

A QUESTION OF POVERTY

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I Debates on dualism old and new

Introduction

The state of deprivation which is the essence of poverty easily conjures up an image of helplessness, of people who are failing in the universal human urge to live in dignity, and are a burden both to themselves and to others. This need not necessarily suggest that the blame for their inadequate existence lies with the poor themselves, in the sense that they are primarily responsible for their dismal fate. The misery in which at least one fifth of humanity lives – a figure that rises as high as a third or a half in some regions¹ – is after all associated with lack of access to the basic resources that could free them from poverty. Aid from the non-poor can help the poor in their efforts to achieve progress, and can even be of critical importance. The idea of development aid – transfer of capital, mainly, from the rich North to the poor South – bore witness to this sense of generosity in the second half of the twentieth century. The economic policy-makers of the new world order that now exists have also committed themselves to reducing poverty as part of their strategy aimed at perpetual growth. However, it looks like the World Bank, the International Monetary Fund and the World Trade Organization will succeed in their pro-poor mission only if the remedy suggested wins the approval and support of all concerned, beginning with the target group itself. Enlightened self-interest activated through market forces is the undisputed cornerstone of the neo-liberal policy.

Does the habitus of the poor really conform to that golden rule of the globalized economy? The long-cherished argument that poverty is mainly a question of insufficient or inadequate economic activity – whether voluntary or imposed – has become less convincing since the 1970s, when case studies on what is known as the informal sector in various parts of the world

began to reveal the highly active existence of men, women and children crowding at the bottom of the urban economy in Third World countries. This insight has given rise to a new platitude, that unemployment is a luxury poor people cannot afford. I believe the term 'labouring poor' is entirely appropriate for the unregulated and complex community that populates the informal sector².

A stream of empirical micro-studies, mostly undertaken by anthropologists in urban locations within the Third World, has expanded our knowledge of how workers succeed in living on the fruits of their labours outside the formal sector of the economy. In an early paper (1976) I maintained that the formal-informal dichotomy can be regarded as a new variation on the dualism theories of the past. In his classic exposé on the nature of the colonial economy, J.H. Boeke examined the contrast between an invasive Western capitalist commercial sector and an opposing Eastern non-capitalist people's economy. In post-colonial development theory the concept of dualism was applied to the dichotomy of traditional and modern. In this view, the rural agricultural order was pre-capitalist, and contrasted with the urban industrial economy, which was described as capitalist. In the most recent phase of the dualism doctrine, an advanced segment that bears the mark of capitalism is identified within the urban milieu: the formal sector. The modes of production in the lower economic terrain, with their non-capitalist stamp, are characterized as the informal sector.

While the scope of the dualism model became narrower and narrower – from Western versus Eastern, via industrial-urban as opposed to rural-agricultural, and finally formal-informal as distinct circuits in the urban system – this historical development did nothing to change the idea that the two economic

segments, which are placed in opposition to each other, can be identified as capitalist and non-capitalist respectively.

In operationalizing these variations on dualism, it is the contrasts we must rely on to clarify matters, rather than the specific characteristics of each moiety. For instance, it is entirely normal to describe the informal sector by summing up the absence of elements found in the formal sector, and explaining how difficult it is to gain access to this elevated part of the urban economy which is disciplined by all kinds of government regulations. In the absence of a stricter, more analytical definition, the landscape of the informal sector becomes synonymous with the kaleidoscope of unregulated, poorly skilled and low-paid workers that the observer encounters when walking through the streets. It was in depicting just such a chaotic assortment that Hart coined the term 'informal economy' in his famous paper of 1971, based on fieldwork in the Ghanaian city of Accra³.

The rise of the informal sector

Sometimes the term refers to a certain modality of employment, and sometimes it refers to the organization of economic activity as a whole. My own research is based on the first definition: the income from work, performed either on one's own account and at one's own risk or as waged labour, for which no explicit written or oral contract stipulating the rights and obligations of the parties has been agreed, where there is no legal protection for the conditions of employment, and the activities are only sketchily recorded in the government's accounts, if at all (Breman 1976 and 2001). Focusing on the organization of activity emphasizes characteristics like the small scale of enterprises, the predominance of familial employment and property, low capital intensity and simple technology, fluctuating production, easy entry to and exit from the lower echelons of the economy, the preponderance of local markets and

the lack of government recognition and support. In the former case the dualism is attributed to the nature of employment and labour relations, while in the latter the economy is split into two circuits, each with its own modality of production methods. But the assumption that the dichotomy is parallel in both senses is incorrect, and has led to much misunderstanding in both theory and practice.

The criteria do not produce a clear and consistent classification. The resulting confusion stems from the tendency to incorporate elements of both definitions in the analysis. The hybrid often chosen seems to arise from the fact that informality is frequently associated with self-employment. This was also how Hart initially described it:

The definitional distinction drawn here is between activities classified as formal, i.e. wage-earning employment, and informal, i.e. self-employment. This parallels that drawn between the unorganized and organized sections of the urban labour force, common synonyms for the latter being ‘the reserve army of underemployed and unemployed’, ‘those who are self-employed in small enterprises’, etc. Often one is talking of those workers who are enumerated by surveys of establishments and the remainder who are not. (Hart 1973: 66)

Despite the ambiguous and overlapping criteria, the duality of the urban order is explained in both definitions with reference to the nature of government intervention. The rules applying in the formal sector refer to both the proper use of labour, and also of the environment, for instance, and set quality standards that the goods and services offered must meet. The informal sector is less burdened by this kind of public regulation, if at all. Partly because of the authorities’ inability to get

a grip on the wide range of activities through conditions and licensing, and partly as a result of resistance by the economic actors concerned to registration, inspection and taxation by the government.

