

ALSO BY HERNANDO DE SOTO

The Other Path

THE MYSTERY OF

CAPITAL

Why Capitalism Triumphs in the West
and Fails Everywhere Else

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BASIC

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CHAPTER SEVEN

By Way of Conclusion

Where is the wisdom we have lost in knowledge?

Where is the knowledge we have lost in information?

—T. S. Eliot, Choruses from “The Rock”

My comments in red text sprinkled in for your edification. HB

P.S. Look it up.

The Private Club of Globalization

Written in 2003

Capitalism is in crisis outside the West not because international globalization is failing but because developing and former communist nations have been unable to “globalize” capital within their own countries. Most people in those nations view capitalism as a private club, a discriminatory system that benefits only the West and the elites who live inside the bell jars of poor countries.

More people throughout the world may wear Nike shoes and flash their Casio watches, but even as they consume the goods of the West, they are quite aware that they still linger at the periphery of the capitalist game. They have no stake in it. Globalization should not be just about interconnecting the bell jars of the privileged few. That kind of globalization has existed before. In the nineteenth century, Europe’s ruling royals were literally one big family, related by blood and in constant contact about politics and

commerce with their cousins in England, France, Holland, Spain, and Russia. Capitalism triumphed in the nineteenth century and prevailed throughout the industrialized world until the Russian Revolution and the Great Depression. But as Spain's Ortega y Gasset and the American pundit Walter Lippman pointed out, despite its dominance and sophistication, the capitalist system was always vulnerable. The American economist Lester Thurow points out that as recently as 1941,

the United States and Great Britain were essentially the only [major] capitalist countries left on the face of the earth.... All the rest of the world were fascists, communists or Third World feudal colonies. The final crisis of the 1920s and the Great Depression of the 1930s had brought capitalism to the edge of extinction. The capitalism that now seems irresistible could, with just a few missteps, have vanished.¹

Wow!

Latin Americans do not have to be reminded. On at least four occasions since their independence from Spain in the 1820s, they have tried to become part of global capitalism and failed. They restructured their debts, stabilized their economies by controlling inflation, liberalized trade, privatized government assets (selling their railroads to the British, for example), undertook debt equity swaps, and overhauled their tax systems. At the consumer level, the Latin Americans imported all sorts of goods, from English tweed suits and Church shoes to Model T Fords; they learned English and French by listening to the radio or records; they danced the Charleston and the Lambeth Walk, and chewed Chiclets gum. But they never produced much live capital.

We may now all be benefiting from the communications revolution, and some may see progress in the fact that the Egyptian Sphinx now stares directly at the neon sign of a Kentucky Fried Chicken franchise. Nevertheless, only twenty-five of the world's

two hundred countries produce capital in sufficient quantity to benefit fully from the division of labor in expanded global markets. The lifeblood of capitalism is not the Internet or fast-food franchises. It is *capital*. Only capital provides the means to support specialization and the production and exchange of assets in the expanded market. It is capital that is the source of increasing productivity and therefore the wealth of nations.

Yet only the Western nations and small enclaves of wealthy people in developing and former communist nations have the capacity to represent assets and potential and, therefore, the ability to produce and use capital efficiently. Capitalism is viewed outside the West with increasing hostility, as an apartheid regime most cannot enter. There is a growing sense, even among some elites, that if they have to depend solely and forever on the kindness of outside capital, they will never be productive players in the global capitalist game. They are increasingly frustrated at not being masters of their own fate. Since they have embarked on globalization without providing their own people with the means to produce capital, they are beginning to look less like the United States than like mercantilist Latin America with its disarray of extralegal activity.² Ten years ago, few would have compared the former Soviet bloc nations to Latin America. But today they look astonishingly similar: strong underground economies, glaring inequality, pervasive mafias, political instability, capital flight, and flagrant disregard for law.

That is why outside the West advocates of capitalism are intellectually on the retreat. Ascendant just a decade ago, they are now increasingly viewed as apologists for the miseries and injustices that still affect the majority of people. For example, in 1999 Egypt's consultative upper house warned the government "not to be deceived any longer by calls for capitalism and globalization."³ Having forgotten the crucial issue of property, capitalism's advocates have let

Funny how support for Kism waxes and wanes . . .

themselves become identified as the defenders of the status quo, blindly trying to enforce existing written law whether it discriminates or not.

