

Biographical statement Hernando de Soto

Hernando de Soto (1941-) is a Peruvian economist known for his work on the informal economy. He is the president of Peru's Institute for Liberty and Democracy (ILD), located in Lima.

Childhood and education

De soto was born in 1941 in Arequipa, Peru. His father was a Peruvian diplomat. After the 1948 military coup in Peru, when de Soto was 7 years old his father was exiled to Europe, taking de Soto with him. He was educated in Switzerland, where he did post-graduate work at the Institut Universitaire de Hautes Etudes Internationales in Geneva. He later worked as an economist. He returned to Peru at the age of 38.^[2]

Career

De Soto has served as an economist for the General Agreement on Tariffs and Trade (GATT), as president of the Executive Committee of the Intergovernmental Council of Copper Exporting Countries (CIPEC), as managing director or CEO of Universal Engineering Corporation (Continental Europe's largest consulting engineering firm), as a principal of the Swiss Bank Corporation Consultant Group, and as a governor of Peru's Central Reserve Bank.

De Soto was Peruvian president Alberto Fujimori's personal representative and principal advisor until he resigned two months before latter's self-coup in April 1992. The Associated Press reports that President Alan Garcia hired de Soto in August 2006 to lobby the U.S. Congress for passage of the Peru-United States Free Trade Agreement.

De Soto is currently President of the Lima-based ILD, where he works on the design and implementation of capital formation programs in Africa, Asia, Latin America, the Middle East, and former Soviet Nations. Some 30 heads of state have invited him to carry out these ILD programs in their countries. He also co-chairs with former US Secretary of State Madeleine Albright the Commission on Legal Empowerment of the Poor.

Reforms in Peru and elsewhere

Between 1988 and 1995, he and the Institute for Liberty and Democracy (ILD) were responsible for some four hundred initiatives, laws, and regulations that changed Peru's economic system.

In particular, ILD designed the land reform of Peru's property system which gave titles to more than 1.2 million families and helped some 380,000 firms which previously operated in the black market to enter the formal economy. This latter task was accomplished through the elimination of bureaucratic "red-tape" and restrictive registration, licensing and permit laws that made the opening of new businesses very time-consuming and costly.

University of Chicago political scientist Susan C. Stokes shows that de Soto's influence helped change the policies of the recently elected Fujimori from a Keynesian to a neoliberal approach. De Soto convinced then-president Fujimori to travel to Washington, D.C., where Fujimori met with several important figures within the IMF, the US Department of State, and the Japanese embassy, who convinced him that he had to abide by the rules set by the international financial institutions. These policies led to a reduction in the rate of inflation, but also created some social and economic dislocations for the economy of Peru.

The Cato Institute and The Economist magazine have argued that de Soto's policy prescriptions brought him into conflict with and eventually helped to undermine the Shining Path guerrilla movement. By granting titles to small coca farmers in the two main coca-growing areas he deprived the Shining Path of safe haven, recruits



and money, they have argued, and the leadership was forced to cities where they were arrested. ILD notes a large terrorist attack on de Soto and statements by Shining Path leader Abimael Guzman who saw ILD as a serious threat.

After the split with Fujimori, he and his institute designed similar programs in El Salvador, Haiti, Tanzania, and Egypt as well as gaining favor with the World Bank. Unfortunately to date (mid-2007) his program has only been implemented in Peru. An IMF profile of de Soto shows that the economist continues to have a wide network of admirers, including Bill Clinton, Vladimir Putin and Hamid Karzai.

Works

De Soto has published two books about economic and political development: *The Other Path: The economic answer to terrorism*, and at the end of 2000, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. Both books have been international bestsellers, translated into some 30 languages.

The original Spanish-language title of *The Other Path* is *El Otro Sendero*, an allusion to countering Peru's "Shining Path" ("Sendero Luminoso") guerrillas. The Senderistas had in the past attempted to assassinate him.

De Soto argues that an important characteristic of capitalism is the functioning state protection of property rights in a formal property system where ownership and transactions are clearly recorded. This makes possible the following.

