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A Home of Opportunity: Exploring the Real Issues Behind the Informal Housing Market in Developing Countries and Solutions to Tackle the Problem

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Abstract: Based on the work of Hernando De Soto, this essay explores the chaotic housing situation in developing countries, the issues that contribute to this, and potential solutions. We ask: why do systems work in the West but not in developing countries? An analysis of the informal markets in these countries provides insight into this question and its implications.

I. INTRODUCTION

I often have wondered why Latin America is so chaotic. When reading "What's wrong with the housing market? How can we fix it?", I could not help but think about an evident topic in the developing world: the crisis of untitled housing. This topic is crucial because according to the IMF, forming countries hold 85.20% of the earth's population.[1] Although the developing world holds the majority of the population, one can notice the absence of research on the matter. It is not to say that active interest in underdeveloped economies does not exist. As a matter of fact, it has grown because of globalization and greater access to higher education in emerging nations. For example, Latin America represented only 1.8% of scientific publications worldwide, but has increased between 1990 and 1997 by 36%, a much higher percentage than those reached by Europe and industrial Asia. [2] However, "over 900,000 papers published in economics journals find that as recently as 1990, roughly two-thirds of published papers focused on the rich English-speaking countries"[3] The Third World moves the Global economy, but not in the formal market. Most of the capital remains secret. Hidden under the apparent view. Just as more than 60% of the world's employed population work in the informal economy [4], most of the housing market operates illegally, where a buried treasure lies. To be mindful of the LDCs' shortcomings, researchers should not take GDP as the most crucial factor to study a country [5] but its potential on the global economy. One explanation for the lack of research on untitled housing could be found in the opinions of economists such as Lester Thurow, Klaus Schwab, and Robert Kuttner. They have expressed their concerns about Third World growth hurting the First World's prosperity by claiming that low-wage imports pose a threat to US living standards.[6]

Before analyzing the situation in the impoverished world, it is necessary to dig into what is presently occurring in the First World. For the most part, the economy of the housing market in the rich world has changed compared to years prior. The demand is insignificant compared with the supply. Recently, the red hot markets have started to cool down. "Both the proportion of sellers reducing their asking price and the time taken to sell a home have increased", according to Zoopla's April market index. [7] Homes on the market increased by 8.9% and average house prices by 15.9%. Yet, mortgage applications have sunk and interest rates on a 30-year fixed-rate mortgage have reached astronomical levels, [8] arriving at a global house-price index beyond that reached before the 2007-09 crisis.[9] Several factors explain this increase. For example, there has been a shortage of labor in the construction industry, and with current distancing restrictions, US home construction has only mildly improved its productivity. Likewise, building materials such as timber have increased in costs, causing available houses to soar in their prices and newly constructed homes to pass costs to consumers. [10]

- **1** WorldData.info. List of 152 developing countries of the Third World.
- **2** Holmgren, Milena & Schnitzer, Stefan. (2004). Science on the Rise in Developing Countries.
- **3** The Economist. 2022. Where economists focus their research.
- **4** More than 60 per cent of the world's employed population are in the informal economy. (2018, April 30). International Labour Organization.
- **5** The Economist. 2022. Economists look at more than GDP when choosing countries to study.
- **6** Krugman, P., 1994. Does Third World Growth Hurt First World Prosperity?. Harvard Business Review.
- **7** Woodfield, J. (2022, May 31). House prices: Red Hot Market finally starting to cool, says zoopla. Homebuilding & Renovating.
- **8** The Economist. 2022. Housing in America has become much harder to afford.
- **9** The Economist. (2022, January 6). How long can the global housing boom last?
- **10** Olick, D., 2022. Soaring lumber price adds nearly $19,000 to the cost of a new home.

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After looking at the behavior of the housing market in the developed world, one can see similarities with that of the developing world, although only formal. [11] Now, we can start analyzing the behavior of informal/untitled housing markets in the impoverished world. Although Latin America is one of the planet's most urbanized regions, the city's housing system is still primitive. More than 1/5 of the inhabitants in Latin America and the Caribbean reside in informal settlements. Sadly, this figure will skyrocket in the forthcoming years. [12]

Peruvian economist Hernando de Soto, with his research cohort "ILD", has done research on Asia, the Middle East, and Latin America about the housing informality in impoverished countries, and how because of the lack of property titles, those in the informality cannot obtain benefits or capital out of their properties. On the other hand, In the West, housing provides a variety of advantages. They can use it "as collateral for a loan; as equity exchanged for investment; as an address for collecting debts…; as identification of individuals…; or ….enable division of assets without touching a property, which expresses its potential." "Legal property ...gave the West the tools to produce surplus value over... physical assets." Nevertheless, attempts to replicate Western laws ultimately failed to yield similar results. As a consequence, "most citizens cannot use the law to convert their savings into wealth".

How did the West accomplish such an organized system? The answer is in US history. "In California after 1849, some eight hundred separate property jurisdictions coexisted, each with their own regulations". As a solution, Congress "integrated and formalized all US assets". [13] Yet, in poor countries, legal pluralism reigns.

