POWER OF THE POOR:
WITH HERNANDO DE SOTO

A PRODUCTION OF FREE TO CHOOSE MEDIA ©2009

Chapter One: The Challenge of a World Excluded

NARRATOR: In the shanty towns of the world, two-thirds of humanity are locked in poverty.

HERNANDO DE SOTO: Because they are not legally recognized; because they have no legal identity; because they can't make contracts with the outside world, they are not part of globalization.

NARRATOR: But in his native country of Peru, Hernando de Soto has discovered that the poor have a power all their own.

NARRATOR: Across Africa and China, and throughout the Asian subcontinent, the world's poor are on the march.

By the millions, they are migrating from farms to cities, in search of a broader marketplace, and better choices to make a living.

But, at the end of the road, most will remain shut out of the global economic mainstream, living and working outside the law, denied the tools with which to improve their lives.

In this informal extralegal world, they have no identity, no legal right to own property, or obtain credit.

In Peru, millions have settled in shantytowns surrounding the capital city of Lima.

DE SOTO: The overwhelming majority of these people came and moved to be able to be part of the capitalist system. That's where they saw the glitter, that's where they saw the gold. And if they're not able to enter, they will say that the system has failed them.

DE SOTO (CONT'D.): They will then start believing those prophets, those ideologues, who say that capitalism is only reserved for a very few.

NARRATOR: Peruvian economist and author Hernando de Soto has spent decades investigating the economics of the developing and Post-Soviet world.

Here in Lima, Peru, de Soto has created and heads the Institute for Liberty and Democracy; the "ILD".

The ILD's mission is to help developing nations give the poor access to the business and property institutions that will allow them to participate in the global economy.

International organizations such as the World Bank are implementing Hernando de Soto's ideas. And at the United Nations, with former American Secretary of State, Madeleine Albright, de Soto co-chairs the Commission on Legal Empowerment of the Poor.

DE SOTO: The one on business is precisely to provide the poor with tools…

Four billion people in the world are locked out of the capitalist system and the rule of law that governs it. And it's not because they don't want to come in, there are entrepreneurs all over the world, it's because they're locked out. The problem is that the gates are hard to see; they're not as obvious as this one.

NARRATOR: Lima, Peru… the early 1990s. A violent terrorist organization is overrunning the country, murdering at will.

They call themselves the "Sendero Luminoso", or "The Shining Path".

Their goal is to bring down the government, and anyone not with them is a target. Their foot soldiers are recruited among the poor and disenfranchised… and there are thousands of them.

One man is a special target. He and his colleagues are seeking ways for the excluded majority to participate in the system. His weapons are ideas…ideas that could cost him his life.

DE SOTO: If we were being bombed, if we were being machine gunned, that meant that we were actually having an impact with our programs.

NARRATOR: At the heart of this story, is an amazing informal, extralegal economic system that holds the untapped power of the poor.

Chapter Two: The Great Migration

TEACHER AND CHILDREN SINGING A SONG

NARRATOR: In any age, poverty is the story of individuals.
…One person…one family…one village at a time.

About fifty miles from Lima, in the small Peruvian mountain town of Marachanca, almost everyone works the land. Some own a few head of cattle. Yet for most, it's a hard life in fields as rugged as the landscape.

Today, Lucy Chinchay, her daughter, Ylena, and her husband, Joel, will leave the only home they have ever known to begin a journey they pray will change their lives.

It's a fateful decision, but they feel they have nothing to lose, and their daughter has everything to gain.

DE SOTO: We all talk about a global economy and a global world, and yet we know very little about how two-thirds of the world lives, and what it's up to. And it is important that we get acquainted with them, because they are the majority of the world's population.

TOWN RESIDENTS: Ciao, luego, nos vemos…

DE SOTO: There is really no difference between the rich and the poor. They all want the same things. The first things these people want are homes. Or they want constructions in which they can be sheltered when they do business. They want infrastructure they want schools. They want shops. They want exactly the same things.

NARRATOR: ...and to get these things, this Peruvian family, and millions like them across the globe, have been relocating to the cities.

Perhaps there, they can find better work and a brighter future.

In Peru today, most migrants move in family groups like this one, and usually have friends or relatives in the city.

DE SOTO: Forty years ago, people started massively moving towards cities and towns…all throughout the Third World.

DE SOTO (CONT'D.): When they were out in the countryside, they could only really do one thing, which is, be farmers. Now, all of a sudden, the possibility of diversifying, and actually having a gratifying life has increased.

NARRATOR: In the 1970s and 80s, millions of families left subsistence agriculture behind, and migrated from the rural countryside to Peru's cities.

DE SOTO: Because when they begin to get together, some of them will eventually be able to be dentists, others policemen, others schoolteachers, they'll be able to specialize.