- greater independence for individuals from local community arrangements to protect their assets
- clear and provable protected ownership
- the standardization and integration of property rules and property information in the country as a whole
- increased trust arising from a greater certainty of punishment for cheating in economic transactions
- more formal and complex written statements of ownership that permit the easier assumption of shared risk and ownership in companies, and the insurance of risk
- greater availability of loans for new projects, since more things can be used as collateral for the loans
- easier access to and more reliable information regarding such things as credit history and the worth of assets
- increased fungibility, standardization and transferability of statements documenting the ownership of property, which paves the way for structures such as national markets for companies and the easy transportation of property through complex networks of individuals and other entities

All of these things enhance economic growth, according to a de Soto speech to the IMF.^[13]

Main thesis

Need for private ownership

The main tenet of de Soto's books is that people in developing countries lack such an integrated formal property system, leading to only informal ownership of land and goods. He argues that the fruition of economic success of American and Japanese capitalism relied on a clear system of property rights which was created during the times of the 'frontier' in America and in post-WWII Japan. The lack of such an integrated system of property rights in today's developing nations makes it impossible for the poor to leverage their now informal ownerships into capital (as collateral for credit), which de Soto claims would form the basis for entrepreneurship. Hence farmers in much of the developing world remain trapped in subsistence agriculture. As such, he argues that this informal ownership should be made formal, for example by giving squatters in shanty towns land titles to the land they now live on.



Praise for de Soto's Work

Time magazine chose de Soto as one of the five leading Latin American innovators of the century in its special May 1999 issue *Leaders of the New Millennium*, and included him among the 100 most influential people in the world in 2004. De Soto was also listed as one of the 15 innovators "who will reinvent your future" according to Forbes magazine's 85th anniversary edition. In January 2000, *Entwicklung und Zusammenarbeit*, the German development magazine, described de Soto as one of the most important development theoreticians of the last millennium. In October 2005, over 20,000 readers of Prospect magazine of the UK and Foreign Policy magazine of the U.S. ranked him among the top 13 "public intellectuals" in the world from the magazines' joint list of 100.

De Soto has been praised by U.S. presidents from both major parties, with Bill Clinton calling him "The world's greatest living economist", George H. W. Bush saying that "De Soto's prescription offers a clear and promising alternative to economic stagnation..." and Ronald Reagan saying "De Soto and his colleagues have examined the only ladder for upward mobility. The free market is the other path to development and the one true path. It is the people's path... it leads somewhere. It works." He has also received praise from United Nations Secretaries-General Kofi Annan—"Hernando de Soto is absolutely right, that we need to rethink how we capture economic growth and development"—and Javier Perez de Cuellar—"A crucial contribution. A new proposal for change that is valid for the whole world."

Prizes

Among the prizes he has received are:

- The Freedom Prize (Switzerland)
- The Fisher Prize (United Kingdom)

2002

- the Goldwater Award (USA)
- Adam Smith Award from the Association of Private Enterprise Education (USA)
- The CARE Canada Award for Outstanding Development Thinking (Canada)

2003

- received the Downey Fellowship at Yale University
- the Democracy Hall of Fame International Award from the National Graduate University (USA)

2004

- the Templeton Freedom Prize (USA)
- the Milton Friedman Prize (USA)
- the Royal Decoration of the Most Admirable Order of the Direkgunabhorn, 5th Class, (Thailand)

2005

- an Honorary Degree of Doctor of Letters from the University of Buckingham (United Kingdom),
- The Americas Award (USA)
- named the Most Outstanding of 2004 for Economic Development at Home and Abroad by the Peruvian National Assembly of Rectors
- received the Prize of Deutsche Stiftung Eigentum for exceptional contributions to the theory of property rights the 2004 IPAE Award by the Peruvian Institute of Business Administration
- the Academy of Achievement's Golden Plate Award 2005 (USA) in tribute to his outstanding accomplishments
- the BearingPoint, Forbes magazine's seventh Compass Award for Strategic Direction
- was named as a "Fellow of the Class of 1930" by Dartmouth College.

2006

- the 2006 Bradley Prize for outstanding achievement by the Bradley Foundation.
- the 2006 Innovation Award (Social and Economic Innovation) from The Economist magazine (December 2, 2006) for the promotion of property rights and economic development.



CV

Datum
12 november 2007

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2007

- The Poder BCG Business Awards 2007, granted by *Poder* Magazine and the Boston Consulting Group, for the "Best Anti-Poverty Initiative".