

## Clark University

---

A New Path to Development? The Significance and Impact of Hernando De Soto's Ideas on Underdevelopment, Production, and Reproduction

Author(s): Ray Bromley

Source: *Economic Geography*, Vol. 66, No. 4, Production and Reproduction in Latin American Cities: Concepts, Linkages, and Empirical Trends (Oct., 1990), pp. 328-348

Published by: [Clark University](#)

Stable URL: <http://www.jstor.org/stable/143968>

Accessed: 02/03/2011 22:55

---

Your use of the JSTOR archive indicates your acceptance of JSTOR's Terms and Conditions of Use, available at <http://www.jstor.org/page/info/about/policies/terms.jsp>. JSTOR's Terms and Conditions of Use provides, in part, that unless you have obtained prior permission, you may not download an entire issue of a journal or multiple copies of articles, and you may use content in the JSTOR archive only for your personal, non-commercial use.

Please contact the publisher regarding any further use of this work. Publisher contact information may be obtained at <http://www.jstor.org/action/showPublisher?publisherCode=clark>.

Each copy of any part of a JSTOR transmission must contain the same copyright notice that appears on the screen or printed page of such transmission.

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact [support@jstor.org](mailto:support@jstor.org).



Clark University is collaborating with JSTOR to digitize, preserve and extend access to *Economic Geography*.

# A NEW PATH TO DEVELOPMENT? THE SIGNIFICANCE AND IMPACT OF HERNANDO DE SOTO'S IDEAS ON UNDERDEVELOPMENT, PRODUCTION, AND REPRODUCTION

RAY BROMLEY

*State University of New York at Albany*

Hernando De Soto, a Peruvian economist and entrepreneur, is probably the most important contemporary Latin American writer on production and reproduction. His book *The Other Path* is an international best-seller, he has been extensively discussed in the world's news media, and he has strongly influenced Peruvian public policy and politics. His central concept of "informality" focuses on income-generating and expenditure-saving activities that contravene official regulations but do not break conventional moral codes. De Soto's ideas, which lead to deregulation, debureaucratization, and privatization, are contrasted with the International Labour Office's "informal sector" concept, which advocates increased state support for small manufacturing and repair enterprises through credit, technical assistance, and training. Though conventionally portrayed as right-wing, his views are radically different from those of many conservatives and he has played a "maverick" role in Peruvian politics.

Latin America is important not only as a world region, but also as a major contributor to the theory of development and underdevelopment. Latin Americans such as Mariátegui, Aguirre Beltrán, Sunkel, González Casanova, and Quijano have made the prime contributions to our theories of internal colonialism, marginality, and dependency, and they have also played enormously important roles in the formulation of structuralist interpretations of economic development and underdevelopment.<sup>1</sup> Latin America has been the prime testing ground—and a very unhappy one at that!—for economic development based on import-substitution industrialization, and it has also played a major pioneering role within the Third World in such fields as national economic planning, regional planning, and "strategies of deliberate urbanization."<sup>2</sup>

<sup>1</sup>The work of the Latin American theorists mentioned here, and also of numerous others, is excellently reviewed and summarized by Kay [43]. See also Chilcote [22], Kahl [42], Roxborough [63] and Seers [69].

<sup>2</sup>Latin American development problems and experiences are reviewed and summarized by Baer [4], Cardoso and Faletto [20], Furtado [28], Kim and Ruccio [44], Prebisch [61], and Sheahan [71].

Latin American theorists of development and underdevelopment such as Prebisch and Cardoso have contributed substantially to world systems thinking, and they have helped to inspire such leading global theorists as Frank, Wallerstein, and Amin.<sup>3</sup>

Traditionally, Latin American theories of development and underdevelopment have generally fitted neo-Marxist, Third-World solidarity (*tercermondiste*), or Keynesian ideologies, and development debates have revolved around the alternatives of "revolution" and "reform." In reality, of course, true revolutions leading to dramatic socio-economic restructuring have been rare, and most countries have oscillated between fairly conservative democratic governments and even more conservative military regimes [47]. Development debates have mainly focused on such reformist issues as the feasibility of agrarian

<sup>3</sup>World systems theories are outlined by Hopkins and Wallerstein [37]. Together with other neo-Marxist approaches to development and underdevelopment, they are reviewed by Corbridge [23], Hettne [36], Kay [43], Petras and Brill [58], and Roxborough [63].

reform to convert large feudal estates and plantations into worker-managed cooperatives or family farms, or the appropriate level of food and fuel subsidies to be applied in favor of urban low-income consumers.

During the 1950s and 1960s, inspired by the United Nations' first two Development Decades, the import-substitution industrialization advocated by ECLAC (the UN's most innovative regional advisory body based in Santiago, Chile), and the wave of U.S. "aid" associated with the Alliance for Progress as a hemispheric response to the Cuban Revolution, Latin America seemed to be emerging as a Third World leader in economic development. Compared to most of Africa and Asia, the Latin American countries had much longer records of political independence, higher prevailing levels of education, more "development experts," somewhat higher average per capita GNPs, more sophisticated transportation systems, and substantially higher levels of urbanization. Argentina and Uruguay had seemed close to obtaining "developed country" status as early as the 1930s, and Brazil achieved particularly high and sustained economic growth rates in its "miracle" phase from 1964 till 1973. Even by the late 1940s, however, the Argentine and Uruguayan development experiences were beginning to turn sour, and by the mid-1970s the Brazilian "miracle," based primarily on automobile-related industries and transport systems relying on cheap imported oil, had ground to a halt.

Since the mid-1970s, most Latin American countries have been locked into crises of escalating foreign debt, massive capital outflows, rising food imports, and rapid environmental deterioration, and many have also been plagued by political unrest, vicious repression, narcotics-related corruption and violence, and seemingly incurable hyperinflation. With the emergence of "the four tigers" (South Korea, Taiwan, Hong Kong, and Singapore), the accelerated industrialization of many of the poorest Asian countries, and the impressive performance of many Asian Third

World nations in the area of food self-sufficiency, Latin America has lost its attraction in International Development Studies—it is an example no longer of "how to do things," but rather of "what to avoid." Latin America vies with Africa for the title of "the most dismal continent"—the continent of greatest frustration in the general field of economic development. Most Latin American countries are still much more prosperous, urbanized, and "orderly" than those of Africa, and Latin American poverty is more characterized by malnutrition than by famine. With only around eight percent of the world's population, however, Latin America accounts for over 40 percent of the total Third World foreign debt [80, Tables 1, 21], and many countries—most notably El Salvador, Haiti, Nicaragua, and Peru—seem locked in near-impossible situations of political and economic crisis.

In conservative and establishment political circles, in major financial institutions like the World Bank and the International Monetary Fund, and in the large bilateral "aid" organizations (most notably USAID), it is often argued that underdevelopment has been over-intellectualized and that Latin Americans have acquired passive and pessimistic attitudes through excessive exposure to dependency theory and *tercermondisme*. Far Eastern "drive," "work-ethics," and "entrepreneurship" are contrasted with a wide range of supposed cultural vices of Latin Americans and major defects in Latin American governmental systems. Harrison [31] and Rangel [62] have written eloquent neo-conservative denunciations of dependency theory and *tercermondisme*, arguing that underdevelopment is "a state of mind," an ingrained fatalism mixed with romanticized socialist aspirations. They claim that Latin American governments are characterized by unrealistic policies, an over-extended state apparatus, and the incapacity to formulate and implement a viable national development strategy. They attribute these failings to outmoded Latin American cultural traits and impractical statist ideologies.

In the midst of a wave of "Latin America bashing," both by foreign "experts" and by many Latin American politicians and analysts, a new ideologue and self-styled "Peruvian entrepreneur," Hernando De Soto, has emerged as the potential savior. This article sets out to introduce De Soto to the geographical literature, to identify research themes relating to his work, and to analyze his ideas on production and reproduction as contributions to the theory and practice of international development. It also discusses their ideological ramifications and their relationships to the specific socio-economic contexts of Latin America in general and of Peru in particular.<sup>4</sup> De Soto is certainly the most publicized and widely-quoted Latin American writer on production and reproduction in the post-1980 period, and he has gained considerable influence in Peruvian public policy. His ideas and writings lead us to question many of the traditional assumptions of International Development Studies and Labor Studies, most notably on the role of the state, the concepts of informality and the informal sector, and the definition of the political right and left. Nevertheless, much of his writing seems just "old wine in new bottles," and so an additional objective of this paper is to explain why De Soto has received so much international attention when numerous other brilliant and charismatic Latin Americans have gone virtually unnoticed.

