network. Land titles work the same way. The larger is the number of people who recognize them as representing legal claims to a piece of property, the wider is the market in which the seller may want to transfer it. Wider markets, in turn, promote investment, while enabling the property to serve as collateral for financing. (De Soto and Litan 252).

However, while a collective action seems justified in this case, for example the stipulation *ex ante* of a single standard, some economists believe that there should be no intervention. Even though it will take time, the standard chosen in the market will likely be superior than one imposed by fiat. De Soto’s criticism of earlier attempts at property

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A very famous example of network externality is the development of videotape formats. Consumers once had a choice between buying video machines that could play Beta format and ones that could play VHS format. Independent of competition between makers of VCRs, there was competition between the dueling tape standards. But while VCRs are both non-rival and excludable in consumption, there are externalities associated with choosing VHS over Beta. When a person would buys a VHS machine, they confer an external benefit on people who already own VHS machines, since the number of people they could swap tapes with increased. The inefficiency caused by this kind of network externality works in the following way: even though everyone would be better off using the same kind of machine, there are costs of switching from one format to another: namely the cost of buying a new machine. Therefore, even though there may be an obviously superior standard, it may take a long time for the private benefits of switching to exceed the private costs, even though the social benefits of a single standard might be higher.
law reform is consistent with this perspective. In an interview for the documentary

*Commanding Heights*, De Soto remarked:

> It isn’t a question of copying statutes from developed nations, because we’ve tried that. … Latin American lawyers are famous for getting enthused with the Swiss law, photocopying it, translating it into Spanish, and … putting it into place.

By contrast:

> …people on the ground with or without a property law have basically agreed on the distribution of assets among themselves. … So there are property systems in place. The important thing is that they’re illegal … They are free creations among local people with total disregard for the law. So what does property law have to do to be created? It’s got to be created on the basis of people’s existing beliefs…([www.pbs.org/wgbh/commandingheights/shared/minitextlo/int_hernando.desoto.html](http://www.pbs.org/wgbh/commandingheights/shared/minitextlo/int_hernando.desoto.html)).

For De Soto “the law is a process of discovery”. Converging toward property law involves a kind of social anthropology or social work, cataloging these informal property systems and finding ways to formalize them in a single system. Aside from coordinating these efforts, collective action is needed to determine who the owner of each piece of property will be in the new formalized system. Then, all of the registration and information systems that are the real infrastructure of a property rights systems must be cobbled together from the many informal registration systems (Woodruff 1217).

De Soto has identified three major challenges to this process. One challenge lies in “determining which and how many informal registrars to recognize.” Second, the government must determine how to regulate the enforcement of these systems. Generally, each informal system has its own mechanisms of enforcement. Linking these enforcement systems to the official police power of the state is essential. A concern is that an attempt to standardize the judiciary procedures of informal property systems may inadvertently weaken the strength of those systems. Thirdly, perhaps the most severe
problem will lie in convincing market agents that titles registered in the new formal system will be enforced. This is crucial to minimizing the riskiness of transactions involving registered assets. If the perception of riskiness continues even after formalization, the cost of transacting with these assets will not have been lowered. (De Soto and Litan 267-269).

**methods and myopia: criticisms of De Soto**

Methodologically, De Soto practices economics in more of a rhetorical than scientific manner (footnote: a position that has been popularized and defended by Deirdre McCloskey and others). While he does not ever explicitly acknowledge this approach, his style and work eschew the standard practices of writing in the social sciences in favor of a popularizing approach. Rather than carefully constructing and defending his theory in terms of prior work in the field, De Soto claims that he and his colleagues at the ILD have “closed our books and opened our eyes”. Therefore, his theory is implicitly a direct induction from facts observed in walking the streets and talking to squatters and street vendors in developing countries. This approach, while admirable and perhaps desirable to a certain extent does not free De Soto from his debt to the many development economists and others who have worked in this field before him, and who have tested many of these ideas.

Empirical work also serves a mainly rhetorical purpose for De Soto. He has not published any models nor clearly documented the methods used in generating measures of the informal sector or of the degree of bureaucratic obstruction to obtaining title. Taking issue with De Soto’s measurement of the value of informally held assets in the
third world, Christopher Woodruff contends that the value might be closer to 3.6 trillion – far from the 9.3 trillion claimed by De Soto. Woodruff also takes De Soto to task for pulling numbers out of the air with a minimum of supporting detail (Woodruff 1221).