NARRATOR: Joel, Lucy, and Ylena Chinchay are not alone. They are part of the greatest human migration in world history.

Each year, millions of people move from the countryside into the major cities of the developing world.

Lima grows by one-hundred-thirty-thousand people…and Mexico City by one-hundred-seventy-thousand.

Each year, Jakarta expands by four-hundred-ten-thousand. And Dhaka grows by an astounding four-hundred and eighty-thousand people!

In China, every year, eight-and-a-half million peasants move into the country's already teeming cities.

And the urban populations of Asia and Africa will grow as much in the next thirty years, as they have since the beginning of history.

In an unstoppable flow of humanity, the world's cities are growing by one million people a week.

The poor are no longer isolated; they are here, knocking at the door…demanding to be let in.

DE SOTO: They've migrated. This is where they want to be. This is where they've realized, subconsciously, that the division of labor is going to work in their favor, and either we give them a stake in the game, or they're going to bring down the existing game, as many times as necessary, until they're able to participate in it.

NARRATOR: Joel, Lucy, and Ylena have arrived in Huaycán, one of the many fast-growing squatter communities on the outskirts of Lima, Peru.

They are fortunate to have friends who will help them begin a new life.

NEIGHBORS: Hola! Como esta? (Etc.)

Chapter Three: How the Bottom Two-Thirds Live

NARRATOR: Like most migrants to Lima, they will begin here.

On barren land ringing the city, almost one million new migrants began as squatters, living on property they didn't own.

Without property rights utilities cannot identify them, meter their consumption, bill for services or collect fees. And so… there is no infrastructure to deliver drinkable water, sewers or electricity. The results are high prices, disease, and no industry to offer jobs.

Still, there's something here that the countryside lacks…a chance at a new life.

DE SOTO: What a market economy is about, is people that cluster together spontaneously, to try and divide labor among themselves in such a way as to be more productive. They get together like they're doing here, first of all very precarious huts, as you can see, that eventually one day will be come houses, like houses anywhere else.

Wherever you go in the developing world, you will see lots of children. In the 18th and 19th century, the Industrial Revolution began in Europe and lots of little kids like this, the Oliver Twists of the Europeans, came into the cities, with the purpose of joining the broader, wealthier economy. And they're watching TV, and they are looking at newspapers, or they are looking just over the hill, and now they know how you live in the West…and they want that.

NARRATOR: And to attain it, they will work long and hard.

DE SOTO: Here we are with Doña Herreria Luna. She is an entrepreneur. First of all, she picked a site, a location. She chose products, she's got eggs. She managed to put a refrigerator inside, so that some could buy for a little higher price, cold drinks. She's made selections. She's made decisions. She's an entrepreneur. She took a full risk without any guarantees; you can't get tougher than that.

DE SOTO (CONT'D): She doesn't have a legal license to sell or buy, but she's got her little grocery store, which satisfies her immediate needs, and those of her neighbors. She will actually be giving them a service, for which she can add a margin. That's what traders do – that's what she is.

All these people are candidates for capitalism, for the moment they're entrepreneurs like we human beings have been all throughout our history.

NARRATOR: What they are not, is part of the system.

This moto-taxi driver owns one taxi, but it's near impossible for him to assemble a fleet. Like most people here, he can't properly identify himself. He can't ensure that his drivers would legally own their vehicles. He can't write a legal contract for their services. He has no collateral with which to get credit, and he certainly can't issue shares to attract potential investors.

Chapter Four: Paper Walls

NARRATOR: Why are most entrepreneurs destined to remain small? Why is it so difficult to grow a business in most parts of the world? And why is it so difficult for local entrepreneurs to connect with the rest of the world?

DE SOTO: A lawyer friend of ours in Lima told us, "The law is not a problem, Hernando; we've set up a small company for you in about 30 days." So, I had two conclusions possible. One is that the poor people of Peru are definitely dumber than I am, and the other thing is, that the system may apply differently to the poor than it does to people that are savvy like me, and know how to deal with lawyers and have got a cousin, and a friend who's in this ministry, and presence.

NARRATOR: And so, to test the system, de Soto and the ILD attempted to set up a small sewing shop within the legal economy.

DE SOTO: …and put four students under the supervision of a mature lawyer to go out and comply with all the legal requirements to have those sewing machines operate as a shirt-making factory…a little sweatshop. And it took them two-hundred and eighty-nine days.

NARRATOR: Two-hundred and eighty-nine days! The students had followed government rules exactly, and the ILD had documented their efforts.

NARRATOR (CONT'D.): It took them more than nine months, just to get permits to start a business.

