

The case of Peru

On Peru we can pursue our analysis even further, thanks to the testimony of the Peruvian economist Hernando De Soto, who in his invaluable text *El Otro Sendero* of 1986 provides what we need to frame the regulatory environment of the country at the time

The first element that De Soto highlights as characteristic of Peru, and that we find in many other southern countries, including southern Italy, is the very high presence of ‘informal activities’ (i.e. of the ‘black economy’), as opposed to ‘formal’ ones that comply with the law.

At the time, according to De Soto, just under 50% of the population, just over 60% of the hours worked and about 40% of the country’s gross income, belonged to the informal sector.

To live in the *formal part of society* was much more challenging owing to all the legal constraints, but offered great benefits in terms of the security of property - from housing to employment - and in relations with the state.

De Soto is a neo-liberal and very hostile to Peruvian regulations, noting with some satisfaction that it is the *informal sector*, left to the free initiative of individuals, that is the most flexible and efficient.

Between 1945 and 1985, immigration from rural areas increased the population of Lima ten-fold and more, and among the reasons he mentions leading to this urbanisation of the capital are some typically southern ones:

...not least the growth of government bureaucracy and the possibility of obtaining a better education were... powerful incentives to move to the city... the feeling of being close to political decision making... the possibility of finding employment in the ranks [of state employees] turned the burgeoning government bureaucracy into an added incentive for abandoning rural life.²⁸⁴

Immigration obviously requires a corresponding building of houses, but the formal regulations of the Peruvian building industry are very cumbersome and inevitably lead to the explosion of extensive *informal urbanisation*.

The typical way to create an informal neighbourhood is for a free area to be ‘invaded’ by a group - from a hundred to many thousands of peo-

ple - who arrive by bus or truck at night or early in the morning with all the materials they need to quickly erect temporary homes.

As soon as it is clear that the authorities will not impose eviction, permanent buildings are erected, so decreeing the success of the operation because 'in Peru it is politically unacceptable to demolish completely built houses'.²⁸⁵

Then negotiations begin with the politicians to obtain the regularisation of the new district with the official recognition of ownership to the occupants, an operation capable of increasing commercial values even tenfold.

In 1975, 62% of the houses built in Lima were 'informal'. And in 1982, excluding slum-dwellers, 47% of the population lived in informal and 45.7% in 'formal' dwellings, that had often been born informal and were regularised after years of pressure.

In this regard De Soto estimates that an average of 20 years and the completion of 159 bureaucratic formalities were required.

De Soto carried out an extremely detailed research on the paperwork necessary to build houses on state-owned land, in full respect for the law.

Before starting construction, three stages had to be completed: obtaining the surrender of a vacant area, obtaining approval for urban development, and obtaining a building permit.

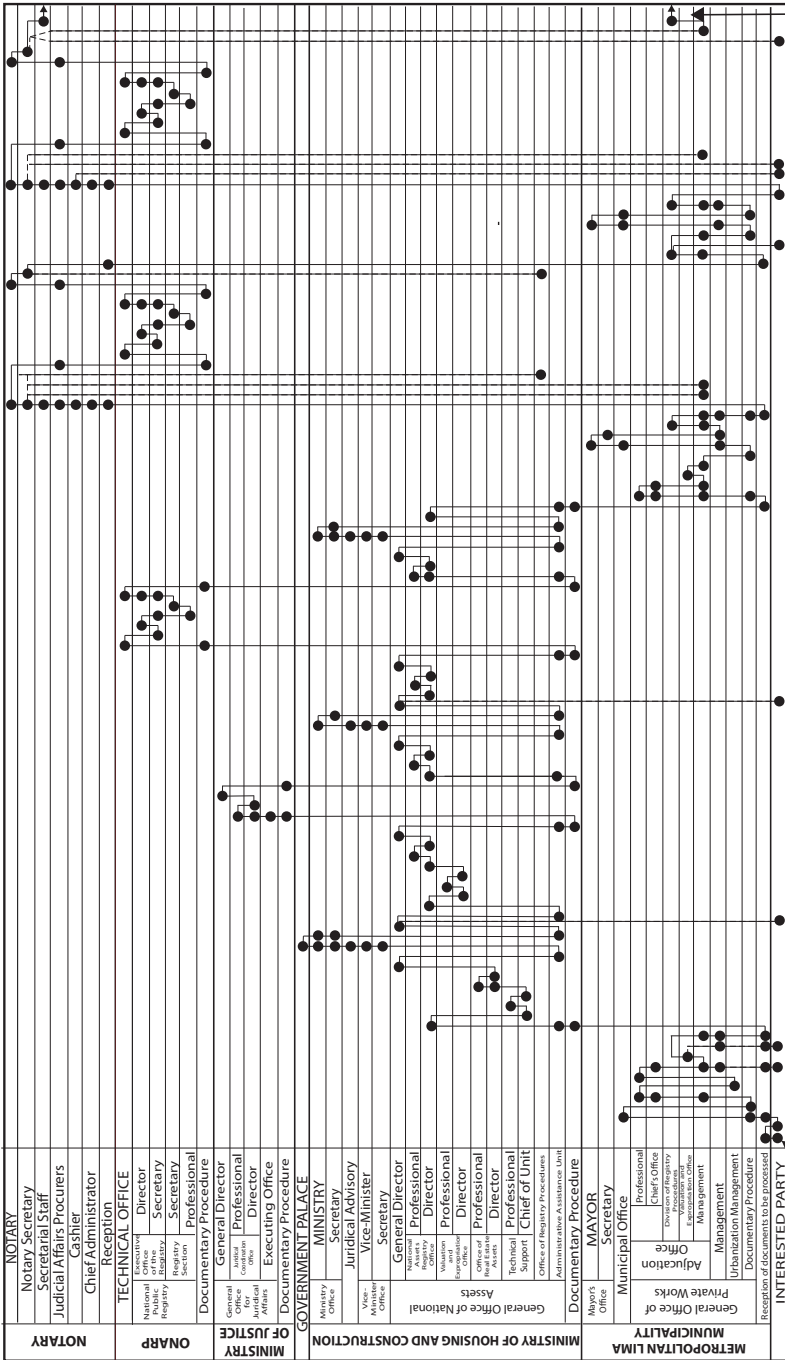
De Soto estimates a time of 43, 28 and 12 months respectively, i.e. a total wait of 7 years before building could begin.

