

Freedom Matters

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We are a free people in a republic, under a constitution which limits the powers of government to those necessary to secure the unalienable rights of each person to their life, liberty and property. Yet, when a legislature is in session, no one's life, liberty or property is safe. It's the curse of a democracy. That's why we have a republic instead. *Freedom Matters* dedicates itself to the fight to restore our republic. Most of the press and courts fail to do so. They've forgotten that freedom matters.

Decapitalizing America Part 2. Property, as Related to Capital

A Review by Bob Bowman

Hernando De Soto begins his landmark book, *TheMysteryofCapital*, with these uncompromising words:

"The hour of capitalism's greatest triumph is its hour of crisis. The fall of the Berlin Wall ended more than a century of political competition between capitalism and communism. Capitalism stands alone as the only feasible way to rationally organize a modern economy. At this moment in history, no responsible nation has a choice."

De Soto then notes that Third World and former communist nations are thus forced to try to institute capitalism. They have done so by balancing their budgets, cutting subsidies, welcoming foreign investment and dropping their tariff barriers.

The result has been bitter disappointment, De Soto says, because these efforts have produced **economic failures**. Whereas capitalism succeeds in the West, it has failed in these Third World and former Communist countries. This failure must be remedied, for it is a fatal threat to the West, as well as to the poor nations. It is clear that the poor nations are missing some **essential ingredient** that is present in the nations of the West where capitalism succeeds.

In a word, De Soto says, developing nations have the wit and the work ethic needed, but are missing a most essential ingredient for capitalism to succeed: i.e., they are missing **capital**.

The triumph of De Soto's work starts with his research showing that the poor nations of the world already possess the **assets** they need to make a success of capitalism. In Egypt, he found, the poor have 55 times more wealth than the sum of all direct foreign investment they have ever received (which investment includes the building of the Suez Canal and the Aswan Dam). At the level of foreign aid urged by the United Nations, it would take the USA more than 150 years to transfer to the poor nations of the world resources equal to those they already have.

That is the **first insight** offered in De Soto's work. It led De Soto to ask this critical question: Now that we see that the poor have the **assets**, why don't they also have the **capital**? Clearly, capital is **not** simply the assets. The crucial fact needed to see this was De Soto's finding that the assets of the poor were not entered in the records of the legal system of their nation. That is, they were **not represented** in the legal records.

So arises the **second insight** that De Soto offers. The poor nations lack capital because most of the assets of the poor nations are not held in a usable **representational** form in their

legal system. For example, buildings are constructed on land whose ownership rights are not adequately recorded or whose titles are not clear; businesses are unincorporated and liabilities are undefined; industries are located where investors cannot see them, etc.

Hence, the poor cannot use their assets to secure loans, or sell shares of stock, or engage in the other **representational** processes by which the ownership of property is designated and subdivided as capital. Thus, they cannot extract the investment represented by the assets they own.

Think about it. Assets cannot be leveraged into capital until a lender has confidence that the asset is subject to a legal claim. For all of us here in America this is immediately obvious when we purchase a car and the title issued by the state is held by the lending institution until the debt to buy the car is satisfied. The same is true of the typical house or business property mortgage.

So, property is a **base** for capital, but is not capital itself. Property is the land, the mines, the factories, the buildings, the transportation system, the crops, the manufactured goods, etc. What Europe and the United States succeeded in doing was to devise a **representational system** for that property which constitutes a second, parallel form of existence of that property, and which allows us to manipulate the ownership of the property in ways that free up its monetary value for other uses. Property exists, for example, not simply as a farm of 160 acres, but also as the deed representing the ownership of that particular 160 acres of farm. If the land is then mortgaged, another representation of that property is created. The money raised by the mortgage may be used to buy shares in an industrial company, and those shares represent a partial ownership of the assets of that company, secured by the mortgage on the farm.

Thus, a nation can only become prosperous if it **acknowledgesandprotects** the concept of personal property. To do this, it must maintain a healthy and effective legal system that accurately describes land surveys, property deeds, deed restrictions, liens, ownership, etc. That representational system for describing property and its ownership allows legal claims to it to be enforced, and leads to the spawning of the financial institutions that enable the economy to prosper.

In summary, De Soto found that the ownership of property exists in undeveloped countries, but mostly via many **different local systems** that lack usable records or legality, so it can't be used as capital. How can that ownership come to be **represented** in the legal system of a nation in ways that turn it into capital? De Soto's book describes how it happened in the USA. It is a history that leads to further critical insights.

More on De Soto's book in Part 3.

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