Since the introduction of the informal sector concept, opinion has been divided as to its social impact. Some authors, inclined to a more positive assessment, have pointed to the accelerated shift in livelihood patterns away from agriculture and villages to cities and towns that has occurred in large parts of the Third World since the mid-twentieth century. Even if the masses of migrants flooding into urban areas were lucky enough to find their feet, the vast majority of them could gain no access to the formal sector. It was still too small to cope immediately with the continuous influx of newcomers. Under the circumstances the informal sector acted as a catchment reservoir for the jobseekers who had been forced out of their rural agricultural existence. In this interpretation, the emphasis is on the stamina, the flexibility, the will to adapt, the ingenuity and the attempts made for upward mobility of the footloose workforce flooding into Third World cities. The more integrated they became in their new milieu of work and life and the more skills they acquired, the better qualified they would be for the formal sector of the economy, and in making this leap forward they would form trade unions to strengthen their bargaining power with both employers and the government.

The more critical analysis of researchers who have observed that the formal sector remained inaccessible for reasons other than the inferior quality of the new urbanites' labour, and their other defects, contrasts with this optimistic view. The failure of the newcomers' efforts to find stable and reasonably paid work was due mainly to a development strategy that, in the face of excess supply, sought to keep the price of labour as low as possible, allowed no room for collective action to

reduce these people's vulnerability and refused to provide this footloose workforce with government assistance. In short, the lack of registration, organization and protection does not have its origin in the free play of social forces, but is the product of economic interests that benefit from the state of informality in which a wide range of activities in all branches of the economy are kept, systematically and on a large scale, through evasion of labour laws and taxation.

I share this last interpretation, and I have documented my view in various publications based on repeated fieldwork in West India (e.g. Breman 1994, 1996, 1999). To start with, I strongly resisted the temptation to present the informal sector as a separate and closed circuit of work and labour. To fully understand the mechanisms that underlie economic transfers, we must focus on the interaction between the formal and informal sectors, and particularly on the dependence of the latter on the former, and its subordination to it.

My arguments refute the long-held theory that the informal sector is a characteristic feature of urban economic activity. To the extent that there is social duality, the tendency to split into two sectors manifests itself in a way that transcends the dynamics of the urban economy. By drawing the same distinction in the rural economy, it is possible to identify the ties between formal and informal segments in town and hinterland – manifested in the circulation of both labour and capital – and include them in an analysis of the economic order as a whole.

Finally, I reject the view that informality refers largely or exclusively to self-employment. What often appears to be own-account work is in fact some form of wage labour, for orders contracted out by intermediaries such as (sub)contractors or jobbers. Both in small-scale enterprises and in the chain of

dependency made up of brokers and ending with homeworkers, wages are paid not on an hourly basis, but by piecework. To record this as self-employment is to overlook the fact that such labouring modalities actually bear the hallmark of an employer-employee relationship expressed in the form of wage payment.

The different views on the informal sector did not stop most studies focusing, until recently, on its time-bound nature. Whatever the school of thought authors adhered to, they almost always felt they could assume that informality was a temporary phenomenon born of the slow expansion of the formal sector economy. The acceleration that would inevitably happen would lead to a simultaneous shrinking of the informal sector. This prognosis came from the assumption of parallel development whereby the process of transformation seen in the Third World in the second half of the twentieth century would essentially follow the same route already travelled by developed societies. The formalization of industrial activity was bound to lead to technological modernization and organizational expansion, while the productivity of services would also increase as capital was added. This transformation should be accompanied by growing state involvement designed to increase public control over the use of capital, labour and other resources. The silenced informal sector workers would gain a voice in society by taking collective action to represent their own interests. These analyses, made in the 1970s, seem to have lost more and more of their currency over the years.

The fact that the informal sector has continued to grow rather than declining in magnitude and significance is undoubtedly the most obvious indication of this reverse trend. The earlier estimates that less than half the working population lived on the proceeds of the informal sector have since been revised to include more than three-quarters of all those who are gainful-

ly employed. A complex of economic and social mechanisms has led to a rapid fall in the volume of labour in agriculture. Displacement to other areas of economic activity in both urban and rural areas has occurred under conditions characteristic of work in the informal sector, which I have summarized as sustained mobility, no stable but casual employment and piecework rather than time-rate work (Bremner 1996). The growing pressure in the bottom layers of the economy outside agriculture has not been relieved by the expansion of formal sector employment. There are in fact signs that this segment has shrunk over the past few decades.