Further research uncovered more problems, especially for people trying to get title to their property. It took them, on average, six years and two-hundred-and-seven procedural steps to secure title to their land.

DE SOTO: Obviously, if poor people and the excluded have migrated towards the cities and the towns, it's because they want to be included in the system. But, they haven't been able to be included, among other things, because they found a large paper wall that obstructs their entry.

In other words, the legal systems are simply unfriendly to poor people.

They want to participate, but they can't, because "participating" means being able to make safe contracts with everybody, being able to get credit, having an identity that will be recognized on a broad scale throughout the world, and having the possibility to organize production, so that they can enter foreign markets.

They can't.

NARRATOR: And so, in desperation…poor, but resourceful people, all over the world, excluded from the rule of law, have created simpler and separate local, "extralegal" systems of their own.

DE SOTO: …in which there are substitutes to all of the things that modern law in the West would have.

What's the difference between illegal and extralegal? Illegal is criminal, it goes against the written law, and against the will of the people. Extralegal goes against the written law, but has the support of the people. Illegal is Jesse James, illegal is Al Capone, extralegal is the Boston Tea Party, extralegal is Paul Revere.

NARRATOR: In the extralegal economy of the developing world, people live on land that is not titled and run businesses that are not registered.

They operate informally, outside the formal written legal system, but within their own system, using their own rules.

DE SOTO: …very specific ones, on how to hold on to property, how to differentiate between owners, how to make contracts, how to enforce contracts, how to give credit, how to respect families, how to create families.

DE SOTO (CONT'D): Here, in the extralegal economy of humanity, is where you have the highest concentration of entrepreneurs. They're also the world's biggest market. We need them as much as they need us.

Chapter Five: The Work of the I.L.D.

NARRATOR: When Hernando de Soto founded the Institute for Liberty and Democracy in 1979, its mission was to investigate how the informal, extralegal economy worked, and to propose legal reforms that would enable the excluded to enter Peru's formal economic system.

At about the same time, a former philosophy professor, named Abimael Guzman, was transforming the Shining Path from a student-based intellectual organization to a violent, Communist guerilla movement.

Both Guzman and de Soto were looking to change the system: one with violence, the other with ideas. De Soto fielded an army (teams) of young researchers and lawyers. They combed the streets and back alleys of Peru's shantytowns and rural villages.

They measured the number of people and businesses that operated outside the legal system, and identified the specific obstacles to the creation of an inclusive market economy.

Today, the ILD continues its work in Peru.

Almudena Fernandez is a research economist at the ILD.

ALMUDENA FERNANDEZ: What's been really surprising is that everywhere you go, even in the poorest neighborhoods, you find people that are businessmen and businesswomen in every sense of the word.

You have businesses that are running…that have extended their operations…that are contracting with other businesses. So, people we find are business people, many times to a very small scale, because they don't have the mechanisms to become larger.

NARRATOR: ILD researchers find out first-hand how extralegal transactions are conducted, how records are kept.

FERNANDEZ: …and try to understand- how is it that they are making their own institutions? How is it that they are enforcing their contracts?

NARRATOR: They've found that most businesses and property are not protected by business and property law.

FERNANDEZ: Going out into the field and meeting some of these people, you truly understand that it's not a matter of being lazy, or because their culture doesn't drive them to become wealthier. It's just that they're faced with very strong difficulties and oppositions.

NARRATOR: …and it's not just the few who are faced with these problems. ILD research indicates that in most developing countries, the extralegal community represents the majority of citizens.

Chapter Six: The Majority Live Outside the System

DE SOTO: What you can see behind me in those buildings, in the high rises, in the glass structures are what is the minority in any developing, or any former Soviet Union country. We're the westernized people. We live very much like most of the citizens in the North Atlantic, in the developed countries of Asia. But in fact, we are a minority. The majority of the people work and live outside the legal system.

NARRATOR: De Soto and his team found that an astonishing ninety-eight percent of all businesses in Peru were extralegal…as was eighty-eight percent of all rural property.

Extralegals had constructed seven out of every ten buildings…they had run almost all of its public transportation system…and built and owned the vast majority of Lima's markets…

While some criticize ILD statistics for a lack of academic rigor, it's generally accepted that in the 1980s, the vast majority of Peru's citizens lived outside the law, in the informal sector. And U.N. statistics support the ILD's assertion that such extralegality is common throughout the developing world.

DE SOTO: You add up the bus drivers, the street vendors, the people who are building without authorization to do so, those that are excluded from the system are the overwhelming majority.

NARRATOR: Not only are their businesses and property extralegal, their very existence remains outside the law, for they lack something most in the developed world take for granted, a legal identity.

Chapter Seven: Identity in a Globalized World

NARRATOR: De Soto is in constant motion; often visiting four or five world capitals in a single week.

