

# L. America's underground economy keeps booming

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The new Nobel Peace Prize for Bangladeshi economist Muhammad Yunus and his bank for the poor should help draw attention to an explosive problem in this part of the world: the virtual exclusion of Latin America's poor from the capitalist system.

While much attention is being given -- rightfully -- to Latin America's need to follow the steps of China, India and other countries that have successfully inserted themselves into the global economy, it is also true that a huge majority of Latin Americans are not even inserted into their own countries' legal economies.

By most estimates, more than half of Latin Americans operate within the so-called informal economy. A recent study of 12 major Latin American countries by the Peru-based Institute of Liberty and Democracy and the Washington, D.C.-based Inter-American Development Bank offers some alarming figures:

- Sixty-five percent of urban properties in Latin America are "extra-legal": they don't have valid property rights' documents that would allow their owners to use them as collateral to obtain a loan, or start a legal business.
- Seventy-six percent of rural properties are "extra-legal." Most of them are in state-owned lands that have been occupied peacefully or violently by groups of peasants.
- Ninety-two percent of Latin American businesses are "extra-legal." Even if many of them have a piece of paper with a registration of some sort, they don't have the legal documents required to issue stock, get credit, or sign import-export transaction papers.
- The total value of Latin Americans' "extra-legal" assets, such as the unregistered homes, amounts to \$1.2 trillion dollars. This "dead capital" amounts to several times the region's total foreign investments and foreign reserves.

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A separate study by The Economist Intelligence Unit states that "at least half of Latin America's population, equivalent to about 258 million people, lack access to formal financial services" and are thus excluded from the banking system.

Nobel winner Yunus' Grameen Bank in Bangladesh offers micro-loans to the poorest of the poor, to help them buy a cow, a few chickens or a sewing machine. It does not require collateral, but relies instead on peer pressure: The loans, of about \$200 -- are given to groups of five people, of which two borrow the money, and the other three have to wait for repayment before they are eligible for their own loans.

While there are many Grameen-like banks now in Latin America, mostly in Bolivia and Nicaragua, and growing numbers of established commercial banks are getting into the micro-lending business, many experts on poverty believe that the scope of these efforts is limited. They do a great job helping the poorest of the poor, but they don't help the majority of the poor get access to larger loans that are necessary to start a small business, hire employees and become successful entrepreneurs.

Peruvian author Hernando de Soto, a pioneer in the study of the world's informal economy who deserved to share Yunus' Nobel prize, has argued for several years -- most recently in his book, *The Mystery of Capital* -- that the best recipe to win the war on poverty is to give people legal property rights and a valid commercial identity that would bring them into the formal economy.

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That would allow tens of millions of Latin Americans to use their homes as collateral to get bank loans to start a new business, or to convince others beyond their immediate family members to lend them money for commercial projects. As it is now, only the Latin American elites have access to the tools to create wealth.

"In Latin America, we need enabling rights," De Soto told me in a recent interview. "We have many prohibitive rules, which don't allow us to do this or that, but we don't have enabling rules, that would allow most people to embark on commercial deals with strangers."

My conclusion: Yunus' Nobel prize is well deserved. But to make a real difference in Latin America, the first priority should be to regularize property rights, bring underground businesses into the formal economy and turn tens of millions of economic pariahs into creditworthy individuals. You can't make capitalism work if you preclude most people from becoming capitalists.