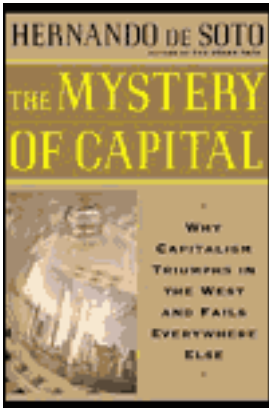


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The Mystery of Capital

[The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else](#) by Hernando de Soto



This book truly has the answer. The problem is not any of the causes dreamt up by popular culture or by ivory tower academics. It is not the culture, the lack of four seasons, laziness, the color of skin, religious fervor or lack of it, or any other such thing. The problem is that, just like in the West two hundred years ago, in the Third World the poor cannot legally register their property in any official place and therefore they cannot defend it with the laws of the land and therefore they cannot use it as collateral for business. Officially, they are not land owners but squatters.

Capital is any asset that produces rent. In the West, people mortgage their houses to start businesses. In the Third World the poor cannot do so because they do not "officially" own their property. In the West, the house can be considered capital because through the magic of a mortgage it is used to finance a business which can produce rent. In the Third World the houses of the poor, since they are not officially registered, cannot be mortgaged and therefore they do not serve as a capital base for business.

Hernando de Soto had the audacity of leaving his ivory tower to visit the poor to find out what property they actually own. These surveys were done in Lima, Peru; Port au Prince, Haiti; Cairo, Egypt; and Manila, Philippines. In each case, the poor have between them huge amounts of wealth but none of it is officially recognized and cannot be used as capital.

De Soto documents how the American miners and squatters (banditti according to George Washington) were incorporated into legality. The curious thing is that the law was not handed down to the squatters. On the contrary, their agreements and customs were the basis for the new American property laws.

The "law" in the Third World is a curious thing. Instead of serving to let people peacefully live together, it is so complex that many people decide to avoid the cost and complexity of obeying it. There are so many people outside the law that the law cannot keep up with us. De Soto explains how Third World politicians might change the laws so that it becomes more comfortable to be a law-abiding citizen than an "extra legal." When it pays to obey the law, people do so voluntarily. When the law is a pain in the ass, people avoid it. That is why Prohibition didn't work and that is why the war on drugs does not work.

Let me give you some examples. The last business I had in Venezuela never complied with the law. To operate you need a permit which involves having the fire department inspect the place. I asked for the inspection in 1985. Ten years later I closed the business and the fire department had not yet shown up for the inspection! Needless to say, since the business was not legally registered, it did not pay taxes! To register a small garment workshop in the outskirts of Lima, Peru, de Soto's team, working six hours a day, took 289 days to get it done. The business was to employ one worker and the cost of the registration was \$1,231, thirty one times the monthly minimum wage!

One day when I was bidding on a government contract with our municipality, I heard a curious complaint. Brothels were illegal in the city and the municipality could therefore not collect taxes from them! This really bothered them. On the other hand, the police kept them under surveillance but did not close them down and the sanitation department did inspect the girls. No, I did not win the bid, the procedure was rigged in such a way that only one particular company could win the bidding.

For the West to prosper it is necessary that the whole world becomes effectively capitalistic because that is the only road to material progress. It is not enough to have overthrown communism and the Soviet Union. We have to find ways to let the poor become rich. Hernando de Soto shows the way. This is a very selfish though but, the richer the poor become, the more goods and services our companies can sell them and the richer we will also become. The economy is NOT a zero sum game, on the contrary it is a win-win game. If you have access to any Third World politician, please give them a copy of this book in the hope that it will move his country in the right direction.

You can find out more about Hernando de Soto and about the Institute for Liberty and Democracy [IDL] by visiting www.ild.org.pe Their headquarters in Lima, Peru, were bombed by Shining Path (Sendero Luminoso), the left wing terrorist organization that president Albert Fujimori put an end to.

Denny

"Demand creates queues. Supply gets rid of them."

[Software Times](#)