Here at the airport in Lima, he is a familiar figure. Yet his physical presence is not enough.

DE SOTO: I have with me a passport that establishes my identity. Now…one would ask why, because I'm known in my country, I come through this airport about once every two weeks.

But my identity is not contained in my person. My identity is in a document.

So, I've brought in my Peruvian passport. And what the lady at migrations will do, or the gentleman at migrations will do-is actually check who I am by looking at this passport.

NARRATOR: The agent knows de Soto, she sees him often here and in the news.

DE SOTO: But that's not enough.

Back home they'll know me because of my smile, they'll know me because of the way I walk, because of my gait, the way I look, the size of my teeth, the fact that I have no hair. But here at the airport, none of that counts.

NARRATOR: In the wider world everyone who travels needs a standardized legal document.

It has the power to verify the owner's identity to strangers anywhere.

DE SOTO: Because passports and airports are about relationships. And the only way you can establish a relationship, which is an invisible thing, like an identity, like property, is by actually putting it on paper.

No documents, no globalization, I can't even get around in my own country.

NARRATOR: To live without documents or deeds is common for most in the developing world. But neither words, nor statistics can describe how it feels to be extralegal. Living outside of the laws and protection of formal society can be demoralizing.

This exclusion may be felt most strongly in the countryside, where subsistence farming and the lack of property rights have long isolated Peruvian farmers from the broader society.

Section Eight: A Farmer's Dilemma

NARRATOR: High in the Peruvian Andes lay the ruins of the historic royal retreat of the Inca Empire. Hidden from the outside world for centuries, Machu Picchu was rediscovered in 1911.

The indigenous people of Peru still farm this valley. Eusebio Mendez Atau and his family live in the small mountain village of El Palomar. They farm the land, as did Eusebio's father and grandfather for the last 100 years. They own four bulls… two pigs…and a few chickens.

Today, Eusebio hauls his simple plow up the mountain for another day's work.
Still, he holds no legal title to the land on which his livelihood depends.

Eusebio Mendez Atau: My grandparents were born here. They were the first owners here.

NARRATOR: One day, a stranger from the city presented Eusebio's grandfather with a title, claiming the land was his.

ATAU: He wanted to throw my grandparents off the land. He said to my grandparents, "If you want to work the land, work for me," he said, "Work for me."

NARRATOR: Over the centuries, this "Sacred Valley of the Incas" has had many owners. Stretching more than two thousand miles, the empire once controlled the land from Ecuador to southern Chile.

Inca kings extracted tributes from local farmers, until Spanish conquistadors conquered the land in the 16th century. Since then, Peruvian governments have often dictated land ownership.

NARRATOR (CONT'D.): As a boy, Eusebio had only one option…to work for the man who had claimed ownership of the land.

ATAU: All day I had to tend to the sheep. My father had to work also. My situation was so sad! Sometimes I can't remember because of my own suffering. At times a sheep disappeared over there, in the hills. Maybe a mountain lion would eat it. We were so high in the mountains. The cost of the sheep was subtracted from our pay.

NARRATOR: Life is still difficult today. Eusebio rearranges stones in the mountain stream to let the water run through the trenches he has dug. This ancient means of irrigation has been passed from father to son for centuries.

DE SOTO: The farmers of Peru, they had tremendous insecurities, since they are definitely in the extralegal economy, about who owned what. It sounds like it isn't much, but giving them a property title is immense because it's all about their livelihoods.

ATAU: To me the land is like… it's like gold… or like money. I eat from the land; my children eat from the land.

NARRATOR: In 1969, the Peruvian government took the land from the large property owners, but instead of distributing it to individual farmers they established cooperatives, and no individual was allowed to own the land.

Once again, Eusebio had only one option. To stay on the land, he and Zenobia would have to work for the cooperative, whose directors were appointed by bureaucrats in Lima.

ATAU: It continued to get worse because now the directors exploited us. The co-op paid no real salary, just 50-cents a day…much more for the directors, and they would sit around and drink beer. For example, even now they have their houses, and cars… tractors. The cooperative brought them this. They put money in their bank accounts. They enjoy it for themselves.

NARRATOR: In this small mountain village, no one has ever seen title to their land. Yet they have worked it for generations. In the 1980s, their desperation made them easy targets for the Shining Path, promising a Maoist vision of equality.

DE SOTO: One of the principle reasons of its strength was the fact that it protected the property of the poor. The poor, not having their assets recorded in the system, then accepted the Shining Path's offer to have them protected.

NARRATOR: Eusebio Atau's only asset is the land. But without legal title, he cannot get a loan to buy more seed, or more land. Without legal title, he cannot borrow to educate his children, or improve his home.

