

The Other Path

by John Chamberlain

In two trips to post-Allende Chile I skipped over Peru without a decent sight of Lima. But I've seen the shacks of squatters on the hillsides in back of Caracas in Venezuela and in the land around Santiago in Chile, and it is easy to visualize the same ring of unfinished tin and cardboard huts around Lima.

The shacks are illegally situated, but nobody does much to disturb them. For where else can propertyless people go except back to the country, where life is all too hard for a mere peasant field hand? The shacks around Lima belong to what Hernando de Soto, a Peruvian who runs a fact-finding agency called the Institute for Liberty and Democracy (ILD) calls the informal, as opposed to the formal, economy. This economy, which de Soto disdains to call black, is the natural response to an impossible situation of people who, quite understandably, refuse to die. The story of "the invisible revolution in the Third World" is ably told in de Soto's *The Other Path* (New York: Harper and Row, 271 pp., \$22.95).

The older inhabitants of Lima, with legal businesses staked out and their own housing needs taken care of, don't welcome newcomers from the country, but they bow to *faits accomplis* when these come with impressive planning and power. De Soto tells how the invaders from the country move in to seize empty stretches of land on the Lima periphery. One evening there may be nothing stirring on the land. But, come morning, a whole group of invaders will have marked out their plots and set up the first approximations of scores of houses.

Normally the police look on. The police know that the invaders represent a potential political power that they may have to reckon with some day.

The invaders speak of something they call an "invasion contract" based on "an expectant property right." De Soto's ILD found in 1985 that out of every 100 houses built in Lima, 69 were governed by the extra-legal system.

After the first seizure comes the long wait. There are 159 bureaucratic steps which residents must complete in order to legalize, or formalize, their settlement. The process of formalization takes an average of 20 years.

To start a legal business is almost as forbidding. First, there must come an adjustment of land. This takes 83 months to complete. The cost of an adjustment is \$590.36, which is 15 times the monthly minimum wage. Sewage and water functions must be arranged for, and there must be access to transport, which is largely illegal. It takes 12 months to obtain documents that allow building to start. Studying cases, the ILD found that "the cost of access to formal markets, in terms of time, was an average of seventeen years, from the formation of a minimarket until the market proper comes into operation." The difficulties of building their own markets explains why so many people decide to become street vendors. Even when one has a legal, or formal, business going, 40 percent of an administrator's working hours are used up by bureaucratic procedures.

It is small wonder, then, that newcomers to Lima are inclined to say to hell with formal

procedures. They choose “the other path.” Their time is their own, though they may have to pay an occasional bribe. And their money is their own.

There are, however, certain costs of being informal. One is that the contracts between buyers and sellers are not enforceable in law. People must trust each other. Another cost is that credit to buy expensive machinery is hard to come by.

De Soto’s theory is that Peru, and much of the rest of Latin America, is still living in the seventeenth and early eighteenth centuries, when the system of mercantilism governed business dealings. Mercantilist economies ultimately stagnated because, as de Soto puts it, “their elite entrepreneurs specialized in exploiting regulations which favored them over new methods of production.” The changes in England came relatively peacefully as Parliament, impressed by Adam Smith, passed some good laws. In France there had to be a violent revolution followed by Napoleonic dictatorship. Napoleon’s wars smashed mercantilist practices in most of Western Europe.

Michael Novak, Zbigniew Brzezinski, Senator Bill Bradley, and Jean François Revel are among those who are quoted on the jacket of *The Other Path*. Their laudatory comments are not surprising. What is surprising is to find Richard Nixon, who once imposed price controls, leading a chorus of praise for what Nixon calls “the clarion voice of economist Hernando de Soto, whose book. . . is a pivotal study of the extraordinary entrepreneurial dynamism of Peru’s underground economy.”

De Soto says of his book that there is nothing in it “that needs to be confirmed by complex laboratory experiments. You have only to open the window or step into the street.” What you will encounter in the Lima streets besides the illegal bus lines are 91,000 street vendors who “maintain a little over 314,000 relatives and dependents.” Besides the street vendors there are 39,000 proprietors of informal market stalls whose businesses are valued at \$40 million. So it is really a misnomer to speak of Peru’s “underground economy.” It couldn’t be more in the open. The “visibility” of it all mocks de Soto’s own subtitle, “The Invisible Revolution in the Third World.”