The decline of the formal sector

The recognition of this unexpected dynamic has led to a reconsideration of the view that the process of economic growth in the Third World is essentially a delayed repetition of the industrialization and urbanization scenario that laid the foundations for the Western welfare state in the early twentieth century. This critical review of the initial notion of an evolutionary development process based on the Western model has major policy implications. It has increasingly become politically correct to believe that efforts should no longer focus on formalizing the labour system. By way of an explanation for the essential reversal of the previous development trajectory, the suggestion now is that the privileges enjoyed by an exceedingly small proportion of the working population must end. The protection enjoyed by the elite within the workforce— who in Third World countries represent no more than a tenth of the total population living on the fruits of its labour power — is detrimental, according to this argument, to the efforts of the vast majority to improve the conditions in which they live. This ‘unfair’ competition could be avoided by abolishing security of employment, minimum wages and maximum working days, and numerous other labour rights which used to apply in the formal sector. But should we not then worry that things will

get even worse for the quality of the labouring existence? No, those who call for flexibility to give employers a free hand to hire and fire as they please suggest that this approach would actually lead to more, and better work, and a rise in wages in real terms.

The World Bank has been a leading proponent of the process of informalization, as we might refer to the erosion of the rights of formal sector workers. This was the basic message of the World Development Report 1995, which looked at the position of labour in the globalized economy. In a critical review of this groundbreaking document, I summarized the World Bank's proposed policy on Third World countries as follows.

...future prospects for workers in the global economy can only be bright if they are prepared to behave with maximal flexibility, i.e. to forego most forms of security and protection. After a balancing act, summing up the well known pros and cons, the verdict is that minimum wages are difficult to justify, particularly in low- and middle-income countries. The same applies to most other gains, often the outcome of long-lasting struggles, which mainly if not solely benefit that segment of the labour force which is relatively better skilled and organized. The message is abrupt, short and clear: the privileged treatment enjoyed by formal sector workers should be abolished in order to put an end to the obnoxious state of labour market dualism. Has not experience taught that capital, forced by the need for continuous economic adaptability in the rapidly changing world economy, is only interested in flexible work contracts? Well, labour had better fall into line. Dictated by highly volatile market conditions, this means the acceptance of

casual rather than permanent employment, of fluctuating instead of steady wage rewards, of variable contrary to stable hours and fixed length of workday. Last but not least, workers should make little claims or none at all to secondary labour rights. (Breman 1995: 2296)

I myself have conducted several empirical case studies of the progress and impact of the informalization process in recent years. After the Asian economic crisis broke in mid-1997 I was able to observe its impact on work and welfare during a visit to Jakarta that autumn. Both national and international policy-makers responded to the loss of jobs in the formal sector of the urban economy by suggesting that these workers who were 'temporarily' superfluous would easily find other work in the informal sector. The extent to which this was based on wishful thinking became clear when, between 1998 and 2000 I and an Indonesian colleague did research in rural Java on the impact of the loss of urban employment and the income it provided for a considerable proportion of the workforce in the two village where we located our investigations (see Breman 2000 and Breman & Wiradi 2002). Recently I undertook another study on the loss of jobs in the formal sector in the West Indian city of Ahmedabad. The closure of more than fifty large textile mills meant that, from the early 1980s on, some 100,000 to 125,000 factory workers lost their jobs. On the basis of anthropological fieldwork in the mill localities where they resided, I studied how their households fared after they were forced to join the informal sector (Breman 2001 and 2002). My findings unmistakably show deterioration in the living standards of the many workers who were no longer covered by the regulations applying in the formal sector.

The results of my research in Ahmedabad must be viewed in the light of the fundamental change in the labour policies of

the Indian government. This turnaround came about not least as a result of pressure from transnational institutions like the World Bank and IMF. The idea that efforts should no longer be focused on increasing formalization of the labour system appears to have gained the status of political correctness. H. Lubell, who has written on this subject in the past, observed in his last publication, that *The Informal Sector is Here to Stay* (Lubell 1991: 111). His inclination is to emphasize the benign effects of this dynamic. Analyses focusing on the positive side of the regime of economic informality are designed to refute the idea that anyone leaving the formal sector and joining the informal sector will automatically experience a deterioration in their standard of living. This is based largely on the argument that working on one's own account and at one's own risk is the best route to development. Such a view often tends to culminate in an ode to the virtues of micro-enterprise. Lubell summarizes his discussion of the debate with the conclusion that:

...ILO and other informal sector surveys showed that many informal sector participants who had worked in the formal sector before going into the informal sector shifted to the informal sector not because they were redundant to the formal sector but because they chose to be self-employed, using skills acquired in the formal sector to establish themselves as independent producers or traders; they were small scale entrepreneurs who chose self-employment because they could capitalize on skills (and savings) acquired in the formal sector. (Lubell 1991: 112)

The voluntary transfer suggested here is an option that very few of the former mill-hands in Ahmedabad, or sacked formal sector workers in Jakarta would support. As I have already explained, the choice was not theirs. It was forced mobility,

and downward mobility at that. As soon as they lost their jobs, they realized that their lives were set to become much worse.