Several negative consequences appear from the illegality in the housing market. For instance, the land trafficking mafia profits out of people's needs. They detect what areas are state-owned and deceive prospective buyers into believing they have acquired property and threaten those who do not comply.

This illegal market accumulates S/20 million a year [14]. However, consequences can sometimes be ingrained in the behavior of those in the informal market. In particular, it creates a culture of "Survival of the shrewdest". Although it might sound like a virtue, "Viveza criolla" is the accepted culture of violating the law to obtain a benefit. [15] In this case, squatters attempt to evade the formal system by breaking the law, supposedly to save costs. Operating in this underground market, however, comes with costs, so there are no real benefits from it. They could potentially be forced out of their homes at some point and lose their life investment.

Can this be solved? Sonia Goldenberg, a NY times journalist, has asked: "Can Peru be governed?" Followed by "How to combat impunity when the entire political system is rotten?" [16] This news discusses the topic of Peruvian politics, but the same applies to the untitled housing market. Certainly, at some point, something had to go amiss. When did it precisely happen, was it since the dawn of the pandemic, 40 years ago, or since the inception of the territory's independence?

However, the situation could be saved; several programs exist that address the informal housing problem. ISDF in Egypt [17], a project dubbed "Urban poverty: an action-oriented strategy for governments and municipal institutions in Latin America and the Caribbean" in the Americas [18], and "Cofopri" in Peru are some examples. Cofopri, based on Hernando de Soto's theory, is a great example of a state institution that formalizes untitled properties.[19] In 2019, they had a goal to regularize 57,600 lands but instead formalized over 60,000.[20] Reactive solutions are great steps toward change. However, in Peru, nearly 90% of all properties and constructions have a level of informality. I believe that reactive programs, although effective, would not keep up with the rising informality. Preventive programs should also be implemented to downsize the problem by making housing more accessible. Because people cannot create capital without a property, current laws should meet the needs of citizens of the informal sector. [13]

- 11 McCarthy, N. (2021, March 18). The Countries With The Biggest House Price Increases In 2020. Statista Infographics.
- 12 Cepal.org. 2021. Cities and Housing Provide an Opportunity to Transform Latin America and the Caribbean's Development Model into a More Inclusive, Egalitarian and Sustainable One | News | Economic Commission for Latin America and the Caribbean.
- 13 De Soto, Hernando, 1941-. The Mystery of Capital : Why Capitalism Triumphs in the West and Fails Everywhere Else. New York :Basic Books, 2000.
- 14 Vera, E. (2018, May 25). El cruel negocio del tráfico de terrenos: un lucrativo delito se expande. [original] [translated: The cruel business of land trafficking: a lucrative crime expands.] El Comercio Perú.
- 15 S
- 16 Goldenberg, S. (2021, January 5). Perú, el país ingobernable. [original] [translated: Peru, the ungovernable country] The New York Times.
- 17 Ezz, M. (2018). How Egypt Deals with Informal Areas. TIMEP.
- 18 Cepal, & Saavedra, T. (2006). Experiencias emblemáticas en la superación de la precariedad y pobreza urbanas en América Latina y el Caribe: acceso al suelo urbano para los pobres. [original] [translated: Emblematic experiences in overcoming urban precariousness and poverty in Latin America and the Caribbean: access to urban land for the poor.] Cepal.
- 19 Repensando Cofopri. (2010, May 10). Correo.
- 20 De la Vega, M. (2020). Cofopri: título de propiedad es primer paso para formalizar el país. [original][translated: Cofopri: property title is the first step to formalize the country.] Agencia Peruana de Noticias Andina

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In my opinion, The State must urbanize.The project I propose would have two components: Infraestructural and Financial. In the Infraestructural aspect, the land would have to be divided and given services such as water, electricity, and drainage. Apart from that, upzoning restrictions should decrease. “When stricter zoning controls are established, housing affordability and new construction diminish.” Therefore, this proposal is aware of changes over time. American cities have steadily raised their construction levels since the 1980s, which Chicago took advantage of and obtained prominent results. [21] To achieve similar results, zoning controls would lessen and thus land proprietors would be required to have strong house foundations, so adding more stories would not become a problem. Increasing the amount of floors of each building makes living more efficient by using the least amount of space. This is crucial in the developing world. Cities such as Lima and Río de Janeiro have only limited space left, and since those cities are rapidly expanding their outskirts, basic needs are harder to implement. [22][23] In the Financial aspect, The State should use its capital effectively to offer affordable parcels. For this, housing taxes should be cut, because they are generally a burden, especially to low-income families. Mainly for this burden, low-income families become dissuaded from participating in the formal housing system. [24][25] Additionally, deductions could be given to mortgage interests given that borrowing capacity is often biased and limited.[26] Finally, to invigorate investments and entrepreneurship, surrounding commercial enterprises could get incentives, so that mainstream stores establish nearby. This commercial activity would hence increase the value of impoverished areas, encouraging more middle-class professionals and corporate executives to move in. [27]

With this proposal, families from the underground house market will blossom economically as essential services have shown to transform societies and raise living standards. [28] In the future, generations will inherit property at no risk of ever being ousted, and, if wanted, they could put their property on sale, making the housing market more dynamic.