#### DE SOTO'S IMAGE AND FOCUS ON INFORMALITY

De Soto was born in Arequipa, the principal provincial city in southern Peru, in 1941. He is widely travelled, has a graduate

degree in economics and law from the Institut Universitaire des Hautes Études in Geneva, and has worked for the General Agreement on Trade and Tariffs and as Managing Director of Peru's Central Reserve Bank. He is fluently trilingual—English-French-Spanish—and his manners and style are those of an elegant Swiss finishing school. Since 1983, De Soto has received extensive coverage in the international press with over a thousand articles published on his work, including articles in such prestigious magazines and newspapers as *Fortune*, *Business Week*, *Forbes*, *The Wall Street Journal*, *The New York Times*, *The Washington Post*, and *The Los Angeles Times*. He has been cited in speeches by Ronald Reagan and George Bush, and his book *El Otro Sendero* (*The Other Path*), published in Spanish in 1986 and in English in 1989 [25], is widely available and frequently extolled as a message of optimism indicating how underdevelopment and poverty can be overcome and how accelerated economic development can be set in motion. De Soto stands with United Nations Secretary General Javier Pérez de Cuellar, famous novelist and unsuccessful right-wing Presidential candidate Mario Vargas Llosa, and past Presidents Fernando Belaúnde and Alan García as one of the five most renowned Peruvians on the international scene.

De Soto is usually viewed as a spokesman for the political right, and his essential message is that underdevelopment results from excessive governmental bureaucracy and the persistence of a "mercantilist" system whereby business and governmental elites manipulate the system to their own narrow advantage. Despite the evils of bureaucracy and mercantilism, however, he argues that most of the population shows tremendous initiative and entrepreneurial dynamism by finding "informal" means of production and reproduction—establishing enterprises, providing services, and obtaining access to land, housing, utilities, and essential commodities through personal, household, and community initiatives that fall outside the government's "planned," "regulated," and "managed"

<sup>4</sup>Research for this paper is based on over three years of residence in Peru, two visits to Lima in 1989-90 focusing on De Soto's work, various interviews with ILD staff members, an interview with De Soto himself, attendance at ILD public meetings, numerous press clippings, and interviews with Peruvian, Chilean, and North American scholars, politicians, and civil servants interested in De Soto's career. I tried to balance positive and negative opinions, and in many cases informants asked that their names not be revealed.

economy. His “informals” with their “informal economic activities” are depicted in a very positive light as plucky entrepreneurs making a major contribution to the national economy, and he avoids the more abstract and moralistic question of whether what they do is “productive,” desirable, or the way in which things *should* be done. His concern is very much to study, understand, and improve the efficiency of the world as it is, rather than to fit externally derived concepts and models. In his view, production and reproduction are tightly intertwined because income-generation and expenditure-saving can be substituted for one another in the satisfaction of basic needs, and he develops various estimates of the contribution that informal production and reproduction make to the economy as a whole.

For De Soto, “informality” is the key to survival and success—ignoring or deliberately breaking unreasonable official rules and regulations in order to make a living and to satisfy basic needs. In his view, “informality” occupies an intermediate position between “formality/legality,” when all laws and regulations are complied with, and “criminality,” when acts are performed that are clearly against official laws, basic morality, and the public interest. “Informality” is viewed as a mass response to mindless, pompous bureaucracy and to the manipulations of the economic system by corrupt vested interest groups. Even though it may officially be “illegal,” it is not “immoral” because it breaks no basic moral codes and it is a simple necessity for the poor in order to make a living and satisfy their basic needs. In short, informality exists when the means are illicit but the ends are licit.

De Soto develops his arguments from research on the organization of street and market trade, the workings of the bus system, and the growth of squatter settlements as self-help housing areas in Lima, Peru. His analyses emphasize effort, initiative, grass-roots organization, dynamism, and entrepreneurship. His prescriptions focus on de-bureaucratization, deregulation, the simplification of administrative

procedures, privatization, the elimination of protectionism, subsidies, and market segmentation policies, and the opening up of national economies to foreign competition. Superficially, at least, he is a Third World version of Friedrich Hayek or Milton Friedman, advocating unbridled capitalism as the solution to underdevelopment, and he sometimes describes himself as a disciple of Hayek. Most of the publicity he has received has come from conservative groups in the United States, from U.S. business interests, and from USAID.

Many of De Soto’s ideas are in harmony with World Bank and IMF “structural adjustment” prescriptions, following a classic New Right or “monetarist” agenda. Structural adjustment stresses opening up the economy to foreign investment and competition, abolishing exchange controls and multiple exchange rates, promoting exports, deregulating the economy and opening it up to market forces, selling off governmental assets and public corporations, and dramatically cutting public sector salaries and numbers of personnel. De Soto’s advocacy of market forces, free trade, and privatization fits a classic right-wing prescription, as does his emphasis on entrepreneurship, technological innovation, and the inherent dynamism of the unplanned economy. His work has often been attacked from the political left as unbridled neo-conservatism backed and promoted by the international banking elites and the ideologues of the Reagan, Bush, and Thatcher regimes.

In reality, however, De Soto’s political stance is far from clear. In *The Other Path* [25, pp. 239-42], he avoids labelling himself in ideological terms and merely states his opposition to “left- and right-wing mercantilists.” In Peru, he has acquired a reputation as a “political loose cannon” and a populist—supporting lower and middle-class causes, criticizing elite vested interest groups, and flirting with right-wing, middle-of-the-road, technocratic, and left-wing groups. From a Peruvian elite viewpoint, his interest in street and market vendors, para-transit operators, and squatters is often viewed as a vicarious fascination with

the disreputable end of the social spectrum. De Soto advocates support for these forms of production and reproduction because he sees them as a path to economic development, while many elite Peruvians hold the opposite view, believing that such occupations are manifestations of underdevelopment and must be eradicated for economic development to be achieved. Where De Soto advocates deregulation, decriminalization, and accelerated legalization as the solutions to most illegal business operations and squatting, arguing that the poor are the victims of an over-zealous bureaucracy and a hopelessly inefficient legal system, many upper-class Peruvians would prefer increased repression.

### DE SOTO'S STYLE AND PATH TO FAME

Hernando De Soto appeared on the Peruvian intellectual scene in November, 1979, in the midst of the transition from military to civilian rule, as the principal organizer of a major conference held in Lima on "Democracy and the Market Economy." The conference served as a muscle-flexing exercise for the democratic right wing in Peruvian politics and as a platform to introduce Friedrich Hayek and his Guatemalan disciple Manuel Ayau to the Peruvian intelligentsia. It led directly to the establishment in May, 1980 of the Liberty and Democracy Institute (ILD) in Lima, directed by De Soto and involving many of Peru's leading right-wing intellectuals and politicians as directors, council members, and founders.<sup>5</sup> With support from Germany's Christian Democratic Konrad Adenauer Foundation, the ILD subsequently published the conference proceedings as a book [38], and went on to organize a second major conference on "Dependency and Development in Debate" in November, 1981 and also to pub-

lish those proceedings as a book [39]. This second event involved a broader range of scholars and politicians of different political leanings, but primarily provided a platform for the participation of such right-wing luminaries as Milton Friedman and Elliot Richardson, as well as most of the leading Peruvian right-wing intellectuals and politicians. Nevertheless, De Soto also paid scrupulous attention to involving such key public figures as Javier Pérez de Cuellar and Fernando Belaúnde (President of Peru 1963-68 and 1980-85), and also a few scholars from the political center and center-left, notably the senior statesman of the APRA Party, Luis Alberto Sánchez.

The ILD began as a very modest institution, operating from De Soto's garage, with one research fellow, Enrique Ghersi, a secretary, and a stream of shorter-term visiting researchers and associates. By the mid-1980s, it had achieved significant funding from USAID, the Inter-American Foundation, and such right-wing sources as the Liberty Fund. It gradually expanded its staff and moved to a rented suite of offices and then to two adjacent mansions in Lima's elite neighborhood of Miraflores. By mid-1990, it had grown to have a staff of around 75 full-time employees and an annual budget of about U.S. \$1.5 million. Though clearly one of Peru's three most substantial social science research centers (the other two being DESCO and the *Instituto de Estudios Peruanos*, IEP), the ILD has not emerged as a major producer of books and scholarly articles. It has produced only two full-fledged books, *The Other Path* and a monograph on street trading in Lima [1], six slim books on various socio-legal issues in a "Working Documents" series, and numerous pamphlets, posters, public announcements, proposals, and pronouncements. With the exception of the two books, all ILD publications indicate on the cover that the ILD, rather than any single person or persons, is the author. The main aim of the ILD is to develop an institutional perspective that contributes to the climate of public opinion and influences public policy, rather than to act as a repository of knowledge, to partici-

<sup>5</sup>The ILD was one of the first right-wing think-tanks to be established in Latin America. At least 20 such groups have been founded since 1980, roughly one per country, including Chile's Center for Public Studies and Argentina's Center for Studies in Liberty. The leading coordinator of the group is Guatemala's Francisco Marroquin University, founded in 1971.

pate in academic debates, to generate scholarly projects, or to promote social action programs.

During the 1980s, De Soto emerged as a major international public figure, frequently invited as the lead speaker for conferences, inaugurations, and banquets, and sometimes funded by USAID on international tours to diffuse his ideas and the work of the ILD. He comes over as buoyant, optimistic, and full of “can-do spirit,” constantly repeating the messages and examples of *The Other Path*. In Peru, also, his opinions are frequently sought by the news media, he is very willing to be interviewed, and he is a major public figure whose reputation has not yet been tainted by the strains of holding public office or playing a militant role in a political party.