II On poverty and property

A mystery unveiled

Can poverty best be solved by the formalization of economic activity and labour in the global economy – or should the solution be found in a policy of informalization? Last year a book was published that offered a crystal clear answer to this question. The author is Hernando de Soto, whose feeling for publicity has previously brought his name to the attention of a wide audience. In 1989, this Peruvian economist published *The Other Path: the Invisible Revolution in the Third World*, in which he presented himself as the self-appointed spokesman of the informal sector in his native country. From his base in the Institute of Liberty and Democracy in Lima, founded and directed by him, de Soto drew attention to the creative manner in which the urban poor resisted their exclusion from the social order as dictated by capitalism. The World Bank was among the donors that provided this institute with substantial funds. The action-oriented research instigated by de Soto over a period of many years resulted in a range of concrete proposals. His mission was to persuade politicians and policy-makers to introduce the reforms necessary to assure the informal sector of the respectability and recognition that it had until then lacked. The experience gained during his sustained campaign for a better deal for the mass of people forced to live in the shadow of the formal economy formed the raw material for a new publication that has brought him even greater international acclaim. Why capitalism triumphs in the West and has failed everywhere else: this is the rather provocative subtitle to de Soto's book *The Mystery of Capital*, published in 2000. The failure should be not taken too literally, because everywhere

in the Third World, a segment of the formal economy has emerged which is capitalist in every sense of the word. The problem is that the visible and invisible activity outside this circuit – in which an estimated half to three-quarters of all workers are engaged and which accounts for more than two-thirds of gross national product – is conducted without regard to the legal rules applying to the formal sector. And instead of losing ground, this underground extralegal economy is displaying a tendency to expand.

De Soto's study has been received with great admiration in neo-conservative circles, and sometimes outside them.⁴ *Time* magazine went so far as to call him one of the most prominent Latin American thinkers of the twentieth century, while the *The Economist* said that his institute is the world's second most influential think-tank. These praises are reproduced on the book cover, together with warm recommendations from a number of dignitaries, including Francis Fukuyama, David Owen and Margaret Thatcher. How can we explain such enthusiastic acclamation?

One major reason is that all of these opinion leaders have little difficulty in recognizing in de Soto a like-minded soul, an undiluted advocate of the idea that capitalism is not the cause of poverty but a condition for assuring escape from it. The Third World and its new variant, the ex-Communist countries, are suffering from not too much but too little capitalism, and it is this which prevents an increasing proportion of the population from taking the salutary step towards greater prosperity. De Soto's optimistic message is that poverty is not as widespread and intense as we tend to believe. The majority of the people in the enormous and still expanding informal sector of those countries do not as much suffer from a lack of savings or property as from the opportunity to make the capital they do have more productive. The remedy that De Soto claims to have

found to this unfortunate situation has undoubtedly enhanced his popularity among Western neo-conservative thinkers and politicians even further. In his view, poverty will solve itself without aid from external sources. Poor countries should stop their desperate search for capital outside their own economies and devote their energies to accessing this enormous reserve of untapped wealth and making it profitable:

Leaders of the Third World and former communist nations need not wander the world's foreign ministries and international financial institutions seeking their fortune. In the midst of their own poorest neighbourhoods and shanty towns there are – if not acres of diamonds – trillions of dollars, all ready to be put to use if only we can unravel the mystery of how assets are transformed into live capital. (pp. 30-31)

For de Soto, seeing poverty as destitution erroneously diverts attention from the heroic achievements of the multitude of petty entrepreneurs, the countless men and women who, through hard work and a frugal lifestyle, succeed in saving enough to build a house and start a small business. In this hopeful view the poor, with their micro-workshops, are not the problem but the solution. Most of them find a way to overcome their setbacks and to generate the means of production which enable them to escape from the state of underdevelopment. In this milieu, which is almost exclusively described in terms of misery, enlightened self-interest is more than a doctrine, it is a way of life.

What is sure to enhance the neo-conservative approbation for this constructive analysis even further is that it makes development possible without a supranational or even international redistribution of the sources of wealth and prosper-

ity. In de Soto's scenario, the poor are no longer outcasts but heroes, in that they generate capital and property as it were out of nothing. And this is after all completely in keeping with the history of the people-oriented capitalist development in Western societies:

.....much of today's surplus value in the West has originated not in the scandalously expropriated labour time but in the way that property has given minds the mechanism with which to extract additional work from commodities. (p.198)

Lastly, the delight with which supporters of the free-market ideology advocated by de Soto have greeted his inventive solution to the mystery of capital should not in the last instance be attributed to his observation that government presents the greatest obstacle to the expansion of popular wealth and prosperity. Such expansion can be achieved only by giving social and economic forces a free hand. A certain amount of regulation by the state is, of course, necessary to guarantee the owners of capital sufficient profit and legal certainty. The withdrawal of the state from the economy is beneficial and desirable – except when it is counterproductive to the further development of capitalism.

The representation of capital

The starting point for de Soto's study is the radical transformation that the Third World has undergone in the past half a century. In a historical sketch that is as summary as it is simple, he describes the past of these societies as an agrarian order that is feudal in character. The peasantry in the countryside lived and worked in a state of bondage tied to an aristocracy of indigenous landowners or colonial planters. The cities were small and functioned as trading centres under the control of a small but powerful merchant class. After 1950, an industrial

revolution gained momentum which was a repeat of that in the West two centuries earlier, but at a much faster rate and affecting a much larger mass of people. The transition from agriculture to industry was accompanied by an exodus from the country to the cities – a phenomenon which according to de Soto, in an incomprehensible manner, has been as good as neglected – causing such a shift in the dynamics of Third World societies that their institutional structures were unable to adjust. What de Soto means to say here is that those who were pushed out of isolated, small-scale rural communities failed in gaining access to the legal mechanisms of regulated economic activity once they arrived in the cities. The absorption capacity of the formal sector economy is insufficient to deal with such an enormous volume of migrants and the reform of the legal order that might have offered a solution is not implemented. The newcomers have no other choice in protecting the savings they accumulate than to make up their own rules. This self-devised code functions adequately within its own sphere but is not recognized by outsiders.