NARRATOR (CONT'D.): And without legal title, he cannot benefit from the sale of the property. Nor could his father or grandfather.

ATAU: There was desperation. In my dreams I longed to see the title. But I always woke up before seeing it. It was the same day or night.

Chapter Nine: Assaulted by Impossibility

NARRATOR: Like Eusebio Atau, and the farmers of the village of El Palomar, the extralegal citizens of developing and post-communist nations worldwide, lack credible documents or legal rights.

They can't prove who they are to people they don't know. They can't prove that the house they live in, or the land they work on, is theirs. They can't buy and sell beyond family and neighborhood, can't get affordable credit or will their assets to their children. They can't count on the police to protect their property.

And in the case of a national disaster – they will lose everything.

To be poor is to be assaulted by impossibility.

DE SOTO: If you are able to indicate that they can work their way and create wealth, in a generation, two generations or three generations, they will go along with that- because it is a good rule of the game. But, if they find out that the legal system impedes them to even dream about it-they are going to get very angry.

So, we've got to understand- that either we quickly make capitalism friendly to the majority, or that majority will find an alternative ideology, as it always does. It could be called Communism, it could be called Fascism, it could be called Al Quedaism, it could be called Castrism, it will find an alternative- because people are governed by ideas.

NARRATOR: In Peru, that alternative took the form of the Shining Path. By the 1980s, support for the Shining Path had grown. And through a campaign of assassination and intimidation, it now controlled vast areas of the Peruvian countryside.

DE SOTO: Don't be fooled. People don't get violent because they are poor. Poor people are pretty meek and humble. People get angry and violent, and terrorism grows when people feel excluded.

NARRATOR: The Shining Path vowed to tear down the system from the outside. The ILD was working to reform it from within.

DE SOTO: For Julia Pomabacca, the owner of this grocery store to go legal, the law would have to offer more advantages than disadvantages. It would mean that not only would she be given a license to operate, authorization, but that license should bring with it additional law, that allows her to mortgage her home, that allows her to have access to credit. It's got to make sense. The law doesn't come simply because people want to be legal, the law comes because being legal is better than being illegal.

NARRATOR: Hernando de Soto knew that there were ways to bring extralegals into the system. He believed that business and property reforms were of paramount importance. He had learned the principles long ago…in another time and place.

Chapter Ten: Bottom-up Law

NARRATOR: In sharp contrast to the villages of the Andes is the neat and tidy city of Bern, capital of Switzerland.

DE SOTO: As a child and a teenager, I grew up in Switzerland.

NARRATOR: De Soto's father had been exiled from Peru following a government coup. It was here Hernando and his brother came of age.

DE SOTO: My father wanted to make sure that we never forgot Peru and Latin America. So, my brother and I were sent back to Peru every year or so. It was called the "Peruvianization" of the boys!

But it was only much later on…17 years old, 18 years old, that I began realizing that it wasn't just that buildings were painted in different colors, but that Peru was actually a much poorer country than Switzerland.

NARRATOR: But in the eighteen hundreds, Switzerland was one of the poorest countries in Western Europe, with few natural resources and an agrarian economy.

Just one hundred years later, Switzerland had become one of the richest.

DE SOTO: …and it struck me…because I never found that there was any cultural or intellectual difference between my cousins back home in Peru, and my friends here in Switzerland. And now I started wondering: well, what makes prosperity, if it isn't good people? Something invisible was missing…and I had to find out what it was.

NARRATOR: De Soto's quest started with Swiss history. In the late nineteenth century, Switzerland was a loose federation of independent regions, each with their own codes and laws.

DE SOTO: The only way you can bring a diverse people together, is by creating bridges between the different codes, the different practices, so that the whole nation could follow one rule of law and have one legal system with which to contract and create prosperity.

NARRATOR: What the Swiss lacked, de Soto discovered, was a way to integrate the French, German and Italian systems into one Swiss system. They needed a legal bridge between old and new.

DE SOTO: For a legal bridge to serve its purpose, to actually link people from all sides, it has to first of all be anchored in the customs and the practices of real people.

It's got to have solid foundations. It needs to be sufficiently well articulated so that it's not going to crack, with all the problems that come with time. And thirdly, it's got to be wide enough so that everybody can cross it. It can't just be for a few people.

NARRATOR: Peru languished for the next one hundred years. But in Switzerland, one man would develop a legal code that would propel it into the future…a future that included everyone.

DE SOTO: Here he is. Eugen Huber, the man who literally changed Switzerland. He changed the rules of the game, and allowed it to move from a backward to a very forward-looking economy. There he is among the weeds.

DANIEL GIRSBERGER: I don't think that many people in Switzerland know the name Eugen Huber.