American readers of *The Other Path* will find it exciting enough even though de Soto tosses the names of unfamiliar Lima mayors and Peruvian military dictators and civilian presidents into his text with no effort to specify what they stood for individually. For native Peruvians who know their own history and have a detailed map of Lima in their heads the book must be incredibly exciting. □

ADVERTISING AND THE MARKET PROCESS: A MODERN ECONOMIC VIEW

by Robert B. Ekelund, Jr., and David S. Saurman

Pacific Research Institute for Public Policy, 177 Post Street, San Francisco, CA 94108 • 1988 • 212 pages • \$29.95 cloth, \$12.95 paperback

Reviewed by Robert W. McGee

Professors Ekelund and Saurman take the neo-Austrian view that advertising promotes human welfare by providing market information and lowering search costs. They see this view as a minority perspective, but one that is growing in popularity.

The majority perspective, espoused by Alfred Marshall, John Kenneth Galbraith, and others, sees advertising as wasteful at best and monopoly enhancing at worst. The authors show that the majority view of advertising is incorrect on several counts, and present one of the most thorough cases yet written for the neo-Austrian view. Rather than verging on the unethical and manipulative, advertising helps consumers to discover what goods and services are available.

The book starts with a foreword by Israel M. Kirzner, one of the leading exponents of Austrian economics. The first chapter traces the historical development of advertising and discusses the modern criticisms of mass marketing. As far back as the Middle Ages, advertising was regulated by government, which gave monopoly powers to those who were permitted to advertise. In France, for example, only town criers who were franchised by the government could advertise a Parisian tavern keeper’s wine. In England, the advertising tax helped retard the spread of literacy because it made newspapers more scarce.

Where advertising has been unhampered, consumers have benefited and markets have been more open. Restrictive practices, on the other hand, have tended to help established producers at

the expense of newcomers. Far from being a barrier to entry, advertising is one of the principal means by which new competitors can enter a market.

For example, before cigarette advertising was banned from television in 1970, an average of one new brand a year successfully penetrated the market. Between 1970 and 1974, no new brand was successfully introduced. The beneficiaries of the ban were the firms with established brands. The losers were the companies that couldn't introduce their products and consumers who never learned of the new products' existence.

The theories that advertising raises overall profits and increases concentration ratios also are dismantled by Ekelund and Saurman. (Concentration ratios measure the sizes of the leading firms in an industry, versus the size of the entire industry.) Unrestricted advertising makes it easier to enter markets, which leads to increased competition and lower prices.

Ekelund and Saurman offer some telling examples: When Mattel started advertising toys on the Mickey Mouse Club television show in the 1950s, some toy prices dropped by 30 to 40 percent in areas where advertising was relatively frequent, while prices remained relatively stable in areas where advertising was infrequent or nonexistent. The prices of eyeglasses are lower where eye doctors haven't been able to push through bans on commercial advertising. Legal services are cheaper where advertising is permitted. Unrestricted advertising also reduces the prices of drugs, gasoline, and numerous other products and services. There is even some evidence that the qualities of goods and services improve when restrictions on advertising are lifted.

The chief beneficiaries of advertising restrictions are established firms that already have a share of the market. They often defend these restrictions by claiming that advertising bans protect the consumer, who presumably isn't capable of making rational decisions. But as Ekelund and Saurman point out: "There is no validity in the notion that consumers can properly evaluate proposed national policies when selecting officeholders but are somehow unable to choose between and evaluate the merits of two different cans of beans."

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ROBERT LEFEVRE: "TRUTH IS NOT A HALF-WAY PLACE"

by Carl Watner

The Voluntaryists, Box 1275, Gramling, SC 29348 • 1988 • 236 pages • \$14.95 paperback

Reviewed by K. E. Grubbs Jr.

Among libertarian philosophers, Robert LeFevre was *sui generis*, one of a kind. That is how the self-proclaimed autarchist would want to be remembered, of course: as an individualist who packed several careers into one life, and who made his mark on his times by teaching an ethical code defiant of the prevailing collectivism. Consider those careers. He had been a failed actor, a radio announcer, a struggling hotelier, an innovative television newscaster, a newspaper editor, and the founder and president of a small college.