And the law in those countries does discriminate. As I illustrated in Chapter 2, at least 80 percent of the population in these countries cannot inject life into their assets and make them generate capital because the law keeps them out of the formal property system. They have trillions of dollars in dead capital, but it is as if these were isolated ponds whose waters disappear into a sterile strip of sand, instead of forming a mighty mass of water that can be captured in one unified property system and given the form required to produce capital: People hold and use their assets on the basis of myriad disconnected informal agreements where accountability is managed locally. Without the common standards that legal property brings, they lack the language necessary for their assets to talk to each other. There is no use urging them to be patient until the benefits of capitalism trickle down their way. That will never happen until the firm foundations of formal property are in place. **Formal v informal property is crucial. The video explains it.**

Meanwhile, the promoters of capitalism, still arrogant on their victory over communism, have yet to understand that their macroeconomic reforms are not enough. We must not forget that globalization is occurring because developing and former communist nations are opening up their once protected economies, stabilizing their currencies, and drafting regulatory frameworks to enhance international trade and private investment. All of this is good. What is not so good is that these reforms assume that these countries' populations are already integrated into the legal system and have the same ability to use their resources in the open market. They do not.

As I have argued in Chapter 3, most people cannot participate in an expanded market because they do not have access to a legal

property rights system that represents their assets in a manner that makes them widely transferable and fungible, that allows them to be encumbered and permits their owners to be held accountable. So long as the assets of the majority are not properly documented and tracked by a property bureaucracy, they are invisible and sterile in the marketplace.

By stabilizing and adjusting by "the book," the globalizers' macroeconomic programs have dramatically rationalized the economic management of developing countries. But because their book does not address the fact that most people do not have property rights, they have done only a fraction of the work required to create a comprehensive capitalist system and market economy. Their tools are designed to work in countries where systematized law has been "globalized" internally, when inclusive property rights systems that link up to efficient monetary and investment instruments are in place—something these countries have yet to achieve.

Too many policymakers have taken an Olympian view of the globalization process. Once they stabilized and adjusted at the macro level, allowing legal business and foreign investors to prosper and orthodox economists to control the treasury, they felt they had fulfilled their duty. Because they concentrated only on policies dealing with the aggregates, they did not inquire whether people had the means to participate in an expanded market system. They forgot that people are the fundamental agents of change. They forgot to focus on the poor. And they made that enormous omission because they do not operate with the concept of *class* in mind. In the words of one of their most outstanding pundits, they do not have "the ability to comprehend, however dimly, how other people live."⁴

Economic reformers have left the issue of property for the poor in the hands of conservative legal establishments uninterested in

changing the status quo. As a result, the assets of the majority of their citizens have remained dead capital stuck in the extralegal sector. This is why the advocates of globalization and free market reforms are beginning to be perceived as the self-satisfied defenders of the interests of those who dominate the bell jar.

Confusing, I know, but the video will make it clear. I promise.

Facing Up to Marx's Ghost

Most economic reform programs in poor economies may be falling into the trap that Karl Marx foresaw: The **great contradiction** of the capitalist system is that it creates its own demise because it cannot avoid concentrating capital in a few hands. By not giving the majority access to expanded markets, these reforms are leaving a fertile field for class confrontation—a capitalist and free market economy for the privileged few who can concretize their property rights, and relative poverty for a large undercapitalized sector incapable of leveraging its own assets.

Class confrontations, in this day and age? Didn't that concept come down with the Berlin Wall? Unfortunately, it did not. This may be hard for a citizen in an advanced nation to understand because in the West those discontented with the system live in "pockets of poverty." Misery in developing and former communist nations, however, is not contained in pockets; it is spread throughout society. What few pockets exist in those countries are pockets of wealth. What the West calls "the underclass" is here the majority. And in the past, when their rising expectations were not met, that mass of angry poor brought apparently solid elites to their knees (as in Iran, Venezuela, and Indonesia). In most countries outside the West, governments depend on strong intelligence services, and their elites live behind fortress-like walls for good reason.