The failure of the legal order to keep pace with this astonishing economic and social upheaval has forced the new migrants to invent extralegal substitutes for established law. Whereas all manner of anonymous business transactions are widespread in advanced countries, the migrants in the developing world can deal only with people they know and trust. Such informal, *ad hoc* business arrangements do not work very well. The wider the market, as Adam Smith pointed out, the more minute the division of labour can be. And as labour grows more specialized, the economy grows more efficient and wages and capital values rise. A legal failure that prevents enterprising people from negotiating with strangers defeats the division

of labour and fastens would-be entrepreneurs to smaller circles of specialization and to low productivity. (p.62)

To acquire a perspective on property formation among this poor mass, de Soto commissioned a large team of local researchers in Haiti, Peru, the Philippines, Egypt and Mexico to conduct a thorough study of the value of real estate that does not appear in any official records. Empirical investigations were carried out in five specific locations – Port au Prince, Lima, Manila, Cairo and Mexico City – and resulted in a detailed mapping of land ownership. On the basis of the findings, it can be estimated that 85% of all urban lots and around half of land parcels in rural areas of the Third World are in the hands of people who have no form of legal proof of ownership whatsoever. De Soto calculates that the value of this property amounts to a total of some 9.3 trillion dollars. This is the equivalent to twice the total money in circulation in the United States, more than twenty times the combined investment in the Third World and the former communist countries since 1989, or almost a hundred times the volume of all aid provided by developed countries to developing countries in the past ten years.

In short, the under-capitalization of the informal sector is the crux of the development problem. The poor lack the capacity to reap the economic benefits of their property, since it remains outside the formal accounts and registers. They lack the capacity to represent their capital and create productive capital. ‘ They have houses but not titles, crops but not deeds and businesses but no articles of association. The accumulation of wealth is therefore not hampered by the absence of property or of an entrepreneurial spirit.

The poor have accumulated trillions of dollars of real estate during the last forty years. What the

poor lack is easy access to the property mechanisms that could legally fix the economic potential of their assets so that they could be used to produce, secure or guarantee greater value in the expanded market. (p.40)

The gigantic volume of property possessed by the poor remains dead capital because they lack the proof of legal ownership required to allow them to take out mortgages, arrange loans and conduct other financial transactions. And only by doing this can the real value their property represents be employed productively for investment in new economic activity. In this view, the poor remain outside the formal sector because they have no access to the legal procedures integral to it. The difference with the road to development followed in Western societies is that in the latter property rights were confirmed over time in such a way that the poor were integrated into the national economy. According to de Soto the triumph of Western capitalism is due to the formalization of capital, in the same way as he attributes its failure every else in the world to the refusal to legalize the immense property of the mass of people in the informal sector of the economy. The consequence of this failure has been the consolidation of underdevelopment and poverty on a large scale.

If this is indeed the path to prosperity, why then is the transition from informal to formal, which in this analysis coincides with the replacement of extralegal with legal ownership of property, hampered in the Third World rather than encouraged? De Soto makes it clear that there is no question of a monopolistic conspiracy. His explanation is much simpler: collective amnesia. The path to development followed in the West is seen as so self-evident that Westerners are no longer able to explain their own success. De Soto claims to have solved this riddle. In *The Mystery of Capital* the rediscovery of the history of

property registration plays a key role. By way of explanation, de Soto investigated how a large army of migrant squatters managed to take possession of land when they entered the plains of North America around the middle of the nineteenth century. The opening up of these 'empty' lands occurred outside the existing rules and laws. In the frontier society they created, the settlers operated at their own risk and on their own account. This made them, so the argument goes, the early predecessors of the self-employed masses who now populate the informal sector in the cities of the Third World. The American government eventually had little other choice than to legalize the arrangements that the colonists had established amongst themselves. The adoption of the Homestead Act in 1862, which gave the settlers the right to 160 acres of free land simply for agreeing to live on it and cultivate it, was less an act of official generosity than the recognition of a *fait accompli*. Americans had been settling – and improving – the land extralegally for decades (p. 95). That de Soto takes the Wild West as his example in unravelling the formalization of common law in the developed countries is of course no coincidence. His illustration is entirely in keeping with the tendency to see the USA as the heartland of capitalism and helps to support the author's claim that property acquisition is essentially a matter of individual entrepreneurial spirit. In this interpretation, land becomes property through settlement and then acquires a value it never had. Much can be said about this explanation of the 'mystery'. It is contestable that the lands into which the colonists streamed en masse were empty at all, unencumbered by the ownership claims of the indigenous population. But even more dubious than the denial of large-scale land-theft in the history of the USA is the suggestion that the early colonization of the thinly populated American plains in the middle of the nineteenth century can be compared in any way with the manner in which, a century and a half later, the migrant

masses in the Third World left the countryside and took possession of the space they found to inhabit in the cities.