I remember Bob, who died in 1986 at the age of 75, as the most stimulating lecturer I had ever heard, vastly more thought-provoking than my college professors. He vaguely resembled Mark Twain, and his wry humor could keep a class's attention for twelve hours a day, five days a week. Seriously. Freedom Newspapers, the nationwide media chain that employs me, would periodically send its editors through his course, which he called "The Fundamentals of Liberty." Uninitiated, hearing about the regimen, would imagine a scene from *A Clockwork Orange*: strapped into a chair, eyelids pinned back, attention fixed on the lecturer, who would ladle The Truth into the now-robotized participant's brain.

No such nightmare. Bob simply drew on his multitude of experiences as a communicator and sustained our keen interest. He never took any courses in educational methodology; indeed, he possessed no college degree. Had he such a credential, or had he suffered through the pedagogical techniques stressed in the teachers' institutions, his considerable capability would surely have been spoiled, his students reduced to snores.

As a teaching phenomenon, he awakened us to the competing natures of man and political government, the latter coercively hobbling all creativity in the name of some collective good. He explored the alternatives of voluntarism, even challenging us to imagine how seemingly necessary functions of the state could be conducted without taxation or force. Come on, we would

think. Could interstate highways be constructed without taxpayers' money or the invoking of eminent domain? You bet they could, if we but disciplined our imagination and our morality. Such, of course, were the exercises of the ideological purist, but I daresay such kernels, planted back at "Freedom School," a.k.a. Rampart College, blossomed into the privatization movement of today.

It is well that someone should write a biography of this man, this exceedingly gentle man. (Bob was a pacifist, though he shunned the word.) One of his dedicated students, Carl Watner, has produced a biography, a project authorized by LeFevre himself, who cooperated by furnishing papers and an oral self-history. LeFevre also led Watner through several revisions before his death. Perhaps because the writer had such an unfree hand, *Robert LeFevre: "Truth is Not a Half-way Place"* suffers drastically.

Alas, if one wanted one's moral philosophy taken seriously, this is not the sort of introduction to it one would want published. Or so I should think. Though again, perhaps it is to Bob's credit (and I can well imagine him being so brutally honest with himself) that he wanted it all out, warts and all. Here is a man who spent about the first third of his life deeply involved in—or trying to extricate himself from—a truly odd religious cult, the "I Am" movement.

Bob, it seems, allowed a couple of peripatetic charlatans to explain, in terms of a gnostic formula that fueled their enterprise, some astonishing mystical occurrences that he had experienced in his early years. Somewhere in this world or the next, or both (if I have this right), there existed "masters" who possessed true wisdom; they possessed such wisdom by being in touch with "St. Germain," who benevolently guided the earnest seeker's life. Bob was an earnest seeker, indeed some thought a "master"; but he pursued "St. Germain" at the cost of considerable autonomy, becoming an acolyte of the "I Am" founders. It was not until he was nigh middle-aged that Bob was able to shake the mental tropisms of a cultist; he brought a small circle of his followers, mostly female, into the freedom movement with him.

Then there were the touching romances and the messy divorces, not just his own but that of a fellow cultist he'd promised to marry, and then didn't, if she would obtain her own divorce. And there were the philosophical squabbles and the

broken friendships or estrangements with other libertarian leaders, among them Leonard Read, F. A. Harper, and R. C. Hoiles. Winningly and charmingly, Bob would allow that these unhappy developments made him learn and grow. Perhaps so, perhaps not.

Read tried to warn him that funding for his venture in the Colorado mountains, Rampart College, would suffer unless he eschewed his more extremist tendencies, which looked awfully like anarchism (a word Bob really eschewed, in favor of the more curious "autarchism," which some dictionaries define both as "self-sufficiency" and "despotism"). Bob pressed on, refusing to compromise his belief that all coercion, both initiated and defensive, is immoral. When Read, embracing the necessity of defensive force, wrote his *Government: An Ideal Concept* (an eminently sensible book, by the way), LeFevre reacted as if it were the height of naivete. Harper, who agreed with him on the impossibility of an ideal government, would eventually turn down a leadership role at Rampart College—where such luminaries as Milton Friedman, Frank Chodorov, and Rose Wilder Lane lectured—for fear that it would damage his academic standing.

The most troubling break of all was with R. C. Hoiles, the patriarch of Freedom Newspapers whose son, Harry, publisher of the Colorado Springs *Gazette-Telegraph*, hired Bob as his editorial page editor. LeFevre happened on one occasion to be staying at R. C.'s Santa Ana, California, home when out of the blue (in Watner's version) the senior Hoiles, using some stern language, threw him onto the street. Harry, who to his father's disappointment had accepted Bob's arguments against the death penalty, assured the stunned LeFevre of continued employment (later conferring on Bob the title of editor-in-chief).

