



The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else

Hernando de Soto

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"The hour of capitalism's greatest triumph," writes Hernando de Soto, "is, in the eyes of four-fifths of humanity, its hour of crisis." In *The Mystery of Capital*, the world-famous Peruvian economist takes up the question that, more than any other, is central to one of the most crucial problems the world faces today: Why do some countries succeed at capitalism while others fail? In strong opposition to the popular view that success is determined by cultural differences, de Soto finds that it actually has everything to do with the legal structure of property and property rights. Every developed nation in the world at one time went through the transformation from predominantly informal, extralegal ownership to a formal, unified legal property system. In the West we've forgotten that creating this system is also what allowed people everywhere to leverage property into wealth. This persuasive book will revolutionize our understanding of capital and point the way to a major transformation of the world economy.

The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else Details

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Gordon says

Written by a Peruvian author, this book is wonderfully enlightening for anyone interested in issues of 3rd World economic development.

De Soto's central thesis is quite simple: you can't solve the problem of stagnant, poverty-stricken economies unless you figure out how to make credit available so that people can start and operate businesses. But you can't get credit if you have no assets to secure it with. And you have no significant assets you can call your own if you can't establish title to your land and house. And that's precisely the problem of much of the 3rd world -- where you have vast squatter communities on the periphery of virtually every major city. Those squatters may have been there for decades, but no matter. They still can't establish title to land or house. Not only that, they're vulnerable to eviction, which leads to another chronic problem of countries where property rights are shaky: violence. It takes armed force to protect your property, so societies without the rule of law for property rights also lack the rule of law for personal safety.

It's a compelling argument. I recommend the book highly.

Mostafa says

"The book is a masterpiece of economic reasoning. It explains why capitalism works in the West and fails elsewhere. The author's argument is clear and compelling. I highly recommend this book to anyone interested in economic development." *(Note: This is a placeholder for the actual review text.)*

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This book puts forward the stunning notion that one of the things that keeps poor countries poor is that they have most of their value locked up in defunct land, which is tended (but not owned) by squatters and people who don't have titles to it. DeSoto's idea is that land reform in these countries would end up allowing the poor to buy, sell, and borrow the things they already have. All it would really take is streamlining title acquisition and land-use laws.

I haven't really read much criticism on this book, though it feels like there must be some flaws. He thinks that the poor are the best caretakers of their own money, and if they were suddenly richer they'd take full advantage of ownership. While I tend to agree, this isn't really testable because not having much money to take care of is what makes them poor in the first place. Seems like there's a lot of conjecture here, but at the very least it reminds us that land reform is a key piece of development that we inheritors of the English legal system take for granted.

Doug says

More than most conservatives, Hernando De Soto understands that, even with the death of Cold War socialism, the “advocates for capitalism are intellectually on the retreat” (209). “The hour of capitalism’s greatest triumph is its hour of crisis.” Perhaps this explains the recent rise in panicked defenses of free markets, though most of these defenses simply regurgitate Reagan-era arguments with no realization of how the debate has shifted and deepened. De Soto observes, “for those who have not noticed, the arsenal of anticapitalism and antiglobalization is building up. Today, there are serious statistics that provide the anticapitalists with just the ammunition they need to argue that capitalism is a transfer of property from poorer to richer countries” (214). So right.

De Soto’s book, basically, has just one point throughout that he reiterates in several ways: that capitalism isn’t working in non-Western countries because, though they have wealth, they lack legally enforceable property rights. Obviously there’s truth here. Free marketers have been saying this for decades. And, to his credit, de Soto dismisses typical conservative explanations of poverty that blame poverty primarily on the poor – low I.Q.s, laziness, lack of entrepreneurial spirit. He just keeps pointing to a lack of clear property rights. But the counterexamples to his claim are easy. If clear property rights are so central, then why is there still serious poverty in countries, like the U.S. and Britain, with systems of clear property rights? It seems he’d have to revert to those old cultural explanations in those cases.

Going the other direction, clear property rights haven’t seemed all that necessary in generating great wealth. The West started growing rich – take British, Dutch, and Spanish colonialism – long before any country had a clear system of property rights (in fact, such rights would have greatly hindered early wealth accumulation). This is due to the fact that great wealth has historically come from state interventions over centuries. That’s simply the plain history of capitalism starting from Henry VIII’s “redistributions” to the Bush-Obama bailouts. Great wealth has always depended on a very intrusive state.