Today, to a great extent, the difference between advanced

de Soto does not know what you know.

nations and the rest of the world is that between countries where formal property is widespread and countries where classes are divided into those who can fix property rights and produce capital and those who cannot. If extralegal property rights are not accommodated, these societies may muddle along with their dual economies—with the so-called law-abiding sector on one side and the impoverished extralegal sector on the other. But as information and communications continue to improve and the poor become better informed of what they do not have, the bitterness over legal apartheid is bound to grow. At some point, those outside the bell jar will be mobilized against the status quo by people with political agendas that thrive on discontent. "If we do not invent ways to make globalization more inclusive," says Klaus Schwab of the World Economic Forum, "we have to face the prospect of a resurgence of the acute social confrontations of the past, magnified at the international level."⁵

The Cold War may have ended, but the old class arguments have not disappeared. Subversive activities and an upsurge of ethnic and cultural conflicts around the world prove that when people are extremely dissatisfied they continue to constitute themselves into classes based on shared injuries. *Newsweek* notes that in the Americas since the 1980s, "each of these struggles has its own unique history, but the fighters all vilify the same enemy: the new face of Latin American capitalism."⁶ In such situations, the Marxist tool kit is better geared to explain class conflict than capitalist thinking, which has no comparable analysis or even a serious strategy for reaching the poor in the extralegal sector. Capitalists generally have no systemic explanation of how the people in the underclass got where they are and how the system could be changed to raise them up.

We must not underestimate the latent power of Marxist integrated theory at a time when masses of people with little hope are

looking for a cohesive worldview to improve their desperate economic prospects. In a period of economic boom, there tends to be little time for deep thinking. Crisis, however, has a way of sharpening the mind's need for order and explanations into obsession. Marxist thinking, in whatever form it reappears—and it will—supplies a much mightier array of concepts for grappling with the political problems of capitalism outside the West than capitalist thinking does.

True

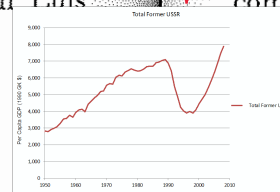
Marx's insights into capital, as George Soros recently observed, are often more sophisticated than those of Adam Smith.⁷ Marx understood clearly that “in themselves, money and commodities are no more capital than are the means of productions and of subsistence. That they want transforming into capital.”⁸ He also understood that if assets could be converted into commodities and made to interact in markets, they could express values that are imperceptible to the senses but can be captured to produce rents. For Marx, property was an important issue because it was clear to him that those who appropriated the assets obtained much more than just their physical attributes. As a result, the Marxist intellectual tool kit has left anticapitalists powerful ways to explain why private property will necessarily put assets in the hands of the rich at the expense of the poor.

For those who have not noticed, the arsenal of anticapitalism and antiglobalization is building up. Today, there are serious statistics that provide the anticapitalists with just the ammunition they need to argue that capitalism is a transfer of property from poorer to richer countries and that Western private investment in developing nations is nothing short of a massive takeover of their resources by multinationals. The number of flashy cars, luxurious homes, and California-style shopping malls may have increased in most developing and former communist nations over the past decade, but so have the poor. Nancy Birdsall and Juan Luis

Londoño's research shows that poverty has grown faster and income distribution has worsened over the last decade.⁹ According to a 1999 United Nations “Human Development Report,” gross domestic product in the Russian Federation fell by 41 percent from 1990 to 1997, driving millions into the extralegal sector. The life expectancy of the Russian male has dropped four full years—to fifty-eight. The report blames the transition to capitalism and the effects of globalization.

These research efforts provide us with healthy warning signals, but they are also putting in place the intellectual missiles needed to discourage privatization programs and global capitalism. It is crucial, therefore, to recognize the latent Marxist paradigms and then add what we have learned in the century since Marx died. We can now demonstrate that although Marx clearly saw that a parallel economic life can be generated alongside physical assets themselves—that “the productions of the human brain appeared as independent beings endowed with life”¹⁰—he did not quite grasp that formal property was not simply an instrument for appropriation but also the means to motivate people to create real additional usable value. Moreover, he did not see that it is the mechanisms contained in the property system itself that give assets and the labor invested in them the form required to create capital. Although Marx's analysis of how assets become transcendent and serve greater social uses when they become exchangeable is fundamental to understanding wealth, he was not able to foresee to what degree legal property systems would become crucial vehicles for the enhancement of exchange value.

