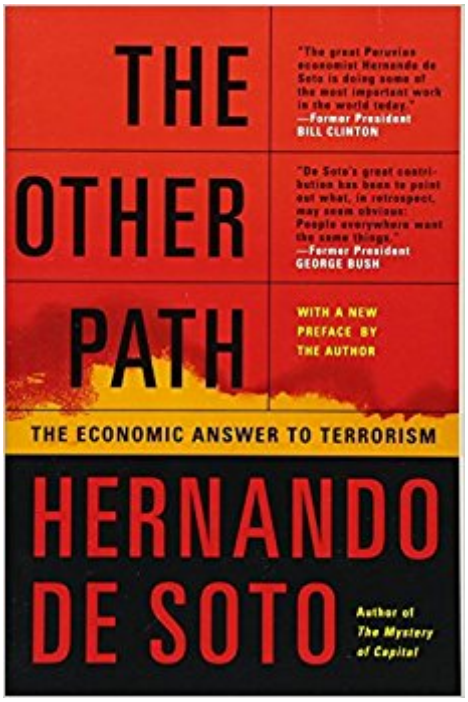
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The Other Path: The Economic Answer To Terrorism



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Synopsis

In this, his classic book on the informal economy of Peru and the reasons why poverty can be a breeding ground for terrorists, Hernando De Soto describes the forces that keep people dependent on underground economies: the bureaucratic barriers to legal property ownership and the lack of legal structures that recognize and encourage ownership of assets. It is exactly these forces, de Soto argues, that prevent houses, land, and machines from functioning as capital does in the West--as assets that can be leveraged to create more capital. Under the Fujimori government, de Soto's Institute for Liberty and Democracy wrote dozens of laws to promote property rights and bring people out of the informal economy and into the legitimate one. The result was not only an economic boon for Peru but also the defeat of the Shining Path, the terrorist movement and black-market force that was then threatening to take over the Peruvian government. In a new preface, de Soto relates his work to the present moment, making the connection between the Shining Path in the 1980's and the Taliban today.

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Customer Reviews

Text: English, Spanish (translation) --This text refers to an out of print or unavailable edition of this title.

A revolutionary new analysis of the Third World, and a bestseller throughout Latin America. "The best way to understand Latin America's problems and issues is to read The Other Path."--Bill

Bradley, U.S. Senate --This text refers to an out of print or unavailable edition of this title.

De Soto advocates free markets, taking care to differentiate free markets from mercantilism: "Mercantilism can be defined as the supply and demand for monopoly rights by means of laws, regulations, subsidies, taxes, and licenses. The fallout of these privileges creates a wall of legal barriers that exclude the poor." ("Preface," xx.)De Soto argues that the working poor's economic contributions are incredibly valuable, but the absence of formal property rights has diminished their full value. He shows the underground economy has its own logical processes and systems, but its informal structure causes problems for all. For the poor, despite their hard work, they cannot access capital and are always under the threat of government intervention; meanwhile, the formal economy loses opportunities to maximize innovation and overall stability. Most troubling is the idea that outside groups may align themselves with excluded members of society, providing them with services the government does not or cannot provide. If members of the underground economy only interact with the formal government in ways that cause them harassment, a potent mix of anger and resentment is created, which threatens everyone.There are many gems throughout the book explaining De Soto's point of view--here are a few: "Contrary to the belief widespread in Latin America, the economic importance of property rights is not that they provide assets which benefit their holders exclusively, but that they give their owners sufficient incentive to add value to their resources by investing, innovating, or pooling them productively for the prosperity and progress of the entire community...It is the owner's profit motive which leads to the conservation and, this the maximization of the value of the [property/asset]." -- Id. at 178"Since innovation is the riskiest investment, if a government cannot give it citizens secure property rights and efficient means of organizing and transferring them--namely, contracts--it is denying them one of the main incentives for modernizing and developing their operations. This is precisely what happens to the informals [in the underground economy]." -- Id. at 179."[T]he aim of deregulation is the same as mercantilists claim to pursue, including land, labor, credit, education, transport, safety and assistance to those who have the least. The difference lies in the fact that a deregulated state achieves these objectives by facilitating and controlling the functioning of the market, not by replacing it... In short, all of us, formals and informals, need to be governed by just, efficient laws instead of by the arbitrary authority of the state.ÃƒÂ¢Ã â ¬Ã Â• -- Id. at 252.

