

Freedom Matters

A Weekly Newsletter

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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 1. How to Prevent Prosperity

by Bob Bowman

The United States is an economic superpower, the world's most prosperous nation. This is no accident. It resulted because our founders had the wits to adopt the most efficient system yet known for producing prosperity: the free market capitalist system as notably described by Adam Smith.

The capitalist system stands in stark contrast to socialist/communist systems. The latter were developed in Europe starting in the 1800s, and came to fullest fruition in the Soviet Union. With the fall of the USSR, and socialist/communist economies elsewhere, the evidence is overwhelming that socialist/communist systems do not work. Krushchev was right when he said communism would bury us. It buried the Soviet Union first, of course, and the more the USA embraces it (as we have been doing since Franklin Roosevelt accelerated us on that path in the 1930s), the more it is burying us.

In sum, to a rational mind, there is no system left to rival the capitalist system. It is the only system known that is capable of improving the lot of mankind, including the lot of the poor. Only when those who work produce a surplus do we have the resources to sustain those who do not work, and to protect the environment. Poor nations do neither.

Why then does capitalism fail to succeed in the former communist states, or in third world nations? Tom Bethell gave the answer in his book *The Noblest Triumph* (hard cover, 1998; St. Martin Griffins paperback, 1999). He based his analysis on history. The most prosperous nations protect property rights the most. Those nations that fail to protect property rights live in poverty.

Now comes Hernando De Soto and his landmark book, *The Mystery of Capital* (Basic Books, 2000) to show with data the reason why Bethell's analysis was correct. De Soto spent most of his life in Europe, and ran a large engineering firm there. When, at age 38, he returned to Peru to pursue his business, he found a quite different legal climate.

It led him to hire two law graduates to count the number of laws and regulations enacted in Peru since World War II. They found that about 28,000 laws and regulations were enacted per year, regarding how citizens produced and distributed wealth. Further study indicated that this ever-growing legal morass did not address needs. De Soto enlisted five university students to set up a small business (a two-sewing-machine garment factory in a Lima shanty town). At several hours a day, it took 289 days to obtain a legal license, at a cost of 2.5 years salary for an average worker. In a word, it was prohibitive.

From 1981-1984, De Soto and his helpers canvassed the streets of Peru to catalog the actual businesses in operation. They found that 90% of small industry, 85% of urban transport, and 60% of Peru's fishing fleet (one of the biggest in the world) operated outside the legal system. It was not the poor breaking the law, but the law breaking them.

This led De Soto to found the ILD (Instituto Libertad y Democracia), a think-tank to pursue these findings in Peru and other nations (www.ild.org.pe). They discovered that the value of real estate held by the poor in developing nations of the world is over US\$ 9.3 trillion, or 93 times as much as all developmental assistance provided them by the rich nations in the past 30 years, and equal to the total value of all the companies listed on the stock exchanges of the richest nations.

In a word, two-thirds or more of the wealth of developing countries is held outside the law. It cannot be used to generate the capital necessary to operate a free market system. The result is to doom those nations to poverty.

That is only the first insight offered by De Soto. We in the USA are so used to our property rights system that we are blind to it. Such is dangerous, for without property rights, we too would live in poverty. The danger is that the new secular religionists (e.g., the guilty rich, the anti-developmentalists, the anti-capitalists, the radical environmentalists, the neo-Malthusians, the welfare-statists, etc.) are busy destroying our property rights. Some are doing it to destroy our prosperity. Yes, there are crazies.

More on this in Part 2.

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