A more esoteric point of methodological criticism regards the lack of falsifiability of De Soto’s hypotheses. He goes to great lengths in his argument that the key to economic development in the third world involves the convergence on an appropriate formal property rights system. First, while he does outline the steps involved in generating such a property rights system, it is never quite clear what such a system will look like. To this point, De Soto is free to object that it is impossible ex ante to anticipate the outcome of the convergence process. But this leaves him conveniently off the hook should development fail to occur where property law reform has been implemented. It is always possible to claim that the reform process was not carried out properly. Indeed, De Soto’s rebuff to critics who point to the failure of Thai property certification programs, and also to continued anemic performance of Peru’s economy, evidences the use of this line of defense (Woodruff 1219).

Moreover, the rhetoric of De Soto’s argument implies that property rights reform (of a particular kind) is sufficient to “unlock capital” and generate rapid development. But then it ought to be possible to observe a causal link between property law reform and development performance. De Soto carefully remarks in a 2001 paper with Robert E. Litan that formalizing property is merely a necessary condition for growth. In so doing, he again evades falsifiability. As a necessary condition, the presence of property rights becomes a kind of “duh” proposition. Of course a developed market economy cannot perform without property rights. By dodging falsifiability and at the same time
rhetorically positioning the issue of property rights reform as a snake oil for generating growth in developing countries, De Soto wants to bake his cake and eat it too.

Beyond these methodological observations, another criticism applies to De Soto’s concept of informality. De Soto’s concept of informality is an attempt to shift the debate in development economics away from cultural explanations of poverty. This is an important movement, but may have inadvertently replaced one caricature with another. In culture of poverty arguments, the condition of the poor is supposed to result from limits inherent in belief systems and cultural constructs that prevent them from accumulating wealth. De Soto’s aim is to point out how readily the poor create assets and act entrepreneurial in informal sectors. They choose to carry out transactions informally not for cultural reasons, but because of the prohibitive costs of formality. This is like Ronald Coase’s famous argument that firms organize transactions managerially when the costs of organizing them through markets are prohibitive. In Coase’s theory of the firm, markets and firms are substitute institutions for organizing production. In De Soto’s theory of informality, the formal and informal sectors are substitute institutions for channeling entrepreneurship.

But firms and markets are at least as much complements as they are substitutes. This criticism of Coase’s theory applies to De Soto’s analogous theory. The informal sector is a “vent” for the disenfranchised. Squatters who build shanties in a sewer duct do so precisely because they can only afford to build on illegal land. Legalizing their holdings would paradoxically render them unaffordable.\(^{16}\) De Soto goes to pains to

\(^{16}\) In Phillipe Bourgois’ *In Search of Respect*, he describes how in the United States, the informal activity of drug dealing is a “vent” of economic activity in economically destitute parts of New York City. Money laundering indirectly stimulates investment in “front” businesses like neighborhood groceries, laundromats,
demonstrate that the informal economy needn’t be construed just as a realm for those marginalized in the political economic system. But in ignoring the presence and importance of marginalization, he goes too far, since the effects of the massive transfer program he proposes will have different effects on the very poor.

Finally, De Soto’s political economy is another target for criticism. De Soto is extraordinarily critical of government involvement in the economy, but then fails to sufficiently problematize the role of government involvement in reforming the property system. A fundamental aspect of his argument is that property systems in developing countries are the way they are because they favor elites. He speaks often of a “bell jar” of capitalism, which covers the developed western nations and westernized leaders in developing countries. His objective is to lift this bell jar to cover all the world’s people by altering the structure of property rights so that all people have access to global markets (De Soto 2000, 9). However, De Soto never directly addresses the issue of why the bell jar covers the people it covers, or why they might be hesitant to see it lifted.

In his discussion of the “mystery of political awareness”, he contends that it is only the mistaken beliefs of elites in developing countries that prevent them from implementing property reform. With proper education, these elites would recognize the advantages to them of the growth caused by property law reform. One objective of the ILD is to engage in these kinds of education programs. But given the types of regimes that prevail in the countries De Soto has worked in, this fable of “benign neglect” on the part of political leaders is hard to swallow.
In *The Guardian*, London’s leftist daily newspaper, a reviewer argued, “De Soto’s work is an elaborate smokescreen to hide the uglier truth. The power, political and economic, lies with the globalized elite in developing countries who are often employed or bullied by Western multinationals, and who run those countries for the maximum extractive benefit of the west” (The Guardian 9/11/2000). In his defense, De Soto has spoken virulently in interviews against political corruption. At these times, he argues clearly that elites manage their countries deliberately in their own interests. This type of view is more consonant with De Soto’s libertarian streak.