Strategically, de Soto’s prescriptions will fail because of his Pollyanna conservatism. He actually thinks this debate is about ideas. He thinks people just need to wake up and hear the stats and facts about clear property rights and then “the government will be in a position to move the whole issue of poverty dramatically into its agenda for economic growth” (191). I couldn’t believe a grown man wrote that line. He goes farther: his reformers can “use facts and figures to win over vested interests. The elites must support reform not out of patriotism or altruism but because it will enlarge their pocketbooks” (191). Enlarging pocketbooks more than by state interventions on their behalf? The elites didn’t exclude people from property and make complicated

bureaucracies absent-mindedly. There's a long, documented history of vested interests protecting themselves by laws and bureaucracies and special privileges (just one example, check Naomi Klein's *Shock Doctrine*).

Near the end of the book, de Soto says, "the goal of formal property is to put capital in the hands of the whole nation" (205). But capitalist nations have always gone to great lengths to do just the opposite. Why change something that works so well for the powerful? Capitalist nations have fought many wars and spent trillions, especially in South America, to restrict property and capital. Poverty is no accident. It was and is an important part of Western policy. This was not done in the dark. The U.S., itself, has time and again, before the Cold War and after, explained its need to hold down any competing nations. To think that cumbersome bureaucracy and unclear property rights in those circumstances are just accidental blindspots fixed with facts and figures is criminal naïveté. Perhaps that's why de Soto can say such insanities as, "Looting, slavery, and colonialism now have no government's imprimatur" (217). Ask Afghanistan and Iraq.

No wonder "advocates for capitalism are intellectually on the retreat."

Seth says

Best Economic Development book I ever read. It's thought provoking and it resonates. Third World poverty could dramatically shrink if property owners had a legitimate claim to their real property. I thought micro lending was the answer to most of Latin America's problems (it still is a partial answer), however, De Soto convinces me that most of the Third World already owns enough property to leverage themselves out of poverty if only formal property and legal systems could legitimize their property enough to take a loan against it.

This book changed my world view concerning poverty, Latin America, Capitalism, and Financial systems more than any other book or idea before it.

ZaRi says

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Hotspur says

An amazing book that investigates the power of informal economic infrastructures. Latin America had a higher per capita income than North America in 1789. What happened? Why did capitalism take root in North America and why did it fail elsewhere? Now that Capitalism's big rival is for intents vanquished, the capitalist society is the only viable option for economic growth left for the developing countries. DeSoto's

brilliant work examines the impediments to economic growth in the developing world, while examining the liberating effects of ownership of capital.

Rachel says

This book explains the importance of property rights to the success of capitalist systems. In order for a society to use its assets to their fullest potential, it needs a legal system that transforms wealth into "living capital." "Living capital" can be leveraged to create further wealth: for example, in the U.S. most new enterprises are funded by mortgages on the entrepreneur's home. But in a society that does not clearly define and protect ownership, such strategies are impossible.

This explains why market-type economies have brought enormous wealth to Western countries, but have failed to do so in most of Latin America, Africa, and the former Soviet block. The poor in those regions lack access to formal property systems. Regulations and red tape stop them from legally owning their land or starting a business. Consequently, huge "informal sectors" have developed in these countries – markets and neighborhoods buzzing with extra-legal activity. This activity will not lead to large-scale growth and development, however, because the size of markets are limited to the networks where individuals can develop trust and reciprocity, and because extra-legal businesses need to keep a low profile, preventing them from realizing economies of scale. The poor are left frustrated by the growing economic disparity between themselves and the fortunate few who live inside the "bell jar" of formal property rights, where capital creates wealth.

This narrative, De Soto claims, describes struggling economies around the world, from Morocco to Peru. He repeatedly rejects the idea that economic performance is determined primarily by cultural factors. Experience shows that capitalism can succeed in diverse cultures, and the phenomena of failing capitalism are the same in countries with no common cultural heritage. Instead of turning to sociological details – such as colonization or religious philosophy – De Soto attributes poverty and the growth of the informal sector to a universal human characteristic: rational, maximizing behavior. The solution to failing capitalism and the growth of the informal sector, therefore, is the same throughout the third world. Governments need to lift the bell jar by creating coherent and inclusive property systems. It is a transformation that took place in the West only a few centuries ago, and Hernando De Soto spends some time in *The Mystery of Capital* describing how the United States' property system developed. However, property rights are not an alien concept which third world governments must force on unwilling citizens. Informal sectors already try to clarify and protect ownership. Recreating property law involves adopting and integrating the laws and customs that the informal sector has already developed.