This book accomplishes several important things. First, it convincingly explains that the root cause of informal markets in Peru--and it applies to the Third World in general--is an out-of-control

regulatory system that kills legal markets. The book goes into detail to demonstrate this in the housing, transportation and retail markets. The bureaucratic delays and financial costs involved are mind boggling. Obviously this opens space to informal markets where these Kafkaesque rules do not apply.The second thing this book does is demonstrate that the quality of housing in slums is directly correlated to the quality of property rights. The more settled the property rights are, the more people invest in their homes. And in slums, property rights in general take time to settle. Slums by definition start illegally. Thus in young slums, as De Soto shows, housing is as simple as it gets, often just tents. Older slums, on the other hand, show improvement to the point where some become middle class neighborhoods after decades. The book has a great photo section to demonstrate this and other points.The third thing this book does is to explore this love affair that Peru or the Third World has for over-regulation. De Soto devotes a chapter to explain that in essence the Third World is mercantilist, i.e. it believes that "the economic welfare of the state can only be secured by government regulation of a nationalistic character". Moreover, in the Third World society has little participation in law-making given that most of it stems from the executive, while the legislature plays a modest role. Therefore, "it is hardly surprising that, in the best mercantilist tradition, the legal system is divorced from reality and the needs of the markets".The final thing the book does is offer a prescription for improvement. Simplification, decentralization and a swift justice system are key to "reduce the state’s power to decide who can produce, and who cannot, what goods and services will be authorized, how they will be produced, and at what price and in what quantities". De Soto talks about a lean process to acquire property rights for homes in the context of a simplified and enforced housing regulatory system. Obviously if you make it easier to get a property title without regulatory simplification or strong law enforcement, you create an incentive to land invasion. Unfortunately in many parts of the Third World that is exactly what socialists are doing because they love the idea of distributing property titles while keeping the Utopian rules. It will improve existing slums faster--people will invest more in their homes--but will promote more land invasion.The key message in the book for poor countries is that you have to cut the bureaucracy and let society flourish. The huge regulatory burden, the lack of legal contractual freedom, do not help the welfare of the people. It drives people to illegal markets where these costly rules do not apply but where, on the other hand, the uncertainty of property rights makes people poorer than their potential. For example, in many parts of the Third World it is still illegal to implement a private housing development for the poor. The modest floor plan violates civil construction codes more suitable for Zurich. Financial terms indexed to a percentage of the minimum wage violate either interest rate caps or rental contracts the government writes. Thus the private development is simply

illegal and does not happen, despite the fact that it would offer much better living conditions than those in a slum.The key message for folks in developed countries is that the shocking views of slums in the Third World are not due to "poor distribution of wealth". That is the favorite diagnosis. It is not only wrong, it is dangerously wrong because it invites the worst remedy: "redistribution of wealth". Socialism will make capital and highly productive people flee. Income correlates to productivity. Productivity correlates to education. In the Third World education of the masses is horrendous. Think of American inner-city education quality as the average quality. There are indeed a lot of poor people in the Third World and the fix is not "redistribution of wealth" but rather better education for the masses. But back to the book, the point is that the shocking visual impact of Third World slums is not due to a lot of poor people. In smaller cities of the Third World there are a lot of poor people but not the horrifying slums. Big city slums are a product of Utopian rules that strangle the legal path to housing for the poor. Thus people follow the other path.

Important study of Peru and what happens (or does not happen) when there is excessive regulation. In Peru’s case, excessive regulation led to the strangulation of the economy and the creation of black market industries, rogue bus systems, food industries and mass takeover of land in which to build houses. Reduction of regulations led to more prosperity, better living standards and healthier, safer living.I have heard of this book for years and I can see why it is a must read. Mr. De Soto did a wonderful job with research and writing. While he admits that what was known in 1989 (when the edition I read was written) while need to be changed as time goes on (The Shining Path is an example), the facts and issues were very real for any nation that has backward legal, industry and other standards. Allow people the freedom to build and all of Society benefits. Excellent book.

the classic that brought the breakthrough in terms of breaking the power of corrupt mercantilism in two thirds world countries by creating the environment for land tenure and legalized entrepreneurship. the new intro itself giving the life history of teh man is enough to motivate many. An insigth into economics from the underneath, where people matter.

Interesting book. I read this for my econ Latin America class. It clearly explains the formal versus informal sectors of the country. Good read for those interested in the subject.

Was a required book for school but loved it! It was a fast read with an interesting perspective on terrorism. Loved the information presentation.

I travel to Peru every summer as a missionary. In order to understand the complex politics and their effect on the indigenous peoples of Peru, this book was a great help. Peru is complex, the reasons for the complexity are not.

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