

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 5. Prosperity Comes from Property Rights

A Review by Bob Bowman

In Summary. De Soto, in his book *The Mystery of Capital*, cataloged five "mysteries" involving capital. They are:

- (1) The mystery of the missing information;
- (2) The mystery of capital;
- (3) The mystery of political awareness;
- (4) The mystery of the missing lessons of U. S. history;
- (5) The mystery of legal failure.

The **missing information**, De Soto shows, is ownership of vast assets by the poor of the Third World. That ownership is missing from the legal records. De Soto and his team had to go into the streets and countrysides to see and inventory the land, buildings and businesses owned by the poor, and to talk with them to discover who owned what. Their ownership was via local rules and mores. It was not legalized because of the excessive number of bureaucracies, regulations and laws that imposed exorbitant costs in both time and money to do so.

The mystery of **capital** is De Soto's central theme. Capital exists as symbols representing kinds of ownership of physical assets. When we focus on the deed to a house, and not on the house itself, we step "from the material world into the conceptual universe where capital lives." The deed, as a representation of the physical house, enables us to think of the house as an economic asset. When codified into a uniform system that is nationwide or international in scope, that symbolic system, representing the ownership of various attributes of the physical world, allows us to extract or subdivide our investment in assets and thus achieve economic gains. We give that investment a separate life in the form of deeds, liens, collateral, shares of stock, or other fungible forms that let us use our assets in multiple ways.

The mystery of **political awareness** refers to the political failure of the Third World to legalize the extralegal assets owned by their poor. Rural poor migrate to rich cities and, if priced out of and/or regulated out of the legal economic system, create a separate, extralegal non-capital economic system by squatting.

De Soto's account of the **missing lessons of U. S. history** were reviewed last issue. The U. S. started out like a Third World nation, with a lot of property ownership created by squatting. Over the first 150 years of its existence, the U. S. groped its way to incorporating local squatters' rights into a uniform system of property records and laws which thereby turned those assets into capital. This is a remarkable history, and a confirmation of an underlying principle of the Declaration of Independence and the U. S. Constitution. That principle is the concept that *government is instituted by the consent of the governed.*

The mystery of **legal failure** -- why property law does not work outside the West -- is revealed by the American history cited above. States rights protected local squatters' rights that developed dynamically out of natural social and biological forces operating on the frontier. The sheer mass of this law overwhelmed the top-down property law that at first dominated Supreme Court decisions. In the end, the top-down property law gave way to the bottom-up law derived from the reality of how people organize themselves in productive and prosperous ways.

Likewise, De Soto says, poor nations must find ways to legalize the *de facto* property ownership rights devised by their poor. Social order grows out of human biology, which determines how people thrive together. It works ill if devised or imposed from above. Prosperity fails, if government fails to legalize the property rights that people create in the process of making a living.

If this is true of Third World nations, it is true in spades for the U.S.A., which is now threatened by "comprehensive" or "smart growth" planning laws being imposed top down. Whatever the intentions of those who support "comprehensive planning," it is socialism, the nationalization of land; i.e., it is government planning, and that always fails. *Its effect, and maybe its actual intent, is to destroy the property rights laws that our nation spent 150 years of its history to develop bottom up.*

If we destroy our property rights, the historical data cited by De Soto warn that we will destroy our prosperity. That consequence is based solidly on compelling observations. It is based on the collapse of communist economies worldwide. It is based on the collapse of socialist economies as seen vividly in the social ruin playing out right now in Argentina. Likewise, Germany, under the socialist Schroeder, is in a down-spiral leading it to the fate of Argentina. In general, these consequences of socialism were predicted by the Nobel economist, Frederic Hayek, in his remarkable and prescient 1944 book, *The Road to Serfdom*.

Many socialists have such an emotional investment in the egalitarian ideals of socialism that under its spell, they ignore reality. They are doomed to march, like lemmings, into the sea of economic collapse. Other people, as noted by Ron Arnold in his book *Trashing the Economy*, seek economic collapse. Some of them are motivated by extreme environmentalism, others by neo-Malthusian convictions that humans are exhausting the resources of the world, and must be stopped at any costs.

Beyond De Soto. To decapitalize land is to decapitalize people; i.e., people are the ultimate capital. As more and more people are frozen out of the economic base, the poorer we all become. In sum, the way to have prosperity is to make the most people prosperous. We can do that by protecting everyone's property rights. As De Soto shows, and history proves, that is the economic system which enriches the most people.

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