The most intriguing concept in *The Mystery of Capital* is capital's metaphysical nature. Although we may associate capital with money, capital is not something that we perceive with our senses. Rather, capital has to do with the potential value of an asset, and is something that we perceive with our minds. Property law is the symbolic system that unleashes economic growth. De Soto's prose becomes near-mystical when he writes about capital's transcendent nature, and he compares property systems to other symbolic systems that have empowered humans over the course of history, from musical notation to computer software. It is by our ability to create and manipulate symbolic systems that we can "soar into the future."

Vicky Sherwood says

everything your soc prof fails to consider

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התאמה בין המדינה לבין המערכת הכלכלית, והתאמה בין המערכת הכלכלית לבין המערכת החברתית. ההתאמה בין המדינה לבין המערכת הכלכלית היא התאמה בין המדינה לבין המערכת הכלכלית, והתאמה בין המערכת הכלכלית לבין המערכת החברתית היא התאמה בין המערכת הכלכלית לבין המערכת החברתית.

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TC says

De Soto has a point, namely that the biggest reason for the continued laggardness of people in developing countries to "catch up" with those in the developed world lies in the convoluted local legal structures that favor those with the power, money, influence, and the wherewithal to navigate their way through the system. As in it is cheaper and easier to just stay outside of the legal system altogether and cobble together an

- “The notion that we organize reality in a conceptual universe is at the center of philosophy worldwide. The French philosopher Michel Foucault labeled it the *région médiane* that provides a system of switches (*codes fondamentaux*) that constitutes the secret network where society establishes the ever-expanding range of its potential (*les conditions de possibilité*). I see formal property as a kind of switchyard that allows us to extend the potential of the assets that we accumulate further and further, each time increasing capital. I have also benefited from Karl Popper’s notion of *World 3*—a separate reality from *World 1* of physical objects and *World 2* of mental states—where the products of our minds take on an autonomous existence that affects the way we deal with physical reality. And it is to this conceptual world that formal property takes us —a world where the West organizes knowledge about assets and extracts from them the potential to generate capital.”
 - "In Ronald Coase’s treatise 'The Nature of the Firm,' Coase established that the costs of carrying out transactions can be substantially reduced within the controlled and coordinated context of a firm. In this sense, property systems are like Coase’s firm—controlled environments to reduce transaction costs.”
 - “Representational systems such as mathematics and integrated property help us manipulate and order the complexities of the world in a manner that we can all understand and that allows us to communicate regarding issues that we could not otherwise handle.”
 - “The law that prevails today in the West did not come from dusty tomes or official government statute books. It is a living entity, born in the real world and bred by ordinary people long before it got into the hands of professional lawyers. The law had to be discovered before it could be systematized.”
-

Tu Hoang says

Quyển sách này trong mọt thời gian đã ứng với các nước trong sách (Ai Cập, Haiti, etc), và như các reviews bên dưới, với Việt Nam. Tuy nhiên, gì Việt Nam đã trải qua các bước "quá độ" như trong sách từ lâu, với báo cáo Doing Business in Vietnam gần đây như thế nào NH TH? Gì? ảnh hưởng Việt Nam nằm trong top 30 thế giới và chế độ tư bản tín dụng.

Xét về mặt nghiên cứu, trình bày, thì các chương đều làm rất tốt. Nhưng chương gì? nói về hình thành và xã hội M? với các giai đoạn lịch sử cũng rất liên quan tới Việt Nam mình thì k? đều sau 75. Tuy nhiên, và mình nói về điều này rất hạn chế, chúng ta đã có một bước nhảy vọt. Và những gì đang xảy ra với "vấn đề" Việt Nam trong mấy thập kỷ? Liệu chế độ đang thực hiện quy trình 2 của quy định này.

Hãy nhớ nhé? về mặt quy định sách sẽ không có vấn đề gì. Còn mình về tìm tòi thêm thì đã thất vọng nhanh chóng so với nhà của quy định sách, tuy nhiên không thể nói đã không hài lòng và đôi khi vui thú với nhà này.

Hadrian says

Study - almost to the exclusion of other factors - that the establishment of contract and property rights, a more equitable legal system, and access to land titles for the poor are strong factors in improving economic growth. I admit my doubts, particularly on the face of only a few examples. Any serious evaluation of these ideas requires more data, not just the anecdotal examples given here.