A moralistic discourse

Rejecting the relevance of the historical example presented by de Soto does not affect the importance of his question as to why legalization of property in the informal sector of the economy has not yet occurred. De Soto himself lays the blame primarily with governments in the developing countries. Their failure to address the persistent and continually expanding regime of economic informality is founded on misconceptions and a political and administrative unwillingness to apply the rules of the formal sector to the economic activity of the population as a whole. The advantage of having to pay little or no taxes is, according to him, offset by the much greater disadvantage that an enormous amount of real property falls outside the capitalist circuit. This exclusion is counterproductive not only for the owners but also for the national economy. De Soto has unravelled the mystery that none of us understood. That in itself should be enough to earn him our thanks. But the recognition he so richly deserves is enhanced by his offer to call to order all the indifferent bureaucrats, reluctant legal professionals and blind political elites in the Third World and to exercise pressure on them to take proper action in the process of capitalization. It is a script for politicians and decision-makers which they can use as a manual to embark on the road to legalization, the conversion of informal property into formal capital.

By way of experiment, de Soto and his staff set up a garment workshop with two sewing machines in a slum locality in Lima to experience the countless obstacles to legalization at first hand. They kept an accurate record of the time and costs involved in acquiring an official licence for their micro-enterprise: in a procedure that totalled 728 bureaucratic

operations, it amounted to 300 days and at a cost of 32 times the minimum monthly wage. Their recommendation that the road to legalization should be shorter and cheaper comes as no surprise.

What happens if vested interests keep refusing to put the capitalist handbook into practice? De Soto makes no threats but does remind us of the acute resentment that micro-entrepreneurs at the foot of the economy feel regarding this legal apartheid. The longer the rightful expectations of this substantial underclass are frustrated, the more fuel this provides for those opposed to capitalism and to globalization. Marx was mistaken in as much as he failed to realize that the phase of primitive accumulation was already as good as over in his time and that having no means of production is not the real problem of capitalist transformation.

After Marx's death, the West finally managed to set up a legal framework that gave most people access to property and the tools of production. Marx would probably be shocked to find how in developing countries much of the teeming mass does not consist of oppressed legal proletarians but of oppressed extralegal small entrepreneurs with a sizable amount of assets. (p.198)

The policy of tolerance that the authorities in the Third World have pursued so far means that they have accepted informal property accumulation without allowing the real estate and the small-scale enterprises that have evolved in the informal sector to realize their full value by recognizing them as formal capital. In the same way, land reforms in many developing countries have remained restricted to handing out land to poor peasants. They remain unable to increase the yield of the land because they have not been issued with the correspond-

ing title deeds. It is a state of exclusion that invokes anger among the victims. In de Soto's view, *la classe dangereuse* is not a horde of dispossessed and uprooted paupers but a huge mass of petty property owners who, indignant about their extralegal status, and for that reason resort to crime or prove susceptible to political extremism (to be read as leftist radicalism).

De Soto's argument also has a number of positive elements which I should not fail to mention in my largely critical appraisal. He rejects the view of the poor as a parasitical and unproductive class that prefers doing nothing to hard work. He also clearly does not support those who see poverty as a question of choice, which is part of the cultural pattern of many non-Western societies. Entrepreneurial talents are by no means the monopoly of countries that have spearheaded the development of capitalism. But the capabilities that can lead to higher production and productivity will only develop under favourable social conditions. De Soto appears to believe strongly in progress and refuses to accept that the misery in which a large part of humanity in the Third World lives is a situation that they themselves would not change if they were able to do so. But this is about the extent of my appreciation for his analysis.

Before elaborating on my substantial objections, I would like to make a few comments on the methodology and style of de Soto's work. It is telling to see how he himself describes his *modus operandi*.

But no one had any exact idea. No one even knew how to measure what the poor were doing or precisely how much they owned. And so my colleagues and I decided to put away our books and academic journals, not to mention our reams of government statistics and maps, and visit the real

experts on this problem: the poor themselves. Once we went into the streets to look around and listen, we began stumbling across surprising facts. (pp. 66-67)

The research leader and his team of associates took it upon themselves to collect the information that could not be found in the literature. The story is told as a quest for the key to the mystery – the complete lack of documentation on the scale of property owned but not registered legally as such – in a way that is not free of conceit. To perform this operation successfully, de Soto explains how he acquainted himself with the anthropological technique of participatory observation. But there is little evidence in the book of this in-depth method of collecting data in the field. The poor remain at a distance, an anonymous mass about which the author writes with a show of sympathy but who he clearly has not met in their own milieu.

You need only open a window or take a taxi from the airport to your hotel to see city perimeters crowded with homes, armies of vendors hawking wares in the streets, glimpses of bustling workshops behind garage doors and battered buses crisscrossing the grimy streets. (p.23)

The reader is better informed of the author's discussions with intellectuals and political leaders – including Suharto's generals in Indonesia – than about his fieldwork in the slums of the Third World. 'After thirteen years, thousands of miles and little more grey hair, I had visited just about every property-related organization in the advanced world', de Soto informs us, but only to discover that they had nothing to tell him. There was little else to do than to go out and seek the answer for himself, to spend thousands of days measuring and counting what was

not recorded anywhere in the official property registers and settlement reports. Considering the emphasis de Soto places on empirical investigations, it is surprising to observe that his book is extremely vague about the way in which these were conducted and the problems he encountered along the way.