Marx understood better than anyone else in his time that in economics there is no greater blindness than seeing resources exclusively in terms of their physical properties. He was well aware that capital was “an independent substance ... in which money and commodities are mere forms which it assumes and casts off in



Wow!

turn.”¹¹ But he lived in a time when it was probably still too soon to see how formal property could, through representation, make those same resources serve additional functions and produce surplus value. Consequently, Marx could not see how it would be in everyone’s interest to increase the range of the beneficiaries of property. Property titles were only the visible tip of a growing formal property iceberg. The rest of the iceberg is now an enormous man-made facility for drawing out the economic potential of assets. That is why Marx did not fully understand that legal property is the indispensable process that fixes and deploys capital, that without property mankind cannot convert the fruits of its labor into fungible, liquid forms that can be differentiated, combined, divided, and invested to produce surplus value. He did not realize that a good legal property system, like a Swiss army knife, has many more mechanisms than just the elementary “ownership” blade.

What
Marx
missed:

Much of Marx’s thought is outdated because the situation today is not the same as in Marx’s Europe. Potential capital is no longer the privilege of the few. After Marx’s death, the West finally managed to set up a legal framework that gave most people access to property and the tools of production. Marx would probably be shocked to find how in developing countries much of the teeming mass does not consist of oppressed legal proletarians but of oppressed extralegal small entrepreneurs with a sizeable amount of assets.

True

Admiration for good property systems should not blind us to the fact that, as Marx noted, these systems can also be used for theft. The world will always be full of sharks expert at using property paper to skim off wealth from unsuspecting people. Yet one cannot oppose formal property systems for this reason, any more than one should abolish computers or automobiles because people use them to commit crimes. If Marx were alive today and saw the misappropriation of resources that has occurred on both sides of the former

Iron Curtain, he would probably agree that looting can happen with or without property and that controlling thievery depends more on the exercise of power than on property. In addition, though Marx gave “surplus value” a very specific definition, its meaning is not chained to his pen. People have always produced surplus value: pyramids, cathedrals, expensive armies, to name a few examples. Clearly much of today’s surplus value in the West has originated not in scandalously expropriated labor time but in the way that property has given minds the mechanisms with which to extract additional work from commodities.

Like all of us, Marx was influenced by the social conditions and technologies of his time. The expropriation of small proprietors from their means of subsistence, the access to private property rights stemming from feudal title, the robbery of common lands, the enslavement of aboriginal populations, the looting of the conquered, and the “commercial hunting of black skins” by the colonial system may all have been essential preconditions for what Marx called the “primitive accumulation of capital.” These conditions are difficult to repeat today. Attitudes have changed—to no little extent because of Marx’s own writings. Looting, slavery, and colonialism now have no government’s imprimatur. Most countries today are parties to treaties such as the Universal Declaration of Human Rights and have constitutions that provide equal access to property rights as one of the fundamental rights of humankind.

Moreover, as we saw in Chapter 6, authorities in developing countries have not been reticent in giving the poor access to assets. The bulk of spontaneous extralegal buildings and businesses in cities throughout the Second and Third Worlds may not have been formally titled, but governments have accepted (if only tacitly) their existence and ownership arrangements. In many developing countries during this century, large tracts of land have been given

to poor farmers as part of agrarian reform programs (though without the property representations necessary to create capital). Nor have authorities in those countries been reluctant to earmark budgets for property issues. Billions of dollars have been spent on activities related to registering ownership.

Property Makes Capital “Mind Friendly”

Deep idea Throughout this book I have been trying to demonstrate that we now have enough evidence to make substantial progress in development. With it in hand we can move beyond the stagnant “left versus right” debate on property and avoid having to fight the same old battles all over again. Formal property is more than just ownership. As we saw in Chapter 3, it has to be viewed as the indispensable process that provides people with the tools to focus their thinking on those aspects of their resources from which they can extract capital. Formal property is more than a system for titling, recording, and mapping assets—it is an instrument of thought, representing assets in such a way that people’s minds can work on them to generate surplus value. That is why formal property must be universally accessible: to bring everyone into one social contract where they can cooperate to raise society’s productivity.

What distinguishes a good legal property system is that it is “mind friendly.” It obtains and organizes knowledge about recorded assets in forms we can control. It collects, integrates, and coordinates not only data on assets and their potential but also our thoughts about them. In brief, capital results from the ability of the West to use property systems to represent their resources in a virtual context. Only there can minds meet to identify and realize the meaning of assets for humankind.

The revolutionary contribution of an integrated property sys-

tem is that it solves a basic problem of cognition. Our five senses are not sufficient for us to process the complex reality of an expanded market, much less a globalized one. We need to have the economic facts about ourselves and our resources boiled down to essentials that our minds can easily grasp. A good property system does that—it puts assets into a form that lets us distinguish their similarities, differences, and connecting points with other assets. It fixes them in representations that the system tracks as they travel through time and space. In addition, it allows assets to become fungible by representing them to our minds so that we can easily combine, divide, and mobilize them to produce higher-valued mixtures. This capacity of property to represent aspects of assets in forms that allow us to recombine them so as to make them even more useful is the mainspring of economic growth, since growth is all about obtaining high-valued outputs from low-valued inputs.