NARRATOR: Daniel Girsberger is a professor of law at the University of Lucerne.

GIRSBERGER: He was in some way a genius, who was able to draft a thousand article code all by himself.

NARRATOR: He rooted the new law in the social contracts and customs that people already used.

GIRSBERGER: "Das Gesetz muss aus dem Gedanken des Volkes gesprochen sein." Or in English, the law must be spoken from the thoughts of the people.

DE SOTO: For Eugen Huber, the source of the law was the voice of common people. And for him, it was also important that the law be simple enough to be understood by a common citizen.

NARRATOR: The new civil code that Huber wrote at this desk standardized the rule of law in Switzerland.

DE SOTO: He didn't invent the law; he didn't go to talk to a whole group of university professors to find out what they thought order should be like. He went to the grassroots to find out what people actually did, how they reached deals among themselves, what they understood to be the truth, what they believed in.

Eugen Huber did that and converted Switzerland from a relatively poor country, to a relatively very rich country.

NARRATOR: Little did Hernando de Soto know, that he would transport this bottom-up, all-inclusive approach to the law, back to Peru, where it would become a critical element in the widening battle with the Shining Path.

Chapter Eleven: Reform and the Defeat of the Shining Path

NARRATOR: In 1992, the terrorist activities of the Shining Path exploded on de Soto's doorstep. This peaceful and quiet Lima neighborhood became the center of the deadly firestorm that engulfed the nation.

DE SOTO: The Shining Path terrorized Peru. One of their favorite weapons was the use of car bombs. They placed them in the building of Tarata behind me, which was totally devastated and dozens of people were killed.

That happened on the 16th of July of 1992. My building, the one of the ILD, was also bombed four days later, also many people died. Those were terrible times, very unpleasant times.

NARRATOR: By 1990, Abimael Guzman led an army of Maoist guerrillas on a rampage of death and destruction.

Guzman assigned a squad of Maoist guerillas to assassinate Hernando de Soto.

MARIA DEL CARMEN: The terrorists groups began threatening us when we were going to the field, when we were talking with community leaders…

GUSTAVO MARINI: Everyone was talking about the possibility of an attack on the ILD because of the programs against the drug traffickers, the guerrilla leaders, etc.

JACKELINE SILVA: When I was on the way to my home the bomb exploded. Immediately I started to switch on the TV...

DEL CARMEN: …And they were saying: "ILD in Peru has disappeared."

MARINI: Everything was very confusing, the smoke and the police cars and everything like this.

DE SOTO: Aside from the sorrow about the dead and the wounded, was actually a sense that we were accomplishing something.

I mean, if we were being bombed, if we were being machine gunned, that meant that we were actually having an impact with our programs, otherwise, why would they choose us?

NARRATOR: Because de Soto and the ILD openly took on the Shining Path, and their years of research were beginning to have an impact.

One surprising revelation stood out; It seemed the poor controlled far more assets than anyone had thought possible.

DE SOTO: What these poor people have here doesn't look like much, but the total value of their homes in Peru is about eighty billion dollars.

NARRATOR: De Soto and the ILD's estimate of eighty billion dollars was only for informally held or extralegal real estate.

They now believe that the figure worldwide might be as much as ten trillion dollars.

DE SOTO: So, there is not a problem of creating wealth. The problem is that, that wealth is fragmented into a variety of small little extralegal systems, thousands of them.

So the challenge is…how can they be used in a larger market?

NARRATOR: Hernando de Soto believed that by giving poor people title to their land, government would turn them away from the Shining Path, because access to credit, and the ability to start businesses, would begin to improve their lives.

DE SOTO: Getting a property system into place is very complex, because it is about undoing myths. It is about making sure that your legal systems are accessible to those that you thought weren't interested in the system in the first place.

NARRATOR: The ILD launched an intensive campaign to promote reform. At the core was de Soto's effort to show the poor, "*The Other Path", "El Otro Sendero."*

The best selling book, now translated into twelve languages, offered an agenda for change: simplify the laws, issue property titles, and give the poor the same access as anyone else, within the system.

A comprehensive media campaign, directed by the ILD, promoted legal reform and government action. It was de Soto's direct challenge to the Shining Path's strategy of violence.

Guzman countered that de Soto's book and the ILD campaign was attempting to, "…trick the poor into being happy developing their own businesses, rather than fighting a revolution."

But the ILD had become the voice of the poor.

DE SOTO: To make sure everybody understood what our program was about, we put advertisements everywhere. We summarized our arguments into pictures, into slogans.

NARRATOR: The high-profile national debate reached millions of Peruvians. Riding a wave of public support, the ILD pressured the Peruvian government to enact legislation. De Soto was chosen to be a government advisor.

