

## James Ullmer Review

Title: "The Mystery of Capital"

Author: Hernando de Soto

Publisher: Basic Books

Length: 228 pages

Price: \$16.95 (paperback)

Reading time: hours

Reading rating: 8 (1 = very difficult; 10 = very easy)

Overall rating: 3 (1 = average; 4 = outstanding)

In "The Mystery of Capital," Hernando de Soto has written a provocative book that focuses on the question: Why does capitalism succeed in the West but fail in the Third World and most of the former communist countries where it's tried? His answers reveal fresh insights into the paradox and point toward viable approaches to economic prosperity for developing countries.

Hernando de Soto eschews the traditional explanation of "cultural differences" as the reason for the failure of capitalism outside the West. He points out that people in third world countries work hard, as well as save and invest. The problem is that most of the capital in third world countries tends to be what de Soto terms "dead capital." Dead capital is capital without clearly defined property rights—houses without titles, crops without deeds, businesses without statutes of incorporation, etc. Thus, the enterprises of the poor in developing countries are akin to corporations that would be unable to issue stocks and bonds for new investment. Hence, the poor in these countries are not able to convert their accumulated savings into new capital.

De Soto cites the bureaucratic red tape that emanates from the legal infrastructure of developing countries as the major impediment to capital formation. For example, the author in conjunction with his research team spent six hours a day for 298 days to do the necessary paper-work to establish a one-person garment shop in Lima, Peru—the cost was thirty-one times the minimum wage. In such circumstances, the author notes that it is not surprising that the underground economy flourishes at the expense of capital formation.

De Soto notes that the United States in the middle of the nineteenth century faced some of the same dilemmas that the newly emerging economies confront today. In response to those problems, a legal system was crafted that stressed property rights which enabled those pioneering Americans to use their assets as the basis for new capital—a process which still fuels American economic growth today. In his monograph, de Soto chronicles these institutional developments in the U. S. and offers them as a potential model for developing countries.

In *Human Action*, Ludwig von Mises noted that capitalism has ... improved the people's standard of living in an unprecedented way. Neither economic thinking nor historical experience suggest that any other social system could be more beneficial to the masses

than capitalism" (von Mises, 1949). Hernando de Soto has written a thought provoking book that challenges the preconceptions of many of those who are interested in the economic advancement of developing countries. In so doing, he has provided a blueprint for developing countries to employ capitalism in such a way as to achieve the results cited by von Mises. De Soto's notion that capitalism cannot be successfully implemented in a third world or former communist country without other fundamental changes is a valid one. As Hernando de Soto notes, the social contract with the poor must be revised and, even more importantly, the legal system in these nations must be overhauled to ensure property rights that will avoid the dilemma of "dead capital."

James Ullmer is a professor of economics in the College of Business at Western Carolina University. His interests include economic education, regional economics and the history of economic thought. For previously reviewed books, visit us at our website at [www.wcu.edu/cob/](http://www.wcu.edu/cob/).