In reality, De Soto is simply the senior author of *The Other Path*, with sections of the text being written by Enrique Gherzi, with methodological inputs from numerous Peruvian and U.S. researchers, and with large-scale journalistic polishing by Mario Ghibellini. The book was frequently announced and discussed long before it was written or first published in Spanish, and after publication it received a great deal of publicity in the English-speaking world during the period when it was only available in Spanish. Cueva [24, p. 117] has characterized it as “a prefabricated best-seller,” and as “a multifaceted and multi-functional work . . . [with a] globalizing interpretation of Latin American reality,” while Valencia [77] has called it “a forced best-seller.” In part, the publicity it received resulted from De Soto’s magnetic personality, frequent speeches, wide travels, influential friends, and love of press coverage. More importantly, however, it resulted from an international network and support system of the political right [8, pp. 179-85].<sup>6</sup> What could be more attractive as

a conversation piece or a recommendation than an impeccably-trilingual, engaging, and charismatic Peruvian with the same name as one of the great *conquistadores* and with a message of hope from a land of despair? And what message could be more attractive to a right-wing audience than an exultant revindication of entrepreneurship combined with a call for deregulation, de-bureaucratization, and privatization?

Even a cursory reading of *The Other Path* reveals that the De Soto approach breaks many of the conventions of classic social science writing. It runs to 271 pages in its English edition and it quotes numerous statistics, generally “derived from ILD research,” but it uses no mathematical formulae, it has only one statistical table, and it has no appendices. Its main form of illustration is the photograph, and it scrupulously avoids the technical language and conventional jargon of social science. There is no discussion of class structures, modes of production, ethnicity, or other fundamental pillars of academic analysis, and even such classic expressions as capitalism are replaced by less partisan terms like “a market economy.” Although a modest number of sources are cited in footnotes, there is no bibliography, the Spanish-language version has no index, and there is virtually no reference to the broader international literature of the social sciences. Links with theorists and ideological role models are strictly avoided, and hence the book comes over as uncomplicated and apparently non-partisan. It is a book to delight anti-intellectuals, deliberately targeted at a broader public that is unfamiliar with previous analyses of production and reproduction in Latin America.

It is a fortuitous coincidence that the ILD began its public life in Peru in 1980, the year that the fanatical Maoist guerrilla movement *Sendero Luminoso*, “The Shining Path,” launched its national armed insurrection. To say the least, however, it is no accident that “The Shining Path” and *The Other Path* share two out of three words. De Soto’s book is written, in part, as a reply to *Sendero Luminoso*: a peaceful route to economic development and im-

<sup>6</sup>This network of support is focused on the Heritage Foundation and the American Enterprise Institute in Washington, D.C., the Liberty Fund in Indianapolis, the Hoover Institution at Stanford, the Institute for Economic Affairs and the Center for Policy Studies in London, the Mt. Perelin Society in Switzerland, and the Francisco Marroquin University in Guatemala.

proved general welfare. The fact that *Send-ero* comes from the extreme political left, even though they are condemned by most moderate left-wing politicians, tends to brand De Soto's book not only as a rightist response, but also as a voice of reason facing up to fanatical extremism.

From an academic standpoint, De Soto's most irritating tendency is to reinvent the wheel without acknowledgment. He scrupulously avoids mention of prior work by other researchers or of models, ideas, and policy recommendations previously developed by others. Thus, though John Turner and William Mangin's 1960s work on the self-help housing process in Lima has been enormously influential in global housing policy debates [48; 49; 74; 75], De Soto does not mention them in *The Other Path*. He adds insult to injury by developing new labels for old phenomena. Squatter shacks, for example, generally built in barren sand and rock desert, are referred to as "igloos," a term that had never been applied in this way before De Soto's research team descended on the *barriadas*! After the preface of *The Other Path*, when some colleagues and collaborators are named and thanked, they are always just referred to as "the ILD," an anonymity that emphasizes De Soto's own significance and that of the institution over which he presides.

Though, in *The Other Path* and numerous speeches and interviews, De Soto calls for sweeping de-bureaucratization ("administrative simplification") in Peru and other poor countries, he rarely acknowledges the pioneering work in this field by administrative reformers in Peru or elsewhere [17; 51], and he often falsely implies that business goes virtually unregulated in the advanced capitalist countries. Peru's long-term attempts at "administrative rationalization," Brazil's 1979-83 National Debureaucratization Program, and such rich-country examples as the 1980 U.S. Paperwork Reduction Act and New York State's Office of Business Permits and Regulatory Assistance receive only passing mention. De Soto depicts legalism, long administrative delays, and bureaucratic ex-

cesses as dysfunctional problems of underdevelopment, and he usually ignores the problems, delays, and legal costs that ordinary citizens may experience in advanced capitalist countries. While his description and criticism of Peru's "bad laws" and inefficient state apparatus is innovative and convincing, he goes too far in implying that these problems do not exist and that enterprise is always supported in the advanced capitalist countries. Dealing with such institutions as the U.S. Internal Revenue Service and the U.S. Immigration and Naturalization Service (INS) is often just as difficult and costly for the honest and law-abiding as for law-evaders and criminals, yet De Soto generally avoids any mention of these well-known cases.<sup>7</sup>

In *The Other Path*, De Soto develops an extraordinarily wide-ranging and somewhat superficial view of world history. He posits a rather simple transition from feudalism to mercantilism, and then from mercantilism to "a market economy," and he attributes underdevelopment to the incapacity of some countries to break away from mercantilist systems. De Soto [25, pp. 189-229] does not follow the narrow social science interpretation of mercantilism as "the view that a government of a state should regulate the commercial transactions of its citizens who deal with foreign businessmen so that a surplus of precious metals is accumulated in the native country" [34; 81, p. 205]. He views it instead as a transitional phase between feudalism and capitalism during which the state apparatus

<sup>7</sup>The INS is perhaps the world's leading demonstration of the fact that bureaucratic delays can be efficient and necessary according to specific administrative principles. It habitually employs waiting lists and long processing delays as mechanisms to restrain demand, to postpone difficult decisions and potential lawsuits, and to keep within budgetary limits. The delays and costs that it imposes, however, force applicants and their families to bear considerable personal and financial costs. Its bureaucratic rationale may also damage the U.S. economy by discouraging highly-skilled workers, by forcing dependents to be unemployed, by losing tax revenues through illegal working, by reducing the productivity and commitment of persons in prolonged uncertainty, and by increasing the probability of eventual welfare dependence because of the costs and traumas of immigration.



and the economy are manipulated by powerful oligopolies and vested interest groups (“redistributive combines”) in their own interest so that there is no “free market.” The abandonment of mercantilism in favor of capitalism (“a market economy”) is the crucial enlightenment that permits a take-off into self-sustaining economic growth and the general improvement of welfare. For De Soto, this transition is the result not of new government policies and planning to stimulate growth, but rather of the realization that government has played an excessive regulatory role and must relax its controls so that entrepreneurship and free market competition can flourish. Once this realization is sufficiently widely diffused, he believes that a new entrepreneurial class emerges, the political balance of power is permanently changed in favor of small business, and there is a flowering of new enterprise and technological innovation.

Cueva [24], Urriola [76], and Whitehead [79] have all pointed out serious historical errors in De Soto’s analysis, most notably in his interpretations of mercantilism and of the transition to capitalism. De Soto frequently implies that state intervention in the economic activity of advanced capitalist countries has continuously diminished over the last century, when for most of the time government ownership, workforces, subcontracting, guarantees, and bail-outs have been on the increase and government has played a particularly crucial role in orchestrating and supporting the aerospace and defense sectors. He also fails to acknowledge the large expansion of the public sector that accompanied the emergence of universal education, health care, social security, and utility provision, with massive government incursions into service areas that were previously covered mainly by private enterprise and community support. De Soto [25, pp. 210-29] goes even further in suggesting that there was a collapse of mercantilism and a definitive rise of market economies in Western Europe and the United States between 1870 and 1914. He describes this period as one in which small enterprises proliferated

because of deregulation, though most analysts point to an unprecedented concentration into giant corporations and high rates of small business failure over this same period [15, pp. 386-417; 16, pp. 80-116; 59, pp. 19-48]. In his treatment of the transition from mercantilism to market economies, De Soto is guilty of a form of “right-wing romanticism” [12, pp. 323-29], biasing both historical and contemporary analyses to emphasize actual and potential success by small enterprises and depicting all private enterprises, small and large, as fair competitors in open markets. He seems to overlook the importance of vested interest groups, private political funding, lobbying, “pork-barreling,” and “logrolling” in the U.S., and also the vital role played by state planning in the accelerated industrialization of such countries as South Korea [2] and Singapore.