Nor is there even a general appraisal of the findings of what in the last decades has become a substantial pool of knowledge on the origins, workings and dynamics of the informal sector economy⁵. De Soto's references to the work of others are limited to an august batch of classical and modern thinkers such as Plato, Kant, Wittgenstein, Foucault and Derrida, to mention but a few. He clearly feels that he is at home among such illustrious scholars and seems to consider himself of equal rank. This claim is even more remarkable in that *The Mystery of Capital* is written in Reader's Digest style. An example is his observation that, if all the street vendors in Mexico City were placed side-by-side, they would form a line no less than 210 kilometres long. I include his anecdote about the dogs on the island of Bali in the same category of platitudes. Walking through this earthly paradise, he finds himself unable to distinguish where one plot of land ends and the next begins:

But the dogs knew. Every time I crossed from one farm to another, a different dog barked. Those Indonesian dogs may have been ignorant of formal law, but they were positive about which assets their masters controlled. I told the ministers that Indonesian dogs had the basic information they needed to set up a formal property system. (p.146)

By explaining his mode of thinking in such simple terms, de Soto clearly wishes to reach out to a wide audience. This in itself is praiseworthy, but not when it affects the persuasive power of his analysis and his argument loses its value due to

oversimplification. Mario Varga Llosa, once a great admirer of de Soto and author of a glowing foreword to the first book, later spoke of his former friend in damning terms, describing him as vindictive, a man with more ambitions than principles, whose integrity should be called into doubt⁶.

This prima donna conduct, which Llosa also observes, comes clearly to the fore in de Soto's writing style. To avoid any misunderstanding, the nature of the man's character – pleasant or otherwise – plays no part in my opinion of his work. My criticism applies solely to the lack of theoretical depth and the lean empirical foundation of his main hypothesis. He presents it as a social-scientific analysis, but it is much more an ideological statement intended to advocate capitalism as the only true path to development. 'As all possible alternatives to capitalism have now evaporated, we are finally now in a position to study capital dispassionately and carefully' (p. 11). De Soto does not fulfil this promise in any way in his book. Although he claims to use a research technique meant to bring the researcher closer to those he or she is researching, he continues to look down from above. His perspective is not so much popular as elitist. Not only because of the company de Soto seeks, but even more so because he chooses a method of elucidation in which poverty disappears from view entirely, to be replaced by property – which proves to be present among the common people in much greater quantities than those in power ever imagined. No wonder that his message was received by such as Suharto's generals as the word of an apostle. The final section of my argument is intended to correct de Soto's strongly biased portrayal of social reality on a number of essential points.

The mystery as fable⁷

The first misconception which must be rectified is that the informal sector exists as a separate and closed circuit with its own logic and game rules. In de Soto's interpretation, it is an

economic segment that not only operates extralegally, but is also non-capitalist in nature. As I have already observed in the first part of this essay, in my view the existence and working of the informal sector can be understood only by tracing the lines that connect it to the formal sector. It is true that precious little information is to be found on the economic activity in the lower echelons of the urban and rural economies in official statistics and records. But both the way in which property is formed and the structure of the relations of production display the same capitalist characteristics as occur in the formal sector. In other words, the poverty that manifests itself so explicitly in the informal sector is not a survival from a pre-capitalist social order but a consequence of the processes of change that de Soto has chosen as the starting point for his study. Nor is he consistent in his opinion that there is a fundamental distinction between the two sectors. After first typifying the dualism in the economy as a system of apartheid, a few pages later he points out that informal sector workers supply a wide range of goods and services also to clients in the formal sector. This apparent contradiction disappears when we realize that, even in apartheid South Africa, the black majority was closely linked in all manner of ways to the white minority. This interaction was expressed in the dependence of the majority on the minority, a situation which is paralleled by the way in which the informal sector functions: not separate from but subordinated to the dominant circuit.

Secondly I would like to distance myself from the tenaciously held opinion, which de Soto shares, that the informal sector economy rests purely on self-employment. In this view, the actors in the informal economic landscape are small, self-employed entrepreneurs who work on their own account and at their own risk, and do not employ others. Where there is a need for additional labour power, it is provided by other family members. The informal sector is seen as an infinite reservoir of

one-man businesses run by what are in essence petit-bourgeois entrepreneurs who create their own means of production and who use the resulting revenue to lead a modest but not poor existence that enables them to accumulate property. This is an extremely distorted view of reality which, in the first instance, does no justice at all to the fact that a high percentage of informal sector workers are labourers who work for informal or formal employers, sometimes on a regular and sometimes on a casual basis. Moreover, so-called 'self-employment' is often thinly disguised work performed for others. Goods and services are produced, frequently by means of contracting and subcontracting, which are paid for on a piecework rather than a time-rate basis. To classify those who earn their living in this way as own-account workers is to deny what they really are: hired labour.

Thirdly, and closely linked to the previous point, in solving his mystery de Soto has created a new myth: that the informal sector consists largely of people who own property. They are not poor in the sense that they lack the basic means of production. In his words, 'most of the poor already possess the assets they need to make a success of capitalism' (p.5). In the course of his long-lasting fact-finding mission, de Soto appears to have landed in very different slums and shanty towns in the Third World than those I have studied. The findings of my fieldwork, conducted in India and Indonesia, show that the abject poverty in which the mass of those in the informal sector live is clearly a direct result of their lack of means of production and other forms of property, combined with the low return they receive on their labour.