A good legal property system is a medium that allows us to understand each other, make connections, and synthesize knowledge about our assets to enhance our productivity. It is a way to represent reality that lets us transcend the limitations of our senses. Well-crafted property representations enable us to pinpoint the economic potential of resources so as to enhance what we can do with them. They are not “mere paper”: they are mediating devices that give us useful knowledge about things that are not manifestly present.

Property records point our knowledge about things toward an end, to borrow from Thomas Aquinas, “just as the arrow is moved by the archer.”¹² By representing economic aspects of the things we own and assembling them into categories that our minds can quickly grasp, property documents reduce the costs of dealing with assets and increase their value commensurately. This notion, that the value of things can be increased by reducing the costs of knowing them and transacting with them, is one of Nobel laureate

You've heard of him -- in fact, you literally heard his voice

Ronald Coase's major contributions. In his treatise "The Nature of the Firm," Coase established that the costs of carrying out transactions can be substantially reduced within the controlled and coordinated context of a firm.¹⁵ In this sense, property systems are like Coase's firm—controlled environments to reduce transaction costs.

The capacity of property to reveal the capital that is latent in the assets we accumulate is born out of the best intellectual tradition of controlling our environment in order to prosper. For thousands of years our wisest men have been telling us that life has different degrees of reality, many of them invisible, and that it is only by constructing representational devices that we will be able to access them. In Plato's famous analogy, we are likened to prisoners chained in a cave with our backs to the entrance so that all we can know of the world are the shadows cast on the wall in front of us. The truth that this illustration consecrates is that many things that guide our destiny are not self-evident. That is why civilization has worked hard to fashion representational systems to access and grasp the part of our reality that is virtual and to represent it in terms we can understand.

As Margaret Boden puts it, "Some of the most important human creations have been new representational systems. These include formal notations, such as Arabic numerals (not forgetting zero), chemical formulae, or the staves, minims, and crotchets used by musicians. [Computer] programming languages are a more recent example."¹⁴ Representational systems such as mathematics and integrated property help us manipulate and order the complexities of the world in a manner that we can all understand and that allows us to communicate regarding issues that we could not otherwise handle. They are what the philosopher Daniel Dennett has called "prosthetic extensions of the mind."¹⁵ Through representations we bring key aspects of the world into being so as to

change the way we think about it. The philosopher John Searle has noted that by human agreement we can assign "a new status to some phenomenon, where that status has an accompanying function that cannot be performed solely in virtue of the intrinsic physical features of the phenomenon in question."¹⁶ This seems to me very close to what legal property does: It assigns to assets, by social contract, in a conceptual universe, a status that allows them to perform functions that generate capital.

This notion that we organize reality in a conceptual universe is at the center of philosophy worldwide. The French philosopher Michel Foucault labeled it the *région médiane* that provides a system of switches (*codes fondamentaux*) that constitutes the secret network where society establishes the ever-expanding range of its potential (*les conditions de possibilité*).¹⁷ I see formal property as a kind of switchyard that allows us to extend the potential of the assets that we accumulate further and further, each time increasing capital. I have also benefited from Karl Popper's notion of *World 3*—a separate reality from *World 1* of physical objects and *World 2* of mental states—where the products of our minds take on an autonomous existence that affects the way we deal with physical reality.¹⁸ And it is to this conceptual world that formal property takes us—a world where the West organizes knowledge about assets and extracts from them the potential to generate capital.

And so formal property is this extraordinary thing, much bigger than simple ownership. Unlike tigers and wolves, who bare their teeth to protect their territory, man, physically a much weaker animal, has used his mind to create a legal environment—property—to protect his territory. Without anyone fully realizing it, the representational system the West created to settle territorial claims took on a life of its own, providing the knowledge base and rules necessary to fix and realize capital.

Formal property is more than ownership.

