The Mystery of Capital

No country has mastered the use of the instruments that make capitalism work like the United States of America. It is in Wall Street where the process of representing the value of a house in a piece of paper in order to convert it into an asset capable of being traded, divided, and enhanced is executed to perfection. Nowadays, most economist and businessmen take that conversion process completely for granted. However, in his book *The Mystery of Capitalism*, Hernando de Soto tries to explore the source and nature of this rather obscure process in order to explain why capitalism has not worked in most developing countries. According to de Soto, the problem in developing countries neither the lack of entrepreneurial spirit of their inhabitants nor the absence of resources. The reason why poor people are not able to generate wealth is because they are lacking the conversion process necessary to transform their resources and work into wealth.

Yet, as de Soto points out, this framework did not sporadically appear. Thus, one cannot just insert these elements into a developing country and expect to see economic growth instantly. To the contrary, it took hundreds of years for developed counties to construct this framework. In order to illustrate this, and being the United States the best at doing this, De Soto dedicates a considerable part of the book to explore how the United States developed this system. According to De Soto, the development of a property system in which assets could be represented in property titles was a key factor for the successful economic development of the United States. The final product of this analysis tells us that Americans developed and learned to use the instruments of capitalism in a rather accidental and unconscious way. Still, many of the conditions that were present in the United States one hundred and fifty years ago are very similar to the current situation of many developing countries. Thus,

Furthermore, De Soto goes beyond merely arguing that history is to blame for the inability of capitalism to work in the west and fail everywhere else. His intentions are more profound and pretentious than that. De Soto wants to add another dimension to the discussion of economic development by tracing the inability of developing countries to produce capital to their legal systems. In developing countries, he argues, legal institutions have not been able to address the needs of a population facing a dramatic transition from developing to developed. This statement provides a great insight to the problems that people living in developing countries are facing. Poor people do have resources and ideas. Their inability to produce wealth is not caused by their lack of entrepreneurial spirit. The problem is that they do not have access to the instruments of capitalism. The economic development of many developing countries is taking place outside the realms of the market and even the law. Therefore, the wealth that this countries are producing can not be used to fuel the capitalist machinery. In the words of De Soto, it is death capital. The only way to bring that capital back to life is to have a legal system capable of organizing the resources of a population into one concise and accessible property system. The reason why capitalism works in the west is because western countries have legal systems containing property systems accessible to everyone. Thus, everyone has the possibility to transform their assets into capital in a safe, reliable and predictable manner.

This system works so well in the United States than even illegal immigrants are absorbed into it and, thus, are capable of producing wealth for them and for the country. That is why the stories of immigrants finding prosperity and wealth in the United Sates are so common. The instruments to produce wealth are at their disposition in the United States. To the contrary, in their countries of origin, these instruments are jealousy guarded away from them by the elites.

In the big picture, De Soto's Arguments can be linked to discussions of the role of institutions in human exchange. After all legal systems are institutions. Still, the arguments of De Soto stand apart of any previous discussion about institutions by providing an accurate description of the economic, social and political reality of many developing countries. In most developing countries, the poorest sectors of the population are completely excluded from the socioeconomic life of the country. Thus, they are forced to create their own ways or organizing their exchange. They create their own illegal social contract. It is illegal because it does not go along with the law system endorsed by the state. However, as de Soto mentions, sometimes these illegal social contracts are more in tune with the reality of a country. Thus, developing states should do what the United States did a hundred years back. Instead of using the legal systems to repress these social contracts, the law should be use to include them. Poor people have more to offer to the economy of a developing country than country than any amount of foreign aid.