DE SOTO: The whole country agreed that this was crucial, and that new laws had to be drafted up, but nobody was doing it. So, we learned to draft laws. Then we learned to pass laws through Congress…how to lobby Congress.

NARRATOR: It was not an easy or quick process. The government was filled with entrenched elites and powerful blocs.

DE SOTO: The notion of property is even complex for elites, so the way to sell this is to understand what the effects of property are for the country as a whole.

So, if you're able to illustrate to elites that by giving property you will stifle a terrorist movement, they'll understand it. If elites want bigger markets, and they're not getting them abroad, but you're able to demonstrate that the internal markets for the poor are

actually even larger than their foreign market, they will understand why it is advantageous to bring them inside the system.

NARRATOR: Faced with a full scale civil war, persuasive ILD research, and the landslide upset victory of Peruvian President Alberto Fujimori, who won widespread support among the poor by promising change… the elites had to give way.

By nineteen ninety-two, de Soto and the ILD had drafted, won public support for, and successfully promoted passage of four-hundred-sixteen laws.

The laws established government entities, to title both urban and rural landholders, and set up agencies which specialized in lending to them.

They shortened the time needed to register a small business from two-hundred and eighty-nine days to one. And reduced the time needed to record property, from an average of six years to forty-five days, cutting costs by over ninety-five percent.

Peruvian journalist and political commentator, Jaime de Althaus, reported the events at the time.

JAIME DE ALTHAUS: The titling of property has had a very clear and very perceivable effect on the development and the inclusion of common people.
I think the program that has had the most success is property titles.

NARRATOR: The ILD not only succeeded in titling the properties of almost half of Peru's twenty-eight million citizens, they created the policies that helped raise Peru's growth rate throughout the 1990s, to one of the highest in the world.

Working together with the government, the ILD also created reforms that protect the human rights and freedoms of individual Peruvians.

DE SOTO: The ILD's contribution to defeating the Shining Path was not military; it had to do with brainpower. It had to do with research.

NARRATOR: According to *The Economist* magazine, the ILD- sponsored reforms greatly undermined the Shining Path.

DE ALTHAUS: The possibility of, in the cities, having a property title, and being incorporated into the system, helped to eliminate the market for the Shining Path's ideas.

DE SOTO: When government gives people what it should have given them in the first place, which is secure property, it's not a difficult choice for the farmers. It's simple. You prefer the rule of law to terrorists, any day.

NARRATOR: And so, the Shining Path lost the war. The assassins were captured and tried…and Abimael Guzman was sentenced to life in prison for his crimes.

Peru emerged as the only country in the world to defeat its homegrown terrorists, both politically, and militarily.

There is still much to do, but reforms have produced undeniable results.

Chapter Twelve: Two Success Stories

NARRATOR: Few know the extralegal community like Angel Ayala. Trained as a lawyer, he has worked in the field with Hernando de Soto and the ILD since its inception.

He is the ILD's number one net worker, and he has seen the results of their work first-hand.

ANGEL AYALA: The vision that property can be used as a lever to be able to raise living standards, and obtain better benefits: personal, professional, and family, can come true in Third World countries.

NARRATOR: There are many business people who have become successful, thanks to receiving title to their property. People like Miguel Gutierrez.

MIGUEL GUTIERREZ: Since I was a boy, I have always dreamed of being someone, of having something.

NARRATOR: Like so many others, he left rural poverty behind to move to Lima. His first job was delivering gas cylinders on foot. Next came a wheelbarrow, and then a delivery bicycle.
Soon, he was able to buy a small piece of property in a shantytown.

AYALA: Then Miguel uses the property title he got on the land as a guarantee for a $4,000 loan, which permits him to buy a used station wagon.

NARRATOR: The station wagon led to a truck, and today, Miguel Gutierrez owns the third largest LP gas company in Lima. But, it didn't happen overnight. After struggling for fifteen years, the reforms of the nineties allowed him to expand his business with credit. Now he operates a plant and four distribution centers, and he employs twenty-five people.

A loan on his house financed his business.

GUTIERREZ: That's right. Building on this collateral and the next, allowed me to become successful.

In Lima as a businessman, I'm kind of part of Lima society. Life becomes much easier.

NARRATOR: In the center of Huaycan, the change is visible. It has been just twenty years since the first squatter shacks went up, and now there are businesses of every description: hardware stores, markets, shoe stores, food vendors, street merchants…and on almost every block, there are Internet cafes.

And in the industrial area of Huaycan, new businesses are emerging everywhere.

Enrique Mauro operates a three-story ceramics factory. It is an international business.

MAURO: We're selling to the majority of European countries, like Italy, France and Spain, also Germany, England, and the United States.