The Enemies of Representations

Ironically, the enemies of capitalism have always seemed more aware of the virtual origin of capital than capitalists themselves. It is this virtual aspect of capitalism that they find so insidious and dangerous. Capitalism, charges Viviane Forrester in her best-seller *L'Horreur économique*, "has invaded physical as well as virtual space.... It has confiscated and hidden wealth like never before, it has taken it out of the reach of people by hiding it in the form of symbols. Symbols have become the subjects of abstract exchanges that take place nowhere else than in their virtual world."¹⁹ Consciously or unconsciously, Forrester is part of a long tradition of being uncomfortable with economic representations of virtual reality—those "metaphysical subtleties" that Marx thought were nevertheless necessary to understand and accumulate wealth.²⁰

This fear of the virtuality of capital is understandable. Every time civilization comes up with a novel way of using representations to manage the physical world, people become suspicious. When Marco Polo returned from China, he shocked Europeans with the news that the Chinese used not metal but paper money, which people quickly denounced as alchemy. The European world resisted representative money into the nineteenth century. The latest forms of derivative money—electronic money, wire transfers, and the now omnipresent credit card—also took time to be accepted. As representations of value become less ponderous and more virtual, people are understandably skeptical. New forms of property derivatives (such as mortgage-backed securities) may help form additional capital, but they also make understanding economic life more complex. And so people are inclined to be more comfortable with the image of the noble perspiring workers of Soviet and Latin American murals, toiling in the fields or operating their machines, than with capitalists wheeling and dealing

titles, shares, and bonds in the virtual reality of their computers. It is as if working with representations dirties your hands more than working with dirt and grease.

Like all representative systems—from written language to money and cyber symbols—property paper has been seen by many intellectuals as an instrument of deceit and oppression. Negative attitudes to representations have been powerful undercurrents in the formation of political ideas. The French philosopher Jacques Derrida recalls in *De la Grammatologie* how Jean Jacques Rousseau argued that writing was an important cause of human inequality. For Rousseau, those with the knowledge of writing could control written laws and official paper and, thus, the destiny of people. Claude Lévi-Strauss has also argued that "the primary function of written communication is to facilitate subjugation."²¹

I am as aware as any anticapitalist of how representational systems, particularly those of capitalism, have been used to exploit and conquer, how they have left the many at the mercy of the few. I have discussed in this book how official paper has been used for outright domination. And yet the art and science of representation is one of the girders of modern society. No amount of ranting and raving against writing, electronic money, cyber symbols, and property paper will make them disappear. Instead we must make representational systems simpler and more transparent and work hard to help people understand them. Otherwise, legal apartheid will persist, and the tools to create wealth will remain in the hands of those who live inside the bell jar.

Is Succeeding at Capitalism a Cultural Thing?

Think of Bill Gates, the world's most successful and wealthiest entrepreneur. Apart from his personal genius, how much of his

success is due to his cultural background and his “Protestant ethic”? And how much is due to the legal property system of the United States? 1%/99%

How many software innovations could he have made without patents to protect them? How many deals and long-term projects could he have carried out without enforceable contracts? How many risks could he have taken at the beginning without limited liability systems and insurance policies? How much capital could he have accumulated without property records in which to fix and store that capital? How many resources could he have pooled without fungible property representations? How many other people would he have made millionaires without being able to distribute stock options? How many economies of scale could he have benefited from if he had to operate on the basis of dispersed cottage industries that could not be combined? How would he pass on the rights to his empire to his children and colleagues without hereditary succession?

True

I do not think Bill Gates or any entrepreneur in the West could be successful without property rights systems based on a strong, well-integrated social contract. I humbly suggest that before any brahmin who lives in a bell jar tries to convince us that succeeding at capitalism requires certain cultural traits, we should first try to see what happens when developing and former communist countries establish property rights systems that can create capital for everyone.

Throughout history people have confused the efficiency of the representational tools they have inherited to create surplus value with the inherent values of their culture. They forget that often what gives an edge to a particular group of people is the innovative use they make of a representational system developed by another culture. For example, Northerners had to copy the legal institutions of ancient Rome to organize themselves and learn the Greek alphabet and the Arabic number symbols and systems to convey information and calculate. And so, today, few are aware of the

True tremendous edge that formal property systems have given Western societies. As a result, many Westerners have been led to believe that what underpins their successful capitalism is the work ethic they have inherited or the existential anguish created by their religions—in spite of the fact that people all over the world all work hard when they can and that existential angst or overbearing mothers are not Calvinist or Jewish monopolies. (I am as anxious as any Calvinist in history, especially on Sunday evenings, and in the overbearing mother sweepstakes, I would put mine in Peru up against any woman in New York.) Therefore, a great part of the research agenda needed to explain why capitalism fails outside the West remains mired in a mass of unexamined and largely untestable assumptions labeled “culture,” whose main effect is to allow too many of those who live in the privileged enclaves of this world to enjoy feeling superior.