Fourthly, de Soto's analysis completely ignores the fact that property is not necessarily owned by those who use it as a means of subsistence. Land, buildings, tools or means of transport often have to be hired or leased, the costs of which

account for a disproportionate part of the resultant earnings. The surplus therefore goes to the rent-seeking supplier of such capital rather than to the user. By ignoring all kinds of transactions flowing from this unequal distribution of property, de Soto suggests that the surplus value generated by the wide range of activities performed at the foot of the economy makes the poor less poor. But this is not the way in which the process of accumulation usually works. De Soto claims that what Marx called the primitive accumulation of capital no longer exists in today's world. He is referring here to primitive accumulation in its classical forms: plunder, slavery and colonialism. It will be clear that I do not share his optimism. My empirical findings show that the term primitive accumulation is very appropriate to many of the facets of the informal sector economy. Much of the economic activity in these quarters is founded on capital from the formal sector which – given the low cost of labour and taxed minimally or not at all – returns from whence it came with a tidy profit.

Fifth, de Soto's explanation of the trend towards informalization is only partly correct. He is right to note that the expansion of the informal sector is paralleled by a contraction of the formal sector. He attributes this to the high costs inherent to legitimate economic activity. Doing business legally has become the exception; extralegal business the rule. He adds to this observation that underground economic activity is not without cost. Non-official levies account for 10% to 15% of the annual income of informal sector workers. They include bribes to the authorities to ensure exemption from a wide range of regulations. This shows that many in the formal sector, not least government officials, seek to benefit from the sparsely recorded activities in the informal economy. Bureaucrats and politicians – those in prominent positions as much as their inferiors lower down the hierarchy – use their public office to supplement their official income with varying degrees of dis-

cretion. These multifarious illegal practices can be understood only in the light of the collusion between the more powerful actors at both ends of the informal-formal spectrum. The preservation and even expansion of this social segregation, rather than its dissolution, is in both their interests.

Sixth, the notion that people in the informal sector are outside the law is as absurd as the reverse claim that the formal sector provides guaranteed protection and government control. The transfer of capital to the hidden side of the economy is an essential component in the informalization process and is a direct expression of the desire among capital owners to be free to organize production as they see fit without undue interference from authorities which force them to pay taxes. Not to mention their urge as agents of 'free enterprise' to minimize labour costs. And it is the informal sector, where there is no protective legislation and where workers are not in a position to organize and engage in collective action, that provides these favourable conditions. De Soto's claim that the owners of businesses in the formal sector, in the context of enlightened self-interest, have no other choice than to contract their production out to informal workshops in the suburbs makes them the victims. In fact, it is they who can be blamed for the excesses of capitalism for the way in which they manage to evade both their fiscal obligations and the rules governing the humane treatment of labour. By equating the distinction between legal and extralegal with that between formal and informal, the author of *The Mystery of Capital* creates more confusion than clarity.

Now that the mystery has been solved, de Soto believes that it should be a simple task to put into practice the remedy he recommends. But is this really so? The objections I have raised against the way in which he poses the question, validates his assumptions and verifies his data, conclusions and recom-

mendations can be summarized under the observation that de Soto's analysis has a one-sided bias in favour of capital and ignores labour as a factor of production entirely. His conclusion that the expansion and dissipation of Western prosperity was the result of a process of legal property formation in which the whole population took part is founded on preconceived ideas rather than on historical facts. Labour has achieved value and dignity in Western societies through a political and economic process of emancipation that entailed curbing capitalism. This meant bringing the unrestricted quest for profit and the free working of the market under public control and entrusting the responsibility for a wide range of care tasks to the government. The result was a social order based on equality. Capitalist development as described by de Soto – in his words, 'the only game in town' – boils down to the formalization of the factor capital in such a way that the trend towards informalization of labour relations can continue unabated. The solution he offers is no solution and to continue along that road will not bring to an end the poverty in which a substantial part of the world's population is forced to live.

*Jan Breman
Amsterdam, October 2001*

Notes

- 1 The figure of 1.2 billion in 1998 is based on the well-known criterion of an income of less than one dollar per capita per day. The huge scale of poverty in the world has seen little change over the past two decades. See World Development Report 2000-2001.
- 2 This was the key message of several contributions to the Sephis workshop held in Mexico City's Centro de Estudios de Asia y Africa, El Colgeio de México, on 27 and 28 June 2001.
- 3 The reader is referred to the abridged version in the *Third World Employment* collection edited by Jolly et al. (1973: 66-70)
- 4 Strikingly enough, the social-democratic strategists of the 'Third Way' are no less enthusiastic about De Soto's ideas than the select company of right-wing economists and politicians. Geoff Mulgan, Tony Blair's economic policy advisor, has called the author of *The Mystery of Capital* a 'genuinely radical thinker' (see *New Statesman*, 4 September 2000).
- 5 In a devastating review of de Soto's first book Bromley wrote: 'From an academic standpoint, de Soto's most irritating tendency is to reinvent the wheel without acknowledgement. He scrupulously avoids mention of prior work by other researchers or of models, ideas, and policy recommendations previously developed by others.' ((Bromley 1990, 334).
- 6 See *El Paz en al agua* [The Fish in the Water], 1993. My comments are based on the Dutch translation, *De vis in*

het water (1994), in which pages 162-65 are devoted to De Soto.

- 7 According to my Oxford Dictionary (Indian edition 1992), a fable is an 'untrue statement or account'.

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