

**THE
POWER
OF THE
POOR**
WITH
HERNANDO DE SOTO

About Hernando de Soto and the Institute for Liberty and Democracy

Hernando de Soto is a renowned Peruvian economist, author, and property rights advocate. He is an advisor to thirty heads of state and governments eager to bring their poor majorities from the underground economies of the developing world by creating modern, inclusive market economies under a single rule of law. He is President of the Institute for Liberty and Democracy (ILD), headquartered in Lima. In the 28 years since its founding, the ILD has established itself as an innovator in empowering the poor of developing countries with the legal tools necessary to lift themselves – and their countries – out of poverty. By all measures, de Soto is one of the world's leading and most influential figures in the field of development economics and poverty reduction.

Hernando de Soto's ideas and the ILD's work have been praised by world leaders – across the political spectrum – from Ronald Reagan and Margaret Thatcher to Bill Clinton, Kofi Annan, Alan Greenspan, and Nobel Laureates Milton Friedman and Ronald Coase. President Clinton, for example, has described the ILD's work as "The most promising anti-poverty initiative in the world." In 2005, de Soto became co-chair – with former U.S. Secretary of State Madeleine Albright – of the United Nations Commission for the Legal Empowerment of the Poor, whose 2008 recommendations for bringing the poor of the developing world under the rule of law are now part of the agenda of the United Nations and the African Union. Recently, the ILD, in partnership with Libya's Gaddafi International Charity and Development Foundation, the United Nations Development Program, and supported by the Clinton Global Initiative, launched a \$15 million program for diagnosing the informal property and business sectors in at least 20 African countries.

De Soto was educated in Switzerland, where he went to work as an economist for GATT (now the World Trade Organization). De Soto's career in development began soon after his return to his native Peru in 1979, after the restoration of democracy. Helping to run a small mining company based in Lima, de Soto was frustrated by the legal obstacles to doing business in Peru. He began investigating the country's business law in his free time. There was plenty to investigate: with the help of some equally frustrated business colleagues, he soon found out that Peruvian governments were generating 28,000 laws a year. More disconcerting still, research showed that this ever-growing legal morass did not seem even remotely to address the concerns of the Peruvian people, the majority of whom were poor, lived in shantytowns sprouting up all around Lima, and operated largely in the shadows of the law.

In 1981, de Soto and a group of colleagues decided to create a non-profit organization to investigate Peru's business and property sectors, including the "shadow economy." They called it Instituto Libertad y Democracia (Institute for Liberty and Democracy). Over the next decade the ILD became a vocal and active proponent of the power of Peru's poor to make a major economic contribution to their country's general prosperity, once they had the legal property and business rights required to prosper. The ILD also designed a series of practical reforms and helped draft the appropriate laws to bring the poor from the shadow economy into the rule of law.



In 1986, de Soto created a stir with the publication of his first and seminal book *The Other Path*, based on the ILD's five years of research and analysis of how the Peruvian economy actually worked (and didn't work). Framed as an intellectual challenge to Peru's murderous homegrown radical Maoist terrorist group that called itself the Shining Path, the book took on their arguments one by one, proving, for example, that Lima's much maligned street vendors and informal bus drivers were, in fact, "entrepreneurs" — and thus, contrary to the Shining Path's classic Marxist analysis, obviously ready to enter the free market. The book became instantly indispensable for understanding Peru's economy. The terrorists answered with violence, shooting up de Soto's SUV and sending a car bomb into his Lima headquarters, killing a security guard and injuring several other people.

But ideas prevailed over bullets, and the ILD's reforms, in partnership with the Peruvian government, helped title millions of Peruvians — and eventually put the terrorists out of business. The word about de Soto's success spread quickly outside Peru. "De Soto and his colleagues have examined the only ladder for upward mobility," President Reagan told the United Nations General Assembly in 1987. In 1989, *The Other Path* was published in English — and later in 20 other languages ranging from Swedish to Swahili, establishing the author as an innovative thinker about development and poverty reduction.

In 1990, the Government of El Salvador asked the ILD to help formalize its massive underground economy, also with impressive results. The ILD was soon working with Haiti, Egypt, and the Philippines to diagnose their own informal property and business sectors, recommending a series of institutional reforms. In 1999, *Time Magazine* chose de Soto as one of Latin America's five leading innovators.

De Soto and the ILD became established international brand names after the publication of de Soto's second book in 2000, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else* (Basic Books). The book became an international bestseller, translated into 20 languages, and it proceeded to become a major influence in the field of developmental economics. Within a few years, articles were appearing in the world press about de Soto and the ILD at a rate of more than 300 a year. A virtual academic industry based on his work (pro and con) emerged in the form of journal articles, essays, books and doctoral dissertations.

The awards and prizes rolled in: In 2004, *Time magazine* named De Soto to their list of the world's top most influential leaders, the influential journals *Foreign Policy* (U.S.)/*Prospect* (UK) cited him as number 13 in their list of the world's most influential 100 "public intellectuals" in 2005; he also won the Templeton Freedom Award, the Cato Institute's Milton Friedman Award for Advancing Liberty (2004), the Bradley Foundation Award (2006) and *Economist* (Magazine) Innovation Award in Economics and Social Science (2006).

As flattering as the awards and media recognition is, for de Soto and the ILD, which views itself as a "think tank" inclined toward action, its work in the field is their main source of pride. The ILD has had invitations from more than 30 heads of state/governments of developing countries to help them create inclusive market economies. In recent years, the ILD has worked with the governments of Tanzania, Mexico, Albania and Ethiopia to formalize their "extralegal" property and business sectors. In 2007, the ILD partnered with the Inter-American Development Bank to do a preliminary diagnosis of the informal economies of 12 countries in Latin America and the Caribbean. The institute currently has on the table a reform project to work in Niger, Senegal, Mali, and Cape Verde, which is supported by the Spanish government.

De Soto gives numerous speeches around the world on economic development, poverty reduction, and creating sustainable market economies. He is currently working on a new book.