The following page shows the detailed analysis done by De Soto for the first stage.²⁸⁶

It requires 207 steps in 48 different offices. Thanks to this intricate shuttling of paper in and out of offices, the Peruvian bureaucracy is able to fill 43 months with various activities.

None of these has of course any relevance with the material building of houses. It is essential however, to justify the need for so many bureaucrats. And the longer the journey takes and the more red tape is consumed by a procedure, the better it serves to fulfil this vital function.

A dossier with the Peruvian bureaucracy



step 207

43 months

step 1

So it is not surprising that the same dossier passes over and over again through the same office on its path in the complex labyrinth of an *imaginary economy* which, thanks to its monopoly over the production of 'legitimacy', manages to extract its own income from the real economy.

To divide up the goods generated by the productive system, human societies create truly involved rituals...

Now we also understand why the time consumed by bureaucracies always tends to become longer and has little relation to their official functions.

Southern public administrations

The Imaginary Economy points out that expanding the staff of a bureaucracy may not reduce the time it takes but lengthen it. This syndrome finds its clearest expression in the state bureaucracies of southern countries.

In the South aspiring State employees are numerous, and there is a high degree of 'complaisance' in those who hire them and who to justify such hirings have no problem inventing new jobs for the newcomers.

And who would dare criticise a new set of controls that might prevent the State suffering financial damage?

So as the income that the State manages to extract from the productive system increases, the staff of the public administration is also able to grow without hindrance, under the pressure of the aspiring bureaucrats and without any relation to real needs.

And if the amount of dossiers dealt with by the bureaucracy does not increase, it is sufficient to expand as much as necessary the amount of work involved for each one.

De Marchi mentioned 56 steps involved in putting up a building; De Soto here shows 207 steps involving 48 offices to obtain a building permission.

But this method has no limits: De Soto pointed out that, to regularise an 'informal' building in Lima, eleven state agencies had to be brought in, and for one of them, the municipality of Lima, **728** steps had to be taken!¹²⁸⁷

It might seem that serious problems would be expected from the reactions of users of the bureaucracy to its biblical timeframes.

But in a southern society users are subjects. Moreover, as the economy is by nature already a slow mover, the damage is less felt than in a northern society.

The major contrasts between productive system and public administration should, theoretically, arise in a mixed country such as Italy.

Reformers willing to reduce the time and impact of the bureaucracy on the productive sector think that it is enough to rationalise existing procedures.

But their perspective is narrow: they forget - like De' Stefani with Mussolini - that any change must be compatible with the very strong demand for State employment in every southern society.

Any local success of their reforms would in all likelihood simply add compensatory complexity to other public administration activities.

And the load on the production system, instead of reducing, would merely take on a different form.

In Peru, the regulations in 1984 were so complex and time consuming that they produced paradoxical cases, such as that of the Huaycán ravine narrated by the neo-liberal De Soto with great *gusto*.²⁸⁸

Applicants for accommodation were public employees or members of reputable organisations, such as the National Institute of Culture, which wanted an area for archaeological research.

They had the support of the mayor of Lima, but already the first matter to be sorted out, the transfer of ownership of the land from the Ministry of Housing to Lima City Hall, did not show any sign of a rapid solution.

The mayor met with the minister, but the two had to conclude that there were no obvious solutions to speed things up, and so Lima City Hall organised an invasion (!) which naturally did not encounter any difficulties, except for the attempt by certain undesired elements to join in.

Here the relationship we were looking for between southern public administration and economic slowdowns is clear, but construction is obviously only one of the sectors penalised by state red tape. De Soto:

Based on real case histories and simulations the book demonstrates that in Peru, for example, it takes an entrepreneur thirteen years to overcome the legal and administrative hurdles required to build a retail market for food... twenty-six months to get authorization to operate a new bus route, and nearly a year, working six hour a day, to gain the legal license to operate a sewing machine for commercial purposes.²⁸⁹

In Peru, too, similarities emerge with the situation in Italy today. In the old days Italy was different, but with the extension of the 'work' of a southern Public Administration, this is the way it is becoming.