

## **INTERVIEW WITH HERNANDO DE SOTO**

### **How do your ideas differ from conventional ideas on the source of capital?**

I would say that they add to conventional ideas rather than differ from them. I believe that the only way we're able to capture capital is through property. Property is the system that allows us to capture the value we have in things in a manner that's tangible and that allows us to transfer value so as to initiate new causes and sources of growth.

### **T.S. Elliott asks, "Where is the wisdom we have lost in knowledge and where is the knowledge we have lost in information?" In terms of capital, this is an interesting metaphor.**

Right. The information contained in the property system – or concretely in the recording system, a deed, a share, or something that represents equity – represents its value. The value is captured in the property document. In this sense, property is a system of representations of value. If you don't have a property system, you don't have the representational devices with which you can then capture value, store it, make it liquid, and invest it. The majority of developing and former communist countries do not have property systems that allow them to concretize the value of the many things that they produce and own. As a result, they are unable to grow. So they end up rejecting the system. Interestingly, even developed countries are not conscious of what makes the accumulation of capital possible, despite the advanced stages of their property system.

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

It allows me to understand that there are things more concrete than cultural tracts that keep people from advancing. There are major legal obstacles to bringing people together to produce efficiently and to accumulating and using capital. In North America, you see people from different walks of life with no prior relationship to each other getting together because it's the right combination of people for producing

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something in particular. They need not know each other to fit together well, at a technical and economic level, because all the legal means to cooperate and accumulate capital are in place. In countries like Peru, they're not.

**One day, you and your research team at the Institute for Liberty and Democracy closed your books and opened your eyes. Tell me about those early days of going deep into the world's poorest communities.**

When the books weren't working for me anymore, I decided in the early '80s to visit the shantytowns of Lima to see what was really going on. I came across an area with paved roads and buildings made of solid brick and iron on one side and a mess of cardboard and old tires on the other side. What struck me was the fact that both sides were actually the same shantytown; they had been created at the same time when people from the same Andean village migrated there. But when the road was paved, it split them in two, and then they each elected a different leader and took a different course. But they started on an even basis. The difference was that those in the more developed section had obtained titles to their buildings and those that had small enterprises had secured licenses to function. On the less developed side, they had used their time to obtain material things, but nothing was legalized. That's when I started saying, "Oh my God, the law does seem to make an enormous difference." I understood then that those who had titles and a license to operate could, all of a sudden, count on different devices that allowed them to use their homes and businesses as a guarantee against loans so they could start getting credit. As soon as there's legally accredited property in place, property documents can be used to create a variety of functions for their owners that the assets themselves cannot. People are able to meet in the market place of representations and relate to each other productively.

**Does capital begin to work only when one has a personal investment in something?**

I think it was President Clinton's Treasury Secretary Larry Summers, who's now President of Harvard, who said, "Nobody's ever washed a rented car." So, yes, the moment you own something you care more for it. But I'm also saying that, beyond Massive Change Radio is a project by Jennifer Leonard, Bruce Mau Design, the Institute without Boundaries, and CIUT FM, Toronto.

ownership, being within a comprehensive property system makes a series of things that were not possible before possible. For example, investment. Nobody is ever going to invest without obtaining a share (a legal creation) that bears witness to his/her investment. Property does more than certify ownership; it's an incentive. An integrated property system is the mother of many other institutions – it makes credit systems possible; no, more, it allows police to 'skip trace', locate criminals, and make people accountable for their actions.

**When you worked with former President of Peru, Alberto Fujimori, how did you discover that micro-, not macro-, economics is the way to bring about massive change to the world's poor?**

Although we knew from the very beginning that we had to get into microeconomics – that is, empower people with property – we were more successful with macro. We didn't have many apostles throughout the world doing this kind of work at the time. When we did the macro, all heads of state would applaud, big businessmen would applaud, the IMF would come around and pin a medal on our chest. Fujimori gave us less leeway to do what we thought was really important – this was one of the reasons that we split with Fujimori. Macroeconomics is simply unsustainable over time unless you also have the micro: property networks and capital-creating systems that underpin it and make even the poorest participate in the social contract that it rests on.

**You've been an advisor to Egypt, Mexico and, of course, Peru. Where else are you implementing change in the world?**

We started programs in the Philippines and Honduras and we're about to start 21 new ones – from Russia to Tanzania, Nigeria, Ghana, Kazakhstan and Georgia. We should be able, if we're able to build up our capacity, to help all these heads of states and be in 20 to 30 odd countries by 2005.

**When you were inducted into the International Democracy Hall of Fame, what did you have to say about economic development?**

I said that the law and how you build it is crucial. Not how much you know about law, but the genesis of law, how it starts up. Westerners many times forget how law begins because the system is already in place. I'm not one of these guys who believes the West is guilty for not teaching us. I think this is more about internal politics than about foreign aid. It's our responsibility first. But since the West does want to help, they should know that the law is much more important than many other items and that there is still no adequate support for it in international organizations.

Hernando de Soto is the President of the Institute for Liberty and Democracy in Peru, regarded by *The Economist* as the second most important think tank in the world. He is the author of *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else* and *The Other Path: The Economic Answer to Terrorism*.