#### **BEFORE DE SOTO: THE ILO INFORMAL SECTOR CONCEPT**

Perhaps the greatest problem in understanding De Soto’s ideas and contributions to development theory and practice is the conceptual confusion that continually arises between his ideas and the “informal sector” ideas that stem from the 1970s World Employment Program of the International Labour Office (ILO). From its origins in the early 1970s, the concept of the informal sector has been beset by definitional problems.

The “invention” of the informal sector is generally attributed to Keith Hart in his seminal article “Informal Income Opportunities and Urban Employment in Ghana,” first presented at a conference in September 1971 but not published until 1973 [33]. Hart spoke of income opportunities rather than sectors, and he defined informality simply as “self-employment.” For Hart, informal income opportunities were ways for the poor to get by when neither corporations nor the government could provide sufficient employment for the expanding population. Hart’s “informal income opportunities” varied in terms of legality, official registration, skills required, and so

on, but because he used only the criterion of self-employment for definitional purposes, it was relatively easy to define a sector using his definition.

Hart's basic idea was massively changed by the ILO team that wrote the Kenya Report [40], making governmental support for "the urban informal sector" a major element in their recommended national development strategy. The team divided the economy into two sectors, "formal" and "informal," effectively recreating and renaming W. Arthur Lewis's [45] dualistic model of the interaction between the modern and traditional sectors in underdeveloped countries. They defined the informal sector using seven different criteria, and they recommended massive governmental support through technical assistance, training, credit, and simplified licensing procedures. In general, the ILO team saw small-scale industrial, handicraft, and repair establishments as the core of the informal sector and the priority for government support. Thus, "informal sector promotion" was effectively just a renaming and intellectual rationale for a policy that had been widely advocated since the early 1950s—the promotion of small industries, both to supply the internal market and to contribute to exports, most notably as subcontractees for larger national and transnational firms. Key assumptions underlying this development strategy were that poor countries must diversify from dependence on primary production through manufacturing, rather than through the expansion of services, and that small enterprises generate more jobs and require less capital investment per job than larger firms.

Because it was a pilot mission for the ILO's World Employment Program, because it was closely associated with the prestigious Institute of Development Studies at the University of Sussex in England, and because of the reputation of such leading authors as Hans Singer and Richard Jolly, the ILO Kenya Report became a global trend-setter. Literally thousands of positivistic informal sector studies were prepared between 1973 and 1983, with

some in virtually every Third World country and with substantial financial support from the ILO, the World Bank, and various other international and bilateral aid organizations. Numerous refinements of the ILO's initial multi-criterion definition of the informal sector were produced [70; 72], and the literature took an overwhelmingly positivistic tone. Governmental support for the informal sector, and particularly small-scale industries, was increasingly perceived as the key to Third World development, mobilizing grassroots entrepreneurship and harnessing the potential of intermediate technologies. Many radicals were co-opted onto the informal sector bandwagon, producing similar multi-criterion definitions for two-sector models of the economy, sometimes following the original formal/informal division and sometimes using more radical terminology, as in Santos' [67] "two circuits" model of the urban economy. Even the neo-Marxist petty commodity production (PCP) literature of the late 1970s often seemed to adopt a dualist analysis, contrasting "capitalist production" with PCP along lines similar to the formal/informal division [54], and many observers concluded that the debates about the utility of the informal sector concept were largely semantic.

Scholarly analyses of the early informal sector literature mainly focused on discussing whether, and how, the formal and informal sectors are related to one another. Early works suggesting that the informal sector is autonomous and an economy in its own right were soon shown to be misleading, and most authors opted for a dominance-dependence type formulation showing the formal and informal sectors to be closely interrelated and interdependent, but with the burden of risk and instability resting squarely upon the informal sector [73]. Relatively early on, however, a few authors [9; 11] began to question seriously the utility of the formal/informal division and the viability of multi-criterion definitions for the informal sector. Some refinements and alternatives were presented [14; 72],

but none caught on with the main body of informal sector researchers and policy-makers.

The multi-criterion dualist division of the economy and labor market into “formal and informal sectors” espoused by the ILO in its Kenya Report and subsequent International Development literature is much more place-specific than its authors have generally cared to admit. In relatively small and poor Third World countries, with short histories of colonialism and of national independence and with low levels of urbanization, it is quite easy to contrast a modern corporate sector based on transnational investment and technology transfers with a “traditional” small enterprise sector based on household firms, self-employment, and locally-developed technologies. Anyone who has visited Kenya and a range of other Third World countries can bear witness to the dramatic physical contrasts between factories, international hotels, government offices, and major institutions on the one side, and “native” enterprise in the shanty towns, streets, and local markets on the other. Just as there is a dramatic contrast of “ultra-modern” steel, concrete, and glass structures with “native” huts, shacks, and open spaces as locales of enterprise, there is also a contrast between sophisticated European, Asian, and European-educated African entrepreneurs and senior bureaucrats on the one side and indigenous African small businesspersons on the other. In other Third World countries, however, with longer histories of colonialism and independence, with higher levels of urbanization, and with longer-established and more diverse production systems, the contrast between modern/formal and traditional/informal is far less evident. Instead of a polarization, more perceptive authors emphasize a continuum with numerous overlaps, ambiguities, and functional interdependencies based on subcontracting, franchising, disguised wage labor, and dependent working, and this view seems much more appropriate to countries such as India [9; 32], Peru [30; 46], and Mexico [6; 27].

Even among the so-called “developed” countries, most notably Japan [10], Italy [52; 53], and Spain [7], production systems rely heavily on functional interlinkages between large, medium, and small enterprises, impeding the successful application of a dualist multi-criterion division into formal and informal sectors. Even more frustrating for the positivist ILO approach is the persistence of thriving “black” or “underground” economic activities in rich and poor countries [5; 41; 68]—difficult to quantify, often impossible to promote because of their illegality, yet clearly of crucial importance to the functioning of the socio-economic system as a whole. This frustration soon strikes the reader of the recent and widely-cited collection of essays on *The Informal Economy* edited by Portes, Castells, and Benton [60]. Like many others before it, this book begins by assuming ILO-style that dualist, multi-criterion definitions of formal and informal sectors can be applied. During the course of the text, however, as numerous authors and countries are involved and as subcontracting and underground activities are emphasized, the initial assumptions gradually lose credibility, leaving the reader confused as to what “the informal sector” is and how it relates to “the informal economy” and to “informality.”

By the late 1970s, the debates about the utility of the informal sector concept had already developed into a dialogue of the deaf in which more and more was written, but apparently very little was seriously read. The informal sector concept was nebulous and virtually every user applied a slightly different definition, but it seemed to serve a purpose as a means of identifying small enterprises worthy of governmental support. Some advocates of the concept referred briefly in their writings and speeches to the presence of disreputable and illegal occupations within the informal sector, for example prostitution and narcotics trafficking, and many alluded to occupations of rather questionable social value, for example shoe-shining and lottery ticket selling. In general, however, they passed

over these occupations very quickly and without any reference to public policy, and then they concentrated on artisans, small-scale industries, and the need for governmental support.

The attitude taken by most advocates of the informal sector concept who have followed the ILO line is that definitional questions are unimportant, and the existence of the sector is just as obvious as the existence of a Third World or a middle class. Analysts may vary in their definitions, but such differences of opinion certainly do not negate the existence of the phenomenon and the utility of the concept. This line of argument has been brilliantly analysed by Lisa Peattie [57] in a seminal paper entitled "An Idea in Good Currency and How it Grew: The Informal Sector." The essence of Peattie's argument is that such an ambiguous concept with so many definitional problems can only grow in popularity if it is useful to many people and if it generates a genuine coalition of interests. It seems clear that the ILO version of the concept has mainly served to promote a social democratic and reformist agenda for the Third World. It has provided encouragement for appropriate technologies, indigenous enterprise, and local self-help, and it has advocated an increased government role in supporting and nurturing informal sector enterprises.

The ILO informal sector approach penetrated Latin America very soon after the publication of the Kenya Report. The main office of the ILO in Geneva, the World Employment Program's Regional Program based in Santiago de Chile (PREALC), the World Bank, the Inter-American Development Bank, Germany's Social Democratic Friedrich Ebert Foundation (ILDIS), and Canada's International Development Research Center (IDRC) all supported pilot studies, and for over a decade it seemed as if the dualist multi-criterion, positivist view of the informal sector prevailed in Latin America just as it did in the rest of the Third World. It is important to stress here that it is not implied that all Third World elites liked or even knew about the informal sector concept or that they necessarily

advocated government support to small-scale manufacturing and repair establishments. What is meant is that the International Development community used and understood the term "informal sector" ILO-style, there was widespread research and policy analysis relating to the sector, and it was conventional wisdom to build government loans, training, and technical assistance to small-scale manufacturing and repair establishments into "aid" projects. Thus, since the mid-1970s "support for the urban informal sector" has become one of several major lines of multilateral and bilateral "aid," though never as significant in financial terms as military aid, debt relief ("structural adjustment"), or investments in infrastructure. It is variously justified in at least five different ways: as employment generation with relatively low capital investment per job generated; as satisfying basic needs and stimulating internal demand; as promoting local handicrafts to stimulate tourism and exports; as developing intermediate technologies, recycling, and repair to reduce the foreign exchange requirements for imports; and as creating a pool of skilled potential workers and subcontractees for big business.