Despite the suggestion, it is probable that the government will never execute it. This issue is so prevalent that it makes one question why authorities have not done anything to seek solutions. Do they not care? Are resources insufficient? Do the authorities desire ignorant and impoverished residents to later control them as wanted? Do they just want to obtain benefits through corruption? [29] It may be a combination of all of those, but they lead to inefficiency and fewer long-term policies, making elaborate and influential projects unattainable. However, the solution is not actually in the government, in squatters, or even in illegal land sellers. Perhaps, the solution is in the private sector. Possibly, an investor with a social conscience could become interested in the matter and raise the standard of living of those forming part of the informal housing sector, so that capital arises from those who do not “have” capital.

Author’s note:

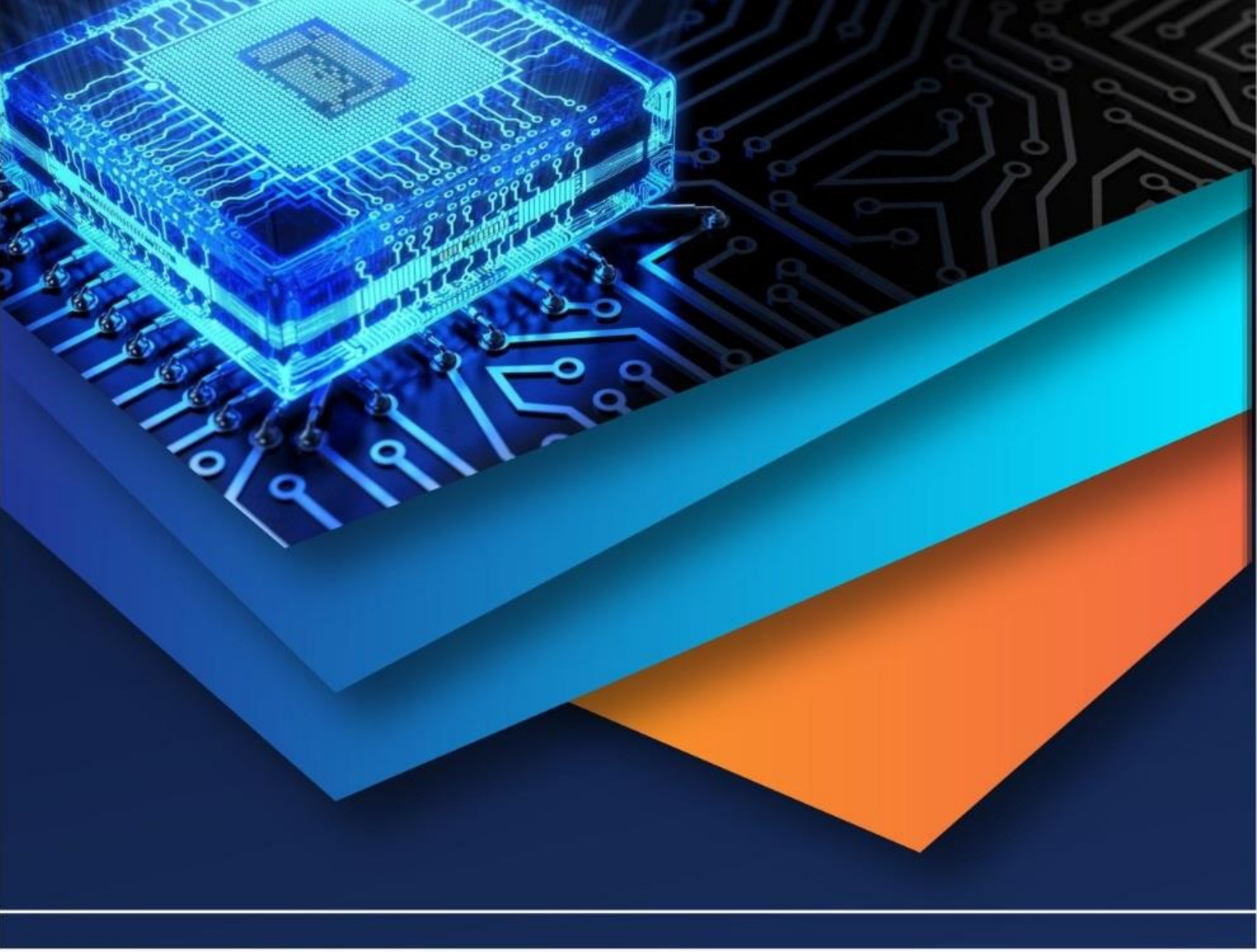
In this document, "informal" refers to any activity with economic value, but not recognized by the formal market. "Informal housing" means illegally occupied housing that does not have a ownership title. Finally, "informal housing market" refers to the act of illegally selling or using “unowned” land.

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