Even from a more centrist ideological position, it is clear that the issue of implementing property rights, and development more generally, is a function of the politics in the country in question. If the country has an uncertain political system in which the practice of what Mancur Olson termed “mobile banditry” is rampant, then reform of property systems is unlikely to happen. But more importantly, even if it did, it wouldn’t matter. In a system where the state is the de facto residual claimant of the country’s productive surplus, the presence or absence of a formal property system will have little effect on productive effort.17

It is important to remember that what De Soto is proposing is a massive redistribution of property. Like all distribution programs, one such as his will be shaped by the structure of political and economic power in a country. It is therefore hard to see how such a program will effectively change the distribution of wealth without a simultaneous change in the distribution of political power. Presumably if governing elites in these countries or in the west believed they could profit by formalizing the property held informally, they would reform. That they have not indicates that they will

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17 I owe thanks to Dr. David Rose for this observation.
not. If the benefits to the country of formalizing property rights accrue to the poor as De Soto has suggested, then it will be through the collective action of the poor that these reforms must be implemented.

guru-speak and the grassroots: a conclusion

De Soto’s claim that capitalism is in a state of crisis provides a clue as to the target of his rhetorically charged writing. Like Keynes in the 1930s, De Soto sees the writing on the wall. Far from the rarefied debates over globalization in the west, in the third world dissatisfaction with neo-liberalism and global capitalism is reaching a fevered state. The question becomes not so much a matter of whether there will be a collective action to alter the political economic system, but when. In the depression, Keynes observed the rising tide of fascism and socialism that were preparing to sweep away the institutions of capitalism. The claims of his detractors aside, Keynes wanted to preserve capitalism and the democratic political institutions that favored it.

While De Soto lacks the economic brilliance of Keynes, his political objective is similar. But where Keynes was an elitist in favor of management by a “guardian” class, De Soto comes off as an egalitarian populist.

It means not only changing the laws and norms, but changing the procedures to change the laws and norms. The metasystem, so to speak. … the very problem of bad law may be the way laws are organized in the first place. And it may be that way because they’re always organized in a non-democratic way. … The whole idea of libertarianism … was a revolt against privilege. That’s very important for Western countries to realize, that when they call for creation of market economies
in developing countries such as mine, they’re calling for revolution, so they’d better get ready for a change in the status quo.

At moments like these, De Soto sounds like his critics from the left. But the reason he is criticized from the left is because he is not always so incendiary. His tone in *The Mystery of Capital* and other papers and lectures is more conciliatory toward existing governments.

One reading of this ambiguity in De Soto’s work is that he is attempting to insert a pro-capitalist message into an environment in which he believes revolution is inevitable. The preference for popularization over academic rigor is evidence that the policymakers De Soto is concerned with are the grassroots organizations of the poor in the developing world, and not the foreign policy wonks of the World Bank, IMF, etc. Other signs point to this strategy. The title of De Soto’s first book, *The Other Path* is an undisguised jab at the Shining Path, a Maoist guerilla group dominant in Peru at the time of its publication. De Soto is trying to construct a message in the popular culture of Peru, where he believes the real political future lies. Both of his books are best-sellers there, and his book tours through rural Peru draw large crowds of Peruvian peasants.

De Soto believes that a change in property rights institutions must be preceded by a change in the political apparatus. For some reason, though, he is reluctant to make this message very clear in his work. Perhaps it is because he wants to be read as an economist rather than as a revolutionary, to avoid that taint that political attachments give to one’s work. A more cynical perspective is that De Soto enjoys the support of corrupt governments and first-world development organizations like the World Bank and WTO. After all, he worked for the GATT, and the ILD is funded by its contracts with political
regimes. Nevertheless, the evidence seems to support a revolutionary interpretation of De Soto’s work, and it seems plausible that he might be trying to achieve multiple aims with his economics. It is necessary to temper criticism of De Soto’s anti-academic prose and lack of critical discussion about the agents of collective change in his work. Looking between the lines, De Soto’s work is not for us or about us. It is for and about those living in the informal sector in countries like Peru, who are sick of being left out of global capitalism.