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World's poor can change their own lot

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EVERY SO OFTEN, someone grasps and articulates a reality so different, so elemental, that the world is suddenly twisted into unfamiliar shapes. Hernando de Soto is one of those people and his theory, if true, changes almost everything.

In the country to accept a Care Canada development award and in town to talk to Finance Minister Paul Martin and Deputy Prime Minister John Manley, the Peruvian economist and writer enthusiastically debunked the conviction that most of the people on this planet are poor. The profound problem in developing countries, he contends, is a disturbing disconnect between tangible assets and liquid wealth.

Mixing classical economic theory with painstaking, primary research into the complex, hidden structures that control informal economies, de Soto reaches the startling conclusion that the poor are not poor. Their problem, unlike those in industrialized nations, is that they can't access the capital needed to turn what little they have into more.

De Soto explores all of this in *The Mystery Of Capital*, an extraordinary book that is winnowing its way into the highest places. From Latin America to desperate Africa and Asia, leaders frustrated by the endemic disparities between North and South, developed and developing, rich and, well, poor are queuing to talk to a man once targeted by Peru's leftist Shining Path guerrillas.

What de Soto has to say is both deeply discouraging and buoyantly optimistic. Those contradictions are the yin and yang of his report to Egyptian President Hosni Mubarak.

After another of his deconstructions of local gray and black markets, de Soto reached astonishing conclusions. The informal economy, valued at some \$245 billion (U.S.), is six times greater than bank deposits, 30 times larger than the 746 companies that registered on the Cairo stock exchange, and 55 times larger than the value of direct foreign investment in Egypt.

Stripped of numerology, that delivers an unambiguous, mostly unwelcome message to those who think of themselves as in control. Mubarak, a quasi-democrat trying to hold together an ancient, proud and — that word again — poor country, has remarkably few economic levers. The informal sector is bigger than the formal, illegal buildings outnumber legal and, most important, ordinary people are living by their own rules.

Far more encouraging are the implications for development. If it is possible to formalize informal structures, to allow homeowners and small businesses to leverage assets, to breathe life into now-dead capital, countries that the rich North has been trying, and largely failing, to help, may have what they need to help themselves.

None of that will be easy. Customs, culture and the political self-interest of those who now benefit from the status quo must all be overcome if individuals are to maximize their own wealth and if national economies are to embrace the inherent, resilient entrepreneurs who thrive just below the official horizon of every developing country.

The challenge for the great, rich powers will be on the table at the G-8 summit in Kananaskis this summer.

Leaders meeting there must break old development models that, too often, help industries in donor countries more than recipients, and build new ones that accept that the strength, wealth and understanding needed to rescue those who have fallen off the wealth curve largely lies within those countries.

To his credit, Martin seems to understand. He has read de Soto and knows that the radical theories of a right-of-centre economist may provide an antidote to the conservative consensus within the U.S. administration that most aid simply sends good money after bad.

As de Soto pointed out in a candid reference to Prime Minister Jean Chrétien's otherwise worthy Africa initiative, there are obvious pitfalls. Countries like Canada may see his theory as another opportunity to dip into the familiar aid pork barrel by funding projects to survey cities in an effort to add order and title to the informal, usually illegal, property and enterprises that are the real wealth of nations we know as poor.

Success will require more selfless support. It requires careful, sensitive and inherently local efforts to adapt the stagnant formal structure to the vibrant informal economy. It requires the wisdom to accept what works and the patience and ingenuity to make difficult transitions.

Some, including Care, are already deep into programs that are designed to ease the evils of poverty by freeing the skills, drive and limited wealth of those with the most to gain.

That will require considerable and selfless outside support, but if de Soto is right, the power to change is where it belongs: in the hands of the people.

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