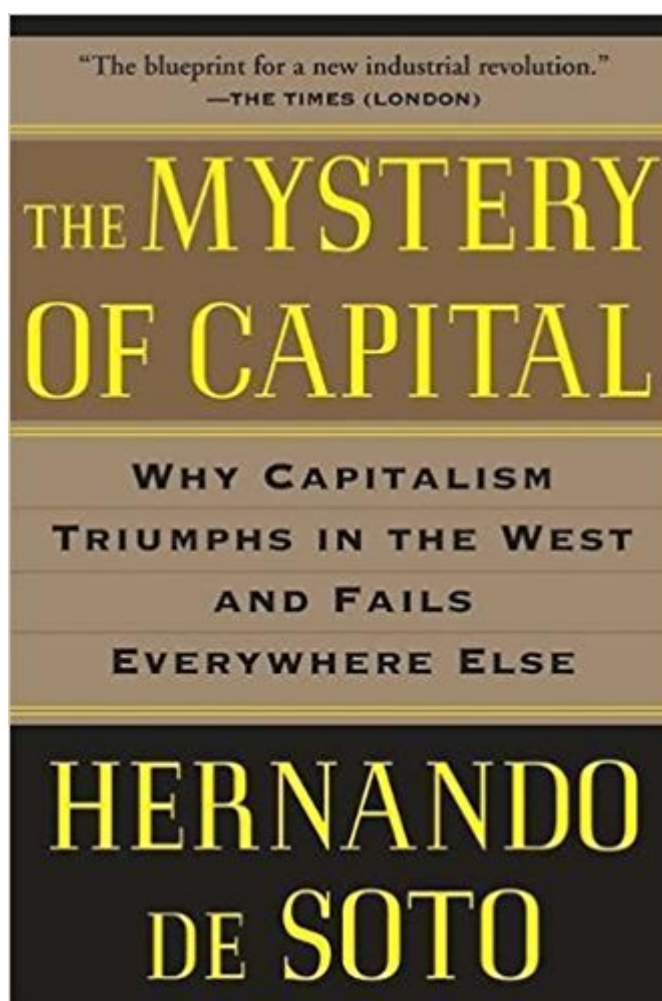


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# The Mystery Of Capital: Why Capitalism Triumphs In The West And Fails Everywhere Else



## 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

It's become clear by now the fall of the Berlin Wall and the collapse of communism in most places around the globe hasn't ushered in an unequivocal flowering of capitalism in the developing and postcommunist world. Western thinkers have blamed this on everything from these countries' lack of sellable assets to their inherently non-entrepreneurial "mindset." In this book, the renowned Peruvian economist and adviser to presidents and prime ministers Hernando de Soto proposes and argues another reason: it's not that poor, postcommunist countries don't have the assets to make capitalism flourish. As de Soto points out by way of example, in Egypt, the wealth the poor have

accumulated is worth 55 times as much as the sum of all direct foreign investment ever recorded there, including that spent on building the Suez Canal and the Aswan Dam. No, the real problem is that such countries have yet to establish and normalize the invisible network of laws that turns assets from "dead" into "liquid" capital. In the West, standardized laws allow us to mortgage a house to raise money for a new venture, permit the worth of a company to be broken up into so many publicly tradable stocks, and make it possible to govern and appraise property with agreed-upon rules that hold across neighborhoods, towns, or regions. This invisible infrastructure of "asset management"--so taken for granted in the West, even though it has only fully existed in the United States for the past 100 years--is the missing ingredient to success with capitalism, insists de Soto. But even though that link is primarily a legal one, he argues that the process of making it a normalized component of a society is more a political--or attitude-changing--challenge than anything else. With a fleet of researchers, de Soto has sought out detailed evidence from struggling economies around the world to back up his claims. The result is a fascinating and solidly supported look at the one component that's holding much of the world back from developing healthy free markets. --Timothy Murphy --This text refers to an alternate Paperback edition.

The author, president of an influential Peruvian think tank and a prominent Third World economist, sets out to solve the mystery of why some people in the world can create capital and others cannot. Outside the West, in countries as different as Russia and Peru, it is not religion, culture, or race issues that are blocking the spread of capitalism but the lack of a legal process for making property systems work. Implementing major legal change so as to establish a capitalist order involves changing peoples' beliefs, and de Soto contends this is a political rather than a legal responsibility. He believes such a change can be achieved if governments seriously focus upon the needs of their poor citizens for a legally integrated property system that can convert their work and savings into capital. Political action is necessary to ensure that government officials seriously accept the real disparity of living conditions among their people, adopt a social contract, and then overhaul their legal system. Mary Whaley Copyright © American Library Association. All rights reserved --This text refers to an alternate Paperback edition.

A thorough explanation of complexity and necessity of third and second world governments to establish foundations needed to support prosperity through capitalism. Anyone who is either interested in economics or international welfare and aid policy must read this book. It should be a requirement for all college Human Rights, Economics, Political Science and International Affairs

students -- important information, based upon reality and actual experience.

In many poor economies capital exists as dead capital, locked up in extralegal arrangements and as such is unable to be leveraged. DeSoto describes the problem in clear terms with field research and suggests clear steps toward implementing capitalism as a tool that can be used in poverty alleviation and transformation. His last chapter foreshadows the activity from 2009-2015, as the gulf foreclosure rate increased and the gap separating the wealthy and poor expanded.

The book is definitely worth reading. It basically points out that a legal system that values private property rights is essential for entrepreneurs to use that value to create or expand businesses. He argues the point persuasively and give concrete example from original research. If a person is unfamiliar with ideas, this would be a good primer for the subject. The only drawback is that he take a tone that he has made an amazing discovery that no one else has ever figured out. This same thing has been proposed by (for example) Landes in the Wealth and Poverty of Nations and in the collection: Culture Matters, both recently. Looking further back into the past, however, F. Hayek discussed this issue in many books as far back as the 30's and it is not so far from ideas explored by Weber at the turn of the century. I think it would have been a better book if he had pointed readers into ways of exploring the ideas instead of acting like he was the first to discover the concepts. He does present the concepts well and the book is definitely worth reading.

De Soto makes interesting but one sided observations, his explanations are too long and very repetitive. The crux of the matter is that all human activities need to be brought into the marketplace and thus into the sphere of the generation of capital. He is focusing on the "unofficial" or parallel market of the landed property of the poor in the underdeveloped countries. It is one sided since the underdeveloped countries are also very bad in their practice of democracy to discuss these issues.

De Soto goes where few want to look - how capitalism