One day these cultural arguments will peel away as the hard evidence of the effects of good political institutions and property law sink in. In the meantime, as *Foreign Affairs*' Fareed Zakaria has observed,

Culture is hot. By culture I don't mean Wagner and Abstract Expressionism—they've always been hot—but rather culture as an explanation for social phenomena.... Cultural explanations persist because intellectuals like them. They make valuable the detailed knowledge of countries' histories, which intellectuals have in great supply. They add an air of mystery and complexity to the study of societies.... But culture itself can be shaped and changed. Behind so many cultural attitudes, tastes, and preferences lie the political and economic forces that shaped them.²²

This is not to say that culture does not count. All people in the world have specific preferences, skills, and patterns of behavior that

can be regarded as cultural. The challenge is fathoming which of these traits are really the ingrained, unchangeable identity of a people and which are determined by economic and legal constraints. Is illegal squatting on real estate in Egypt and Peru the result of ancient, ineradicable nomadic traditions among the Arabs and the Quechuas' back-and-forth custom of cultivating crops at different vertical levels of the Andes? Or does it happen because in both Egypt and Peru it takes more than fifteen years to obtain legal property rights to desert land? In my experience squatting is mainly due to the latter. When people have access to an orderly mechanism to settle land that reflects the social contract, they will take the legal route, and only a minority, like anywhere else, will insist on extralegal appropriation. Much behavior that is today attributed to cultural heritage is not the inevitable result of people's ethnic or idiosyncratic traits but of their rational evaluation of the relative costs and benefits of entering the legal property system.

Legal property empowers individuals in any culture, and I doubt that property per se directly contradicts any major culture. Vietnamese, Cuban, and Indian migrants have clearly had few problems adapting to U.S. property law. If correctly conceived, property law can reach beyond cultures to increase trust between them and, at the same time, reduce the costs of bringing things and thoughts together.²³ Legal property sets the exchange rates between different cultures and thus gives them a bedrock of economic commonalities from which to do business with each other.

The Only Game in Town

I am convinced that capitalism has lost its way in developing and former communist nations. It is not equitable. It is out of touch with those who should be its largest constituency, and instead of

being a cause that promises opportunity for all, capitalism appears increasingly as the leitmotif of a self-serving guild of businessmen and their technocracies. I hope this book has conveyed my belief that this state of affairs is relatively easy to correct—provided that governments are willing to accept the following:

1. The situation and potential of the poor need to be better documented.
2. All people are capable of saving. **Micro credit shows this**
3. What the poor are missing are the legally integrated property systems that can convert their work and savings into capital.
4. Civil disobedience and the mafias of today are not marginal phenomena but the result of people marching by the billions from life organized on a small scale to life on a big scale.
5. In this context, the poor are not the problem but the solution.
6. Implementing a property system that creates capital is a political challenge because it involves getting in touch with people, grasping the social contract, and overhauling the legal system.

With its victory over communism, capitalism's old agenda for economic progress is exhausted and requires a new set of commitments. It makes no sense continuing to call for open economies without facing the fact that the economic reforms underway open the doors only for small and globalized elites and leave out most of humanity. At present, capitalist globalization is concerned with interconnecting only the elites that live inside the bell jars. To lift the bell jars and do away with property apartheid will require going beyond the existing borders of both economics and law.

This is
Knight

I am not a die-hard capitalist. I do not view capitalism as a credo. Much more important to me are freedom, compassion for the poor, respect for the social contract, and equal opportunity. But for the moment, to achieve those goals, capitalism is the only game in town. It is the only system we know that provides us with the tools required to create massive surplus value.

I love being from the Third World because it represents such a marvelous challenge—that of making a transition to a market-based capitalist system that respects people's desires and beliefs. When capital is a success story not only in the West but everywhere, we can move beyond the limits of the physical world and use our minds to soar into the future.

This has to be hard for you to understand.
No worries. The video will help a lot.
Can't wait -- be sure to click this link!

<https://www.youtube.com/watch?v=tKnG06-oYcg>

Notes

CHAPTER 1

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CHAPTER 2

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CHAPTER 3

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