

Hernando de Soto: *The Mysteries of Capital: Why Capitalism Triumphs in the West & Fails Everywhere Else*
Summary & Comment by Dia Montgomery

If capitalism had a mind, it would be located in the legal property system.

De Soto looks at the market economy of developed (Western) and developing (non-Western) nations to build his thesis about how nations accumulate wealth. Western nations, according to de Soto, preserve and multiply ownership holdings through a formal property systems. That is, by creating mechanisms for streamlined, accurate records, Western nations more easily convey their society's shared concept of what is "economically meaningful" regarding a particular asset, which works to increase its value.

De Soto argues that capital is dormant. It is only brought to life by identifying and converting its potential value through use of an asset. Capital flourishes where property rights are protected. Fortuitously, notes de Soto, property-protecting systems abound in Western societies, not specifically because of their capital-creating properties, but due to the importance Western societies placed upon publicly secured methods of tracking ownership. Within Western nations, assets (houses, land, merchandise) retain and augment value--not due to their immediate functional worth but because they take on the additional dimension of value as collateral towards potential future acquisitions ("capital"). De Soto strongly believes in the value of capital and likens its potential to expand wealth to Einstein's breakthrough discovery of atomic energy.

To bolster his argument, de Soto turns to other classical economists, including Marx, who defined capital as a value detached from a product to become transcendent. (p. 43) While money assists transactions, it is not to be confused with capital as money cannot fix the abstract potential of any particular asset.

In contrast, de Soto remarks upon the lack of fixed formal property systems in developing nations. De Soto calls the mammoth informal property system in operation in many developing nations an "extralegal" system of ownership (as it falls outside the bounds of the formal legal structure). Due to the enormous effort and unreliability involved in determining ownership before trading an asset, most assets within these nations are restricted to local buyers only and thus do not reach their capital potential. This lack of capital, de Soto is careful to point out, is not a lack of entrepreneurial spirit in non-Western nations but rather the lack of easy access to adequate property mechanism.

In analysing this extralegal arrangement, de Soto notes the formal property systems of the West produce six effects which allow citizens to generate capital. These are: 1) Fixing the economic potential of assets; 2) Integrating information into one system; 3) Individual accountability; 4) Making assets fungible; 5) Networking people; and 6) Protecting transactions.

In chapter six, de Soto attempts to explain the failures of developing capital within developing nations. He pontificates that these nations' legal systems often operate under basic misconceptions about the motivations of ownership. One prominent misconception, according to de Soto, is that people operate outside of existing laws due

to the desire to avoid taxes. As de Soto points out, owners do engage in ways that increase accountability, albeit informally. Property is still being “registered” by owners, albeit in informal arrangements. An interesting example of this is presented in the variance of ad hoc Haitian property titles illustrated on page 185. Extralegal social contacts are undesirable to owners due to the cumbersome combinations of custom, improvisation and selective official regulation.

De Soto concludes that property owners in developing nations would rather operate within intricately structured systems so long as those systems reflect the norms designed by local operatives. De Soto is convinced that non-Western nations already adhere and desire further adherence property recording structures similar to Western constructs and desire to record their property in similar ways.

While I appreciate de Soto’s argument as a very detailed and interesting analysis in how capital increases property value, some questions remain. Firstly, is the solution articulated by de Soto (identifying and gathering all existing property representations scattered throughout unofficial sources and bring them into one system) feasible or necessary? How will it change already existing property structures? It is unclear how much of the “barking dog” system of local boundaries de Soto would keep in his proposed property regime. Does his world view reflect a narrow perspective on what property is for and how it can be used? I am unsettled by de Soto’s certainty that implementing Western values elsewhere will be effective. Finally, how does de Soto’s view of prosperity through amalgamation with Western property regimes mesh with Scott’s argument regarding the retention of informal property as part of a vibrant local culture?