#### **DE SOTO'S "INFORMALITY" AS A COUNTER AND COMPANION TO THE ILO'S "INFORMAL SECTOR"**

De Soto's speeches and writings emphasize the significance of "informality" rather than any rigid division of the economy and labor market into formal and informal sectors. Nevertheless, ever since his work on "informality" began to receive international publicity around 1983, he has tended to be identified as an expert on "the informal sector," and he has not directly opposed dualist divisions of the economy and labor market. Thus, his "informality" and "informals" have tended to become labelled by others as "the informal sector," and he has often used the terms "the informals" (i.e., those who practice informality) virtually interchangeably with the term "the informal sector." Thus, De Soto has effectively adopted the term "informal sec-

tor,” but he has completely ignored the positivistic ILO-linked literature and definitions. Instead, he has defined the sector in his own way and using one single criterion—economic activities that contravene official regulations but that do not involve murder, theft, violence, or other obviously criminal acts. He has idealized his informal sector, creating an image of plucky entrepreneurs desperately struggling to make a living in the face of stifling governmental regulation and the horrific mismanagement of public enterprises, and he has depicted the informal sector as the real heart and human resource of the nation.

Despite his strongly right-wing connections in the U.S., his political positions have not been seen to be totally right-wing by most Peruvian observers. De Soto has a powerful populist rhetoric, and he could hardly have an easier victim to ridicule than the bureaucracy. Most Peruvians have long been deeply cynical about government, frequently accusing government personnel of corruption, nepotism, incompetence, and laziness. In addition, the 12 years of military rule from 1968 till 1980 generated vast tomes of regulations to organize the government, yet most of the civilian politicians who have held public office since the re-democratization in 1980 have been patently incapable of understanding or reforming the way the government works—or rather fails to work—in a debt-ridden environment.

While De Soto is certainly very influential in Peru and elsewhere in Latin America with his particular version of “the informal sector,” the ILO-style conception is still very widespread. As a Continental think-tank and research coordinator on ILO-style informal sector issues, PREALC remains active; ILDIS and the IDRC continue to fund studies; and numerous researchers all over the continent have embarked on studies using multi-criterion definitions along ILO lines. The thousands of publications that have followed on from the ILO Kenya Report and the tens of thousands of researchers, professors, and students who have participated, discussed, or just learnt

about that research cannot somehow be eradicated. Over the last four years, a new version of the dialogue of the deaf has occurred on numerous occasions where researchers and policy-makers using the De Soto definition converse with other researchers and policy-makers using variants of the ILO definition, and the conversation runs on as if both groups were talking about the same thing and recommending the same policies. In reality, of course, the universes being described are very different, and the objectives and means of informal sector promotion are likely to be almost totally incompatible. Nevertheless, “the informal sector” is such a vague term that it often encompasses different interpretations and assumes a universal positive connotation rather like parenthood or friendship.

The advocates of the ILO-style concept of the “informal sector” generally recommend increased public sector investment and involvement in technical assistance, training, and credit provision to small enterprises. In contrast, the advocates of the De Soto approach recommend reduced public sector investment and involvement, deregulation, debureaucratization, and the privatization of public enterprises so as to remove “unfair competition.” In policy terms, the fundamental differences center on the role of the state, with the ILO recommending an increased role and De Soto recommending a reduced one. In some cases, the two sides have come closer together through the ILO-style advocates reorganizing their definitional criteria to give primacy to the lack of appropriate documents and permits and to treat the others as secondary supporting criteria. The pursuit of such an approach, however, leads them into a logical trap. Their advocacy of increased governmental support for the informal sector then means that the sector disappears as soon as appropriate documents have been provided or the need for such documents has been abolished.

#### DE SOTO IN THE PERUVIAN CONTEXT

Some of De Soto’s social philosophy, as expressed in *The Other Path*, had been

anticipated by the renowned Peruvian anthropologist, José Matos Mar [50], in a book called *Desborde Popular y Crisis del Estado (Popular "Overflow" and the Crisis of the State)*, in which he argued that the old social conventions and order in Peru were collapsing and that the government was losing legitimacy and authority. Matos Mar's widely-read book argues that grass-roots movements are gathering momentum, and that Peru's power structure is becoming increasingly fractionalized and pluralistic. "Make out whatever way you can" has become an increasingly widespread view in Peru over the last few years. When confronted with the realities of the country's massive and unpayable foreign debt, many sections of the Peruvian left and right have come to see grass-roots initiatives and increased local autonomy as the only means of progress. Such "neo-anarchist" or "populist" views have been encouraged by the widespread belief that Peru has a tradition of local self-sufficiency and of communal effort and organization dating back to pre-Inca times.

De Soto's heroes include a wide range of entrepreneurs in all sectors of the economy, but the examples he uses most frequently are the street vendors of Lima. His persistence on this theme, advocating the interests of an occupation that the Peruvian elites have long persecuted and derided, has won him the interest of some cooperatives, center-left politicians and trade unions, and most importantly of all, of former President Alan García (1985-90) and new President Alberto Fujimori (1990-). In his presidential inaugural speech in July 1985, García took the unprecedented step, before an audience of visiting heads of state and parliamentarians, and transmitting by television and radio to the whole nation, of saluting the street vendor as the unsung national hero. Street vendors were portrayed as courageous people who struggle against the bureaucracy and the harsh conditions of the open streets just to make a living so as to be able to feed, clothe, and house their dependents. Past governments were blamed for not generating enough jobs, but they were also blamed for over-

regulating and over-controlling and for widespread corruption and incompetence.

García's populist style and rhetorical speeches play brilliantly to the audience, and his adoption of the anti-government theme from Matos Mar and De Soto helped win him great popularity in his first two years as President. Nevertheless, it is clearly somewhat contradictory for a head of government to rant against government, and as President, García was notorious for talking and promising too much without clearly understanding how his promises could be fulfilled. Time and time again, he publicly blamed the bureaucracy for not fulfilling his promises,<sup>8</sup> and after two good initial years (1985-87), his government rapidly lost momentum and the country regressed rapidly into its most serious economic and political crisis since the 1930s.

García's greatest tactical mistake was in 1987, when he declared the nationalization of the private sector's share in the Peruvian banking system. Although most of the banking system already belonged to the government, this decree provoked a massive anti-government campaign from the Peruvian right, with Mario Vargas Llosa leading the campaign of opposition. Seeing García trying to increase the scope and scale of government, De Soto sided immediately with Vargas Llosa and joined him in forming a new political movement, the *Movimiento Libertad* (Liberty Movement - ML). Initially, the ML seemed to embody De Soto's free-market, entrepreneurial, and anti-bureaucratic philosophy, embracing his call for a "Country of Property Owners" based on the mass legalization of small enterprises, squatter holdings, and *de facto* parcelizations of agrarian reform cooperatives (CAPs and SAIS). Subsequently, however, with increasing opposi-

<sup>8</sup>Ronald Reagan, of course, was a frequent critic of bureaucracy and his own government, and yet he is generally viewed as a popular and successful president. His relative success and García's failure should not be attributed so much to his merits and García's defects, however, as to the appallingly difficult situation facing any government of Peru, making the president extremely vulnerable to international pressures and local boycotts.

tion from De Soto, Vargas Llosa took the ML into an electoral alliance with the older *Acción Popular* (AP) and *Partido Popular Cristiano* (PPC) right-wing parties as FREDEMO, the Democratic Front.

After the bank nationalization declaration, García's political fortunes plummeted and he lost most of his credibility, even within his own APRA party. Peru is now in a state of grave economic and social crisis, with hyperinflation, spiralling debt, a vibrant underground economy based on cocaine export, and a seemingly ever-rising tide of political violence, official repression, and common crime. APRA suffered a crushing electoral defeat at the hands of FREDEMO in the November, 1989 municipal elections, and again at the hands of the new *Cambio 90* (Change 90) Movement and FREDEMO in the 1990 presidential and parliamentary elections.

Not surprisingly, the most striking "contradiction" between definitions and analyses of the informal sector has arisen in Peru since the García government came to power in 1985. De Soto's *The Other Path* came on to the market at about the same time as various other books on urban labor and poverty issues and on small enterprises in Peru, some following De Soto [78], some using ILO-style criteria [18; 19], others following Bromley, Gerry, and Birkbeck's line [13; 14] in deliberately avoiding informal sector terminology and dualistic divisions of the economy and labor market and instead focusing on the social relations of production [29; 30], and others trying to review the various alternative definitions [56]. The García government even established an Institute for the Development of the Informal Sector (IDESI), which adopted the ILO line and exists primarily to facilitate credit to small enterprises.

