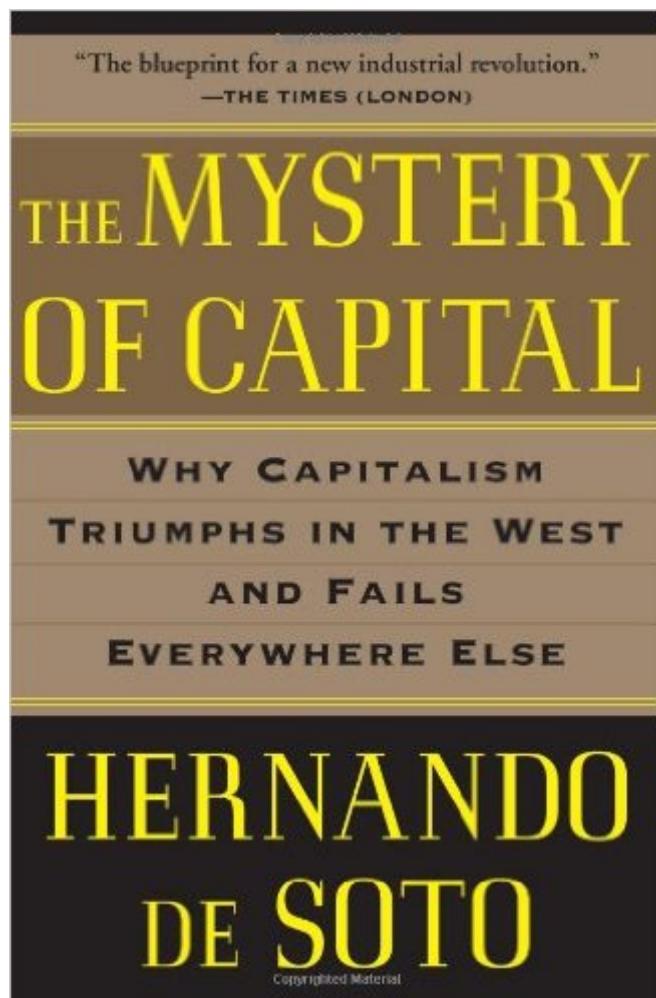


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The Mystery Of Capital: Why Capitalism Triumphs In The West And Fails Everywhere Else



Synopsis

"The hour of capitalism's greatest triumph," writes Hernando de Soto, "is, in the eyes of four-fifths of humanity, its hour of crisis." In *The Mystery of Capital*, the world-famous Peruvian economist takes up the question that, more than any other, is central to one of the most crucial problems the world faces today: Why do some countries succeed at capitalism while others fail? In strong opposition to the popular view that success is determined by cultural differences, de Soto finds that it actually has everything to do with the legal structure of property and property rights. Every developed nation in the world at one time went through the transformation from predominantly informal, extralegal ownership to a formal, unified legal property system. In the West we've forgotten that creating this system is also what allowed people everywhere to leverage property into wealth. This persuasive book will revolutionize our understanding of capital and point the way to a major transformation of the world economy.

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Customer Reviews

In the past five years I've read a shade under a thousand books, and this is easily the most important of them. In it, Peruvian economist de Soto sets out to do nothing less than explain why capitalism has worked in the West and been more or less a total disaster in the Third World and former Communist states. This has long been a pivotal question for anyone interested in the world beyond their own back yard, and there have been plenty of attempts to explain it before (often in terms of history, geography, culture, race, etc.). However, de Soto's is the most compelling and logically argued answer I've come across. But it's not just me. I don't generally quote other reviews,

but my general reaction echoes the most respected policy journals, newspapers, and magazines, who tend to repeat the same words in their reviews: "revolutionary", "provocative", "extraordinary", "convincing", "stunning", "powerful", "thoughtful". Perhaps my favorite line comes from the Toronto Globe and Mail: "De Soto demolishes the entire edifice of postwar development economics, and replaces it with the answers bright young people everywhere have been demanding." Of course readers (especially those on the left) will have to swallow a few basic premises from the very beginning, such as "Capitalism stands alone as the only feasible way to rationally organize a modern economy" and "As all plausible alternatives to capitalism have now evaporated, we are finally in a position to study capital dispassionately and carefully." And most importantly, "Capital is the force that raises the productivity of labor and creates the wealth of nations....

Attempts to explain why the 3rd world (and the 2nd world, now that communism has largely collapsed) is different from the developed world tend to fall between two poles. At one end are those who seek an Archimedean point--a single underlying cause which, once grasped, will allow us to quickly move developing countries up the socio-economic ladder. Such explanations have the virtue of being useful to people who actually work in 'development', because they convince us that we know how to produce fundamental change. But they run the risk of oversimplifying and, if taken as a guide to policy, of raising expectations only to see them dashed by the complexities and historical quirkiness of the real world. At the other pole are holistic, multifaceted explanations, taking into account history, culture, economics, religion--the whole nine yards. Such accounts may be more intellectually satisfying, but often lead to frustration by convincing us that the problems are too complicated, too resistant to quick fixes, for practical solutions. The Mystery of Capital falls for the most part in the first camp. Its author, Hernando de Soto, is one of the 3rd World's most dedicated and intelligent reformers. He wants desperately to do something to help the poor, and has been heroically influential--and successful--in arguing against the failed statist solutions long in vogue in Latin America. Now he wants to move beyond criticism to a positive agenda for change. De Soto's impeccably pro-capitalist credentials make his initial criticism especially convincing: actual capitalism in most of the world is restricted to a small elite, while most remain on the outside looking in. The question is whether de Soto's solution is equally convincing.

The Mystery of Capital is recommended, among others, by no less than Milton Friedman, Ronald Coase, Margaret Thatcher, and William F. Buckley Jr. That's not why you should read the book. De Soto examines a necessary and misunderstood topic: why are poor countries poor? His arguments

and insights make the book a necessary read for the economist, or other educated person. The main point of *The Mystery of Capital* is that the seemingly intractable and hopeless situations in Third World countries is due in large part to one common problem: the issue of property rights. Macroeconomic policies make piecemeal improvements (or may improve nothing at all). Money is not the source of the wealth in a nation. Capital is the source of the wealth of nations! Facilitating the proper legal environment is an integral part of the creation and growth of capital, something First World nations had to develop, and something de Soto argues that Third World nations can develop. The book gets a bit dry in the latter half, but is definitely worth the read. De Soto covers legal ramifications and reforms that will help build a bridge for "dead capital" to be converted to "live capital". *The Mystery of Capital* will be a surprise for some, because of de Soto's synopses here and there about what life is like for those who live in Third World countries, and the enormous amount of (untapped) wealth the people of Third World Nations possess. De Soto is a decent economist, in part because he draws from so many disciplines and sources. He also did a prodigious amount of observation and collection of data (hardly an ivory tower academic). If you have an interest in developmental economics, law and economics, entrepreneurship, History of Thought, Economic History (especially that of the U.S.

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