Here Watner dabbles, ever so briefly, in psycho-biography. He speculates that R. C., to whom a close-knit family was sacrosanct, simply could not abide the intellectual power Bob seemed to exert over Harry. Hence the explosiveness of R. C.'s encounter with LeFevre. I have known (and admired) all three men, and I suspect there was more to this rocky event. R. C., in addition to being a pioneer in the libertarian movement, was a savvy businessman; I think, in his dealings with LeFevre, he smelled a poseur, at least suspected one. And R. C. did believe gov-

ernment could be an agent of defensive force. Bob, philosophically at least, would treat the most heinous criminal as a Hindu would a cow.

The story tells us much about the nature of wisdom and the nature of ideology. For all his unbending (some say dogmatic) morality, you always got the sense that R. C. Hoiles was thinking, forever re-examining his positions, right up to his death in his nineties. In Bob LeFevre's case, you could sense sometimes an evasiveness (even though he encouraged questions during his lectures), a promotion of the idea that he had sorted out a complete, non-contradictory belief system, case closed. If I might myself dabble in psycho-biography, it is possible Bob carried over this variation of gnosticism from his "I Am" days, unconsciously setting himself up as a cult leader.

Still, Bob was if anything politically liberating. To his resumé one must add disappointed politician, for he once ran, in a Republican primary election for Congress, against Richard Nixon. He felt the mud slung at him and left political activism forever, prompting some to connect his antagonism to politics to a psychological source. But he also contended, compellingly, that political attempts to regulate behavior, whether from the left or the right, were equally destructive.

"Left and right," he would chuckle, "are but two wings on the same bird of prey." Surely, it hardly matters to a victim of torture if his tormentor is a lieutenant of Pinochet or a minion of Gorbachev. And attempts to regulate personal behavior in the interest of traditional morality can be as counter-productive as regulation of economic behavior.

A useful metaphor, this bird of prey, but it is ultimately specious because so symmetrical a view of history seldom occurs in reality. It is like the guy who always answers "Fifty-fifty" when you ask about the odds of rain. Anyway, the left wing may well be flapping with vastly more force and velocity than the right wing, as indeed it seems to be doing in the late 20th century. I don't know if Bob really understood that.

Where Bob was fundamentally liberating was in helping us to fathom that man is, by nature, a volitional creature, and that attempts to substitute political decision-making for individual choice would always come a cropper. Where Bob might have been deficient was in the spiritual realm, a stuntedness that might have grown out of his miseducation in the "I Am" movement. He rightly twitted the atheists because, as he would point out logically, negatives cannot be proved. But he would settle on describing himself as either an agnostic or, curiously, a deist.

I well remember a poignant essay Bob wrote, in his *LeFevre's Journal*, on the passing of his longtime friend Ruth Dazey. She had been with him since the "I Am" days and had recently gone in for more orthodox enthusiasms, concerning which he wrote approvingly. Still, he held back—sophistically, I thought. I sent him two books, Malcolm Muggeridge's *Jesus Rediscovered* and J. B. Phillip's *Your God Is Too Small*, with the thought that they might reach into his iconoclastic heart.

In what seemed like the next mail, I received what I thought would be a gracious, multi-paged letter. Alas, it was neither acceptance nor rebuttal, but the same old skeptical territory covered, as it were, by someone who wanted to keep the case closed. Watner's book gives us few clues about that dimension of Bob's life, perhaps at Bob's insistence. My contacts with Bob after that were not so engaged, and I subsequently went off to Washington, D.C., the heart of the monster, where I was when I learned of his death. In a Georgetown restaurant I ran into a friend who had also been through one of Bob's courses, a decade and a half earlier, and who had ignored Bob's injunction against government activism by going to work in the White House.

"I hope he made it," my friend said fondly. Indeed, I hope he has more enriching company than "St. Germain." □

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The ideal of freedom is to let anyone do anything he pleases, as long as his behavior is peaceful, with government empowered to keep the peace—and nothing more. An ideal objective, true, but one that must be pursued if we would halt the continuing descent of our society from bad to worse. Nothing short of this will suffice. And unless we fully understand the ideal—and what makes for its attainment—we'll tend to settle for powerless, futile little pushes and shoves that yield no more than a false sense of something done.

—Leonard E. Read

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