NARRATOR: From a crowded hut, only ten feet square, where he lived with his family, Mauro has built a thriving business.

AYALA: This man started out as a ceramics helper. He from Ayacucho, to Lima.

NARRATOR: ILD-sponsored reforms enabled him to get title to his land.

He formalized his business, and borrowed two thousand dollars

AYALA: With the money, he bought materials and machinery and went to sell at artisans' fairs. That's how he got started. He began to put his money to work.

MAURO: Formality helps me a lot because right now my production level is high. And it permits me to sell with documents and therefore to export my products, and also to travel to other countries.

NARRATOR: Property rights, access to capital, and the freedom to do business with people around the world, has enabled this Peruvian potter to turn dreams into reality, and build a thriving business with global reach.

Chapter Thirteen: A Day to Celebrate

NARRATOR: Today, the mountain village of El Palomar is preparing for a very special ceremony, and Eusebio Atau is at the center of things.

The festivities will begin with a traditional pachamanca, or literally, "earthen vessel." The entire meal is cooked over hot stones…and under wet straw and earth. A feast like this is reserved for a celebration… and today is a day to celebrate.

ATAU: You should have some of this!

NARRATOR: It's taken longer for land reforms to spread deep into the Peruvian countryside, but today the people of El Palomar will receive legal title to their land.

JUAN PULGAR- VIDAL: After many years of work, these people will receive their property titles. The most important thing for them is to be recognized as owners by the state. Also to be recognized by the banks, the small rural lenders, and the institutions that provide credit.

NARRATOR: With a signature or a fingerprint, it becomes official. Years…often centuries of waiting, have come to an end.

ANGEL ENRIQUE ROSELL: This document is an instrument of the state. It means that the government and society recognize them as legitimate landowners.

Similarly, with this document, one can obtain credit. With this document, one can leave property as an inheritance to others. One can mortgage the land, and do a thousand things as a rightful owner.

FELICIANA MENDINA DE MENDEZ: With this title of ownership we can get credit. But, above all, it helps us to be able to educate our kids, and better our economic situation; this favors us greatly.

RESIDENTS OF EL PALOMAR: (Applause)

ATAU: I'm overjoyed and happy. Right now it's overwhelming. Just look at this title! I am 47 years old and I have just seen my title. My parents have died, and they didn't see it. Thank you… thank you.

RESIDENTS OF EL PALOMAR: (Applause) Gracias! Gracias! Gracias!

Chapter Fourteen: Unlocking the Power of the Poor

NARRATOR: Recognized for the success of his ideas in Peru, Hernando de Soto has been called upon by over thirty heads of state, who are eager to fight poverty, and create a market economy for all of their people.

What began in defiance of the Shining Path, has now assumed a place on a broader world stage.

DE SOTO: We do mention that government has got to make reforms…

NARRATOR: He is promoting his recipe for change to developing and former communist countries around the globe.

DE SOTO: These people are the engine of growth. Without hardly any assistance from the outside world, they are changing slums into cities. It's these people that produce the wealth.

NARRATOR: While many Peruvians remain trapped in poverty, the country has undergone a transformation; almost half of its citizens now own title to their property. Peru's average growth of four-and-three-quarters percent over the last fifteen years is greater than most of its Latin American neighbors.

And according to the ILD, Peruvian families have obtained over eight hundred million dollars in credit, and increased their personal incomes by over four billion dollars.

Some who study and work in the developing world challenge de Soto. They say that property rights and business law will not transform all cultures…that in some cultures the basic concepts of capitalism are just alien.

DE SOTO: For ages we've been told that we are different. And it is true, we have cultural differences, but we are all looking for the same thing. We have families, we want to give them homes, we want to do business, we want to create prosperity, we want to have security.

NARRATOR: Others say that systemic reforms alone are not enough, that positive change will require many programs working together. De Soto agrees.

DE SOTO: Creating the rule of law the way we do is, of course, not a silver bullet. Development is very complex like life itself. You've got education that's involved, you've got health that's necessary, you've got enforcement that is all part of it.

But, if you do not have an order that tells you who owns what, who is where, and who's accountable for what, none of the rest work.

NARRATOR: Hernando de Soto has seen firsthand what can happen when the power of the poor is unleashed, when ordinary people have identity and ownership.

In the turbulent world that bridges the twentieth and twenty-first centuries, he has discovered an essential truth: that ideas are as important as concrete and steel, and in the end, can triumph over bullets and bombs.

Hernando de Soto has discovered the power of the poor.

DE SOTO: One of the things I love about coming back to Peru is that this is entrepreneurship at its best. This is what happens when people are helped by law, instead of being obstructed by law.