De Soto and the ILD have shifted significantly in political alignments since the heady days of 1987 when the ML was founded in the aftermath of the bank nationalization. The ML's involvement in FREDEMO alienated De Soto and led him to quarrel with Vargas Llosa. Some observers attributed this quarrel simply to "two large egos in conflict," but more im-

portant issues were also at stake. De Soto clearly envisaged ML as a long-term movement that should develop its own philosophy, cadres, and think-tanks, perhaps targeting the 1995 elections rather than those scheduled for 1990. In contrast, Vargas Llosa preferred the political expediency of an alliance with AP and PPC, even though this associated ML with traditional politicians, parties, and policies, most notably from the second Belaúnde government of 1980-1985—figures whom De Soto had derided in *The Other Path* as "right-wing mercantilists." While Vargas Llosa figureheaded a FREDEMO intent on capturing power in 1990, with former President Belaúnde and his AP clique often appearing in the driving seat, De Soto apparently "radicalized" by moving towards the political center. To die-hard rightists, De Soto betrayed his class interests and old allies, and so he helped the centrist Alberto Fujimori and his newly-founded *Cambio 90* Movement defeat Vargas Llosa and FREDEMO. To the majority of Peruvians, however, De Soto merely refused to back an opportunistic right-wing candidature that promised to polarize class conflicts and accentuate the suffering of most of the nation's poor. Nevertheless, the awkward question remains as to whether De Soto is a rightist in centrist clothing, or a true centrist who was once unfairly branded as a rightist.

De Soto's new "radicalism" has been manifested in five main ways. First, he has changed the company he keeps in the United States, shifting from an almost constant association with the Heritage Foundation and the far right to meetings with middle-of-the-road Democrats such as Joseph Biden and Bill Bradley. Second, he has provided moral support and advice to the new President, Alberto Fujimori, and during the electoral run-ups of 1989-90 he expressed willingness to collaborate with various political leaders and parties, most notably the Independent Socialist leader, former presidential candidate, and former Mayor of Lima, Alfonso Barrantes. Third, with the personal approval of ex-President García, he has involved the ILD in two

joint projects with the APRA and *Cambio 90* governments: the *Registro Predial*, a simplified registration procedure for squatter holdings, and the Law of Administrative Simplification, ongoing legislation and reforms to cut the volume of paperwork, documents, and declarations required for ordinary citizens to obtain permits, credits, and titles from government. Fourth, the ILD has prepared draft legislation to democratize decision-making in local, regional, and national government through the prior publication and public discussion of potential new laws, and in his presidential inaugural speech in July, 1990, President Fujimori indicated his government's desire to work with the ILD on this. Fifth, he has publicly attacked the Goodyear Tire Company, other multinational corporations, local Peruvian businessmen, and also successive Peruvian governments for establishing and supporting uneconomic import-substitution industries in Peru. These industries are protected from cheaper and better-quality foreign competition by import tariff barriers, and hence they can yield substantial profits to the investors involved while supplying overpriced, low-quality goods to the Peruvian public. De Soto's attack on Goodyear was certainly true to his free-market philosophies, but it has caused considerable concern to some of his patrons and supporters in the U.S., and it has alienated many Peruvian industrialists.

De Soto seems to have assumed a "maverick" role in Peruvian politics, provoking debate and winning headlines, but not identifying clearly with any political party or coalition. He is rumored to have declined numerous invitations to high offices: FREDEMO's candidature for Mayor of Lima, Alan García's last Prime Minister, Barrantes' First Vice Presidential running mate, and most recently, Fujimori's first Prime Minister. Most observers characterize him as ambitious, and a few see him as building alliances for 1995 or later, after the expected failure of the weak and ill-prepared *Cambio 90* government, a possible military coup, and a "redemocratization" 1-3 years later. More probably, however, De Soto and the ILD

will seek increasingly international roles, distancing themselves more and more from the rocky terrain of Peruvian politics.

### CONCLUSION: THE DE SOTO VIEW IN BROADER PERSPECTIVE

De Soto's work illustrates the crucial interlinkage between ideas, local conditions, intellectual environment, and global support—a microcosm of geography in the broader context of social science. Without international financial support for research, travel, and publication, given largely on ideological grounds, his work on Peru would have been smaller in scope and virtually unknown. If he were not from Peru, however, he might well not have undertaken such research and campaigning, and even if he had his work might not have had such an impact because the cases of most other countries are less extreme and dramatic.

Even by Latin American standards, Peru has an unusually strong bureaucratic heritage and highly stratified society because Lima was the administrative capital of most of South America for over two hundred years. Of all the South American countries, Peru has undergone the most dramatic economic collapse over the last sixteen years, and since 1980 it has rivalled Colombia as the country most torn by crime, repression, and subversion. Furthermore, of course, the early successes and popularity of the 1968-75 military government of General Juan Velasco, followed by the authoritarian military regime of General Francisco Morales Bermúdez (1975-80), gave Peru an unusually deep-rooted military penetration of government, producing numerous bureaucratic codes known as "administrative systems." These systems made the bureaucracy much more complex and highly sophisticated, and during the Velasco period their introduction paralleled an unprecedented expansion in governmental functions, budget, and personnel. Since the current trend to economic crisis and austerity began in the mid-1970s, however, the "administrative systems," the unionization of an extremely low-paid



public sector workforce, and the lack of technological modernization in government have produced a Kafkaesque "Catch 22" situation: a governmental system that desperately needs reform and modernization, but that faces enormous internal and external obstacles to change. Successive civilian governments since 1980 have continued to increase the public sector workforce, mainly through political patronage, while being forced to cut real wages dramatically because of the national economic crisis and external pressure from the International Monetary Fund.

De Soto's socio-legal focus is highly innovative and pertinent to Peru, but socio-legal changes alone cannot guarantee economic development and resolve all major societal problems. The ILD has an important role to play in the division of labor among Peruvian research centers and think-tanks, but even in its central arena of socio-legal studies, the institution's coverage is still very patchy. Its major projects—the registration of properties in well-established squatter settlements, the simplification of administrative procedures and paperwork, and the proposals for democratizing decision-making—are directly influencing public policy, but they cover only a small proportion of the nation's socio-legal problems. The ILD's work is heavily focused on Lima and its impact on the remainder of the country is less significant. It has shown little interest in human rights issues relating to arbitrary arrest, habeas corpus, torture, and disappearance, in the long delays and inefficiency of the courts, or in the appalling conditions and human rights record of the prisons. Similarly, it has failed to get involved in the programming and management of public expenditure, a critical problem area for national economic recovery and the efficient functioning of government.

The early work of the ILD on street vendors, para-transit operators, and new squatter invasions provided most of the material for *The Other Path*, but it has not generated major policy changes and it has only a limited relation to the current areas of ILD activity. At election time, all politi-

cal parties seek the votes of street vendors, para-transit operators, and squatters, but between elections a policy of selective repression and benign neglect prevails. New incursions by street vendors and para-transit operators onto congested central streets and major junctions and axes are resisted by the authorities, often using water cannons, truncheons, arbitrary arrest, and confiscation of merchandise and equipment. Similarly, new squatter invasions onto strategically located private and municipal holdings are likely to be dislodged by the police or military. Away from congested, high-value, and elite areas and from key axes and junctions, however, new incursions by vendors, transporters, and squatters are likely to go unopposed and will eventually be legalized. The ILD has not injected many new ideas or policy proposals into this situation, and its research has paid insufficient attention to land values, traffic densities, and congestion costs. Thus, for example, in criticizing a 1985 Municipal Ordinance regulating street vending in Lima, De Soto [25, p. 240] suggests that: "if, instead of overregulating the street vendors, the authorities had removed the obstacles to their activities and made it easier for them to form business organizations and obtain formal credit so that they could build more markets, by 1993 all of today's street vendors would be off the streets." Even if this highly dubious assertion were true, he neglects to point out that a new generation of vendors would be on the streets because street locations are vital for some forms of retailing, most notably for frequent needs and impulse purchases like cigarettes, ice cream, newspapers, and candy. Increased congestion stimulates demand for such goods in three main ways: first, because it attracts customers seeking agglomeration, centrality, and competitive prices; second, because it keeps more people within selling distance; and third, because bored motorists, passengers, and queue-standers will use the delays to make purchases.

A crucial intellectual link that remains to be traced is between the European and North American work over the last fifteen

years that has analyzed the “black,” “underground,” “subterranean,” or “parallel” economy [5; 26; 41; 68], and the evolution of Hernando De Soto’s ideas. In a 1981 edited book called *Informal Institutions* [35], for example, the British sociologist Stuart Henry returns to the pre-ILO sense of informality, not in terms of sectors, but rather in terms of unconventional or alternative ways of doing things. He and his collaborators cover a wide range of themes, from moonlighting to tipping and from squatting to extra-marital affairs, and if there is any generalized “policy” to be derived from these writings, it is simply the importance of community self-help and individual initiative. “Informal” plays two roles in such a conception: first, as a new euphemism to avoid the negative connotations of words like “black” and “subterranean,” and second, as a means to emphasize the contrast between two different styles of activity. A further interweaving of informality with the black economy is effected by Sanchis and Minana in their edited collection *La Otra Economía (The Other Economy)*, subtitled *Black Work and the Informal Sector* and focused mainly on Spain [64]. Despite the fact that the ILO is located in Europe and most of its senior staff are European or North American, its positivistic informal sector concept has always been applied to the Third World. The idea of informality being equivalent to illegality or law evasion is far more widely accepted in Europe and North America than it is in most of the Third World. Nevertheless, of course, De Soto is busily diffusing a variant of that idea in Latin America, but suggesting that the state rather than the lawbreaker is at fault.

Though De Soto may superficially be characterized as an apologist for the World Bank, the IMF, and the interests of international capitalism, his position may well prove profoundly contradictory to theirs. His recent political radicalism and immersion in Peruvian politics, combined with his strong beliefs in the redundancy of state bureaucracies, regulation, and enterprises, bring some of his positions close to conser-

vative anarchism or even “guerrilla capitalism” [21]. By ridiculing official procedures and idealizing those who dodge regulations and avoid paying taxes, he helps to justify the widespread cynicism and apathy towards government that are found in Peru. In turn, cynicism and apathy encourage boycotts and default from official programs—an “informalization” of the socioeconomic system—and they contribute to government inefficiency and the demoralization of the public sector workforce. They could provoke decisive policy shifts towards privatization, deregulation, administrative simplification, and reductions in the public sector workforce, but they are equally likely to lead to a virtual collapse of the state apparatus without any prior reforms. In the event of such a collapse—which many feel has already taken place in Peru—the country is plunged into economic and political chaos and the government has neither the will nor the means to pay even the interest on the country’s foreign debts. The collapse of the state is certainly not the outcome the IMF and the World Bank would desire, but it is a likely end result of the “guerrilla capitalist” perspective!

The initial policy declarations of the new government of President Alberto Fujimori, which took office in July, 1990, treat the promotion of small enterprises and the democratization of decision-making as key elements in a national development strategy to revive Peru’s collapsing national economy. The ILD was the only non-governmental organization to be mentioned by name in Fujimori’s presidential inaugural speech, and it was specifically designated to work with the new government on these policies. Whether good intentions and rhetoric will be converted to reality, however, and how much the Fujimori administration will rely on De Soto and the ILD, is still in doubt. It is unclear how well De Soto and the ILD will adapt to the pragmatic tasks of day-to-day administration, policy formulation, and political compromise. Furthermore, of course, many of the policies that they recommend may only bring long-term benefits, while the

current crisis of violence, accentuated poverty, and hyperinflation requires immediate amelioration in order to establish and maintain a political coalition capable of governing the country. *Cambio 90* won the Presidency and a modest parliamentary representation, but unless positive benefits are generated for the majority of the Peruvian population within their first year in office, they are likely to face overwhelming parliamentary and armed opposition from both left and right. More of De Soto's ideas are likely to be tried out in Peru than anywhere else, and yet because of the severity of the national crisis, Peru is perhaps the least fruitful potential terrain for the gradual long-term changes and institutional reforms that he advocates. As he said on numerous occasions during the 1989-90 election campaigns, "whoever wins, they won't be able to govern this country because the whole system and apparatus of government is outmoded."

In the uncertain political and economic context of Peru, and with a great shortage of resources to implement policy, it is very unclear how much attention should be given to the ILD's socio-legal concerns. Are they focusing on key problems that are uniquely grave and preeminent in Peru, or are they simply focusing on one of many problem areas? Should resources be focused on socio-legal issues of debureaucratization and deregulation to the neglect of other fields: a sort of "leading sector policy," focusing on the area where greatest positive change can be achieved? Alternatively, should resources be spread across many different policy areas because only an integrated policy intervention on several related fronts can work effectively? Finally, is some other policy focus more urgent and operable?

Even among small enterprise promotion specialists and international development agencies, there are major differences of opinion on the most appropriate policies. Some see De Soto's socio-legal focus as the key, some advocate a concentration on technical assistance and training, as practiced by Colombia's Carvajal Foundation

[65; 66], some advocate a focus on credit and solidarity groups as pioneered by the U.S. consultancy firm AITEC [3; 55] and by the García Government's IDESI, and some advocate a thin spread of resources among all of these and other lines of policy intervention. There is ample need for applied research on the relative efficacy of different types of small enterprise promotion and on the appropriate levels and types of state involvement. On a broader scale, it is crucial to determine whether small enterprise promotion can be the prime element and driving force in a national development strategy, or whether it must always be part of a much larger package of policies because it focuses on a "dependent" or "lagging" sub-sector of the economy that cannot function effectively unless the country has a stable currency, thriving foreign trade, and numerous successful large enterprises.

In a separate but related arena, De Soto's writings and policy recommendations have major implications for the distribution and characteristics of settlement, transport, and commerce. Judging from *The Other Path* and numerous subsequent pronouncements, De Soto's ideal city would be low-rise, low-density, and multi-nuclear, with large numbers of small enterprises, a proliferation of private markets, a heavy reliance on para-transit, and little governmental activity beyond law, order, and the construction and maintenance of streets, parks, and some utility networks. As Peru continues its economic and political collapse, however, and as Lima advances towards mega-city status, with a population rising to over ten million in the first decade of the twenty-first century, many would question the low profile he assigns to government and the laissez-faire attitude that he advocates towards urban management. If they are heeded in Peru and elsewhere, his ideas will have enormous implications for the socioeconomic functioning and spatial organization of nations and cities. Whether these implications are positive or negative is highly debatable, and ideas may shift during the

course of evaluative research. Given the heterodox character and shifting focus of De Soto's ideas, however, and also the complex relationship of his international backing, his global role, and his impact on Peru, he is likely to remain a controversial figure for many years to come.

### LITERATURE CITED

1. Alonso, Iván, Fernando Iwasaki, and Enrique Gherzi. *El Comercio Ambulatorio en Lima*. Lima: ILD, 1989.
2. Amsden, Alice H. *Asia's Next Giant: South Korea and Late Industrialization*. New York: Oxford University Press, 1989.
3. Ashe, Jeffrey. "Extending Credit and Technical Assistance to the Smallest Enterprises." *Planning for Small Enterprises in Third World Cities*. Edited by Ray Bromley. Oxford: Pergamon, 1985.
4. Baer, Werner. "Import Substitution and Industrialization in Latin America", *Latin American Research Review*, 7 (1972), #1, pp. 95-122.
5. Bawly, Dan. *The Subterranean Economy*. New York: McGraw-Hill, 1982.
6. Benería, Lourdes and Martha Roldan. *The Crossroads of Class and Gender*. Chicago: University of Chicago Press, 1987.
7. Benton, Lauren. *Invisible Factories: The Informal Economy and Industrial Development in Spain*. Albany: SUNY Press, 1990.
8. Bodenheimer, Thomas and Robert Gould. *Rollback: Right-wing Power in U.S. Foreign Policy*. Boston: South End Press, 1989.
9. Breman, Jan. "A Dualistic Labour System? A Critique of the 'Informal Sector' Concept," *Economic and Political Weekly*, 11 (1976), #48, pp. 1870-76, #49, pp. 1905-09, and #50, pp. 1939-44.
10. Broadbridge, Seymour. *Industrial Dualism in Japan*. London: Frank Cass, 1966.
11. Bromley, Ray. "The Urban Informal Sector: Why is it Worth Discussing?" *World Development*, 6 (1978), pp. 1033-39.
12. Bromley, Ray (ed.) *Planning for Small Enterprises in Third World Cities*. Oxford: Pergamon, 1984.
13. Bromley, Ray and Chris Birkbeck. "Urban Economy and Employment," *The Geography of the Third World*. Edited by Michael Pacione. London: Routledge, 1988.
14. Bromley, Ray and Chris Gerry (eds.) *Casual Work and Poverty in Third World Cities*. Chichester and New York: John Wiley, 1979.
15. Brogan, Hugh. *The Pelican History of the United States of America*. London: Penguin, 1986.
16. Brown, Michael Barratt. *After Imperialism*. New York: Humanities Press, rev. ed., 1970.
17. Calista, Donald J. (ed.) *Bureaucratic and Governmental Reform*. Greenwich, CT: JAI Press, 1986.
18. Carbonetto, Daniel and M. Inés Carazo de Cabellos. *Heterogeneidad Tecnológica y Desarrollo Económico: El Sector Informal*. Lima: Instituto Nacional de Planificación, 1986.
19. Carbonetto, Daniel, Jenny Hoyle, and Mario Tueros. *Lima: Sector Informal*. Lima: CEDEP, Centro de Estudios para el Desarrollo y la Participación, 2 vols., 1988.
20. Cardoso, Fernando H. and Enzo Faletto. *Dependency and Development in Latin America*. Berkeley: University of California Press, 1979 (first published as *Dependencia y Desarrollo en America Latina*. Mexico DF: Siglo XXI, 1969).
21. Cash, Adam. *Guerrilla Capitalism: How to Practice Free Enterprise in an Unfree Economy*. Port Townsend, Washington: Loompanics Unlimited, 1984.
22. Chilcote, Ronald H. *Theories of Development and Underdevelopment*. Boulder: Westview, 1984.
23. Corbridge, Stuart. *Capitalist World Development: A Critique of Radical Development Geography*. Totowa, NJ: Rowman and Littlefield, 1986.
24. Cueva, Agustin. *Las Democracias Restringidas de América Latina*. Barcelona: Planeta, 1988.
25. De Soto, Hernando. *The Other Path: The Invisible Revolution in the Third World*. New York: Harper and Row, 1989 (first published as *El Otro Sendero*. Lima: ILD, 1976).
26. Ditton, Jason. *Part-time Crime: An Ethnography of Fiddling and Pilferage*. London: Macmillan, 1977.
27. Fernández-Kelly, Maria Patricia. *For We Are Sold: Women and Industry in Mexico's Frontier*. Albany: SUNY Press, 1983.
28. Furtado, Celso. *Economic Development of Latin America*. New York: Cambridge University Press, 1976.
29. Galin, Pedro, Julio Carrión, and Oscar Castillo. *Asalariados y Clases Populares en Lima*. Lima: Instituto de Estudios Peruanos, 1986.

30. Grompone, Romeo. *Talleristas y Vendedores Ambulantes en Lima*. Lima: DESCO, 1985.
31. Harrison, Lawrence. *Underdevelopment is a State of Mind: The Latin American Case*. Lanham, MD: University Press of America, 1985.
32. Harriss, Barbara. "Quasi-formal Employment Structures and Behaviour in the Unorganized Urban Economy, and the Reverse: Some Evidence from South India," *World Development*, 6 (1978), pp. 1077-86.
33. Hart, J. Keith. "Informal Income Opportunities and Urban Employment in Ghana," *Journal of Modern African Studies*, 11 (1973), pp. 61-89.
34. Heckscher, E. F. *Mercantilism*. New York: E. F. Soderlund, 2 vols., 1955.
35. Henry, Stuart (ed.) *Informal Institutions: Alternative Networks in the Corporate State*. New York: St. Martin's Press, 1981.
36. Hettne, Bjorn. *Development Theory and the Three Worlds*. London: Longman, 1990.
37. Hopkins, Terence K. and Immanuel Wallerstein. *World-Systems Analysis: Theory and Methodology*. Beverly Hills: Sage, 1982.
38. ILD (Instituto Libertad y Democracia) (ed.) *Democracia y Economía de Mercado*. Lima: ILD, 1981.
39. ILD (ed.) *Dependencia y Desarrollo en Debate*. Lima: ILD, 1983.
40. ILO (International Labour Office). *Employment, Incomes and Equality: A Strategy for Increasing Productive Employment in Kenya*. Geneva: ILO, 1972.
41. Jodar, Pere and Andreu Lope. *Con el Agua al Cuello: El Trabajo en la Economía Sumergida*. Madrid: Editorial Revolución, 1985.
42. Kahl, J. A. *Modernization, Exploitation and Dependency in Latin America*. New Brunswick, NJ: Transaction Books, 1976.
43. Kay, Cristobal. *Latin American Theories of Development and Underdevelopment*. London: Routledge, 1989.
44. Kim, Kwan S. and David F. Ruccio (eds.) *Debt and Development in Latin America*. Notre Dame: Notre Dame University Press, 1985.
45. Lewis, W. Arthur. "Economic Development with Unlimited Supplies of Labour," *Manchester School of Economics and Social Studies*, 22 (1954), pp. 139-91.
46. MacEwen Scott, Alison. "Who are the Self-employed?," *Casual Work and Poverty in Third World Cities*. Edited by Ray Bromley and Chris Gerry. Chichester: John Wiley, 1979.
47. Mander, John. *The Unrevolutionary Society: The Power of Latin American Conservatism in a Changing World*. New York: Harper and Row, 1972.
48. Mangin, William. "Squatter Settlements," *Scientific American*, 217 (1967), #4, pp. 21-29.
49. Mangin, William and John Turner. "Benavides and the *Barriada* Movement," *Shelter and Society*. Edited by Paul Oliver. London: Design Yearbook Ltd., 1969.
50. Matos Mar, José. *Desborde Popular y Crisis del Estado*. Lima: Instituto de Estudios Peruanos, 1984.
51. Meyer, Marshall W. *Limits to Bureaucratic Growth*. New York: Walter de Gruyter, 1985.
52. Mingione, Enzo. "Urban Survival Strategies, Family Structure and Informal Practices," *The Capitalist City*. Edited by Michael P. Smith and Joe R. Feagin. Oxford: Basil Blackwell, 1987.
53. Mingione, Enzo. "Work and Informal Activities in Urban Southern Italy," *On Work*. Edited by Ray Pahl. Oxford: Basil Blackwell, 1988.
54. Moser, Caroline. "Informal Sector or Petty Commodity Production: Dualism or Dependence in Urban Development?," *World Development*, 6 (1978), pp. 1041-64.
55. Otero, Maria. "Solidarity Group Programs," *Women's Ventures: Assistance to the Informal Sector in Latin America*. Edited by Marguerite Berger and Mayra Buvinic. West Hartford, CT: Kumarian Press, 1989.
56. Palma, Diego. *La Informalidad, lo Popular, y el Cambio Social*. Lima: DESCO, 1987.
57. Peattie, Lisa. "An Idea in Good Currency and How it Grew: The Informal Sector," *World Development*, 15 (1988), pp. 851-60.
58. Petras, James and H. Brill. "The Tyranny of Globalism," *Journal of Contemporary Asia*, 15 (1985), pp. 403-20.
59. Piore, Michael J. and Charles F. Sabel. *The Second Industrial Divide*. New York: Basic Books, 1984.
60. Portes, Alejandro, Manuel Castells, and Lauren A. Benton (eds.) *The Informal Economy: Studies in Advanced and Less Developed Countries*. Baltimore: Johns Hopkins University Press, 1989.
61. Prebisch, Raúl. *Capitalismo Periférico: Crisis y Transformación*. Mexico DF: Siglo XXI, 1981.
62. Rangel, Carlos. *Third World Ideology and Western Reality: Manufacturing Political Myth*. New Brunswick, NJ: Transaction Books, 1986.

63. Roxborough, Ian. *Theories of Underdevelopment*. London: Macmillan, 1979.
64. Sanchis, Enric and José Minana (eds.) *La Otra Economía: Trabajo Negro y Sector Informal*. Valencia, Spain: Institutio Valenciana d'Estudis I Investigacio, 1988.
65. Sanders, Thomas G. "Promoting Social Development: Private Sector Initiatives in Cali, Colombia," *UFSI Reports* (University Field Staff International, Inc.), 1983/No. 21.
66. Sanders, Thomas G. "Microbusiness: Innovative Private Sector Development in Colombia," *UFSI Reports*, 1983/No. 22.
67. Santos, Milton. *The Shared Space: The Two Circuits of the Urban Economy in Underdeveloped Countries*. London: Methuen, 1979.
68. Sauvy, Alfred. *Le Travail Noir et l'Économie de Demain*. Paris: Calmann-Levy, 1984.
69. Seers, Dudley. *Dependency Theory: A Critical Reassessment*. London: Francis Pinter, 1981.
70. Sethuraman, S. V. "The Urban Informal Sector: Concept, Measurement and Policy," *International Labour Review*, 114 (1976), pp. 69-81.
71. Sheahan, John. *Patterns of Development in Latin America*. Princeton: Princeton University Press, 1987.
72. Steele, William F. "Static and Dynamic Analysis of the Intermediate Sector: A Synthesis," *Manpower and Unemployment Research*, 10 (1977), #1, pp. 73-78.
73. Tokman, Victor. "An Exploration into the Nature of Informal-formal Sector Relationships," *World Development*, 6 (1978), pp. 1065-75.
74. Turner, John. "Barriers and Channels for Housing Development in Modernizing Countries," *American Institute of Planners Journal*, 33 (1967), pp. 167-81.
75. Turner, John. "Housing Priorities, Settlement Patterns, and Urban Development in Modernizing Countries," *American Institute of Planners Journal*, 34 (1968), pp. 354-63.
76. Urriola, Rafael. *Crítica a una Visión Neoliberal del Sector Informal*. Quito: CEPLAES, Centro de Planificación y Estudios Sociales, 1988.
77. Valencia, Hernando. "El Otro Sendero: La Revolución Informal," *Análisis Político* (Bogota), no. 1, mayo-agosto (1987).
78. Vereda del Abril, Antonio. *Desafío de la Economía Informal*. Lima: IPALSA, 1988.
79. Whitehead, Lawrence. *Algunas Reflexiones sobre el "Estado" y el Sector Informal*. Lima: Instituto Bartolomé de las Casas-Rimac, 1988.
80. World Bank. *World Development Report 1989*. New York: Oxford University Press, 1989.
81. Zdrozny, John T. *Dictionary of Social Science*. Washington, D.C.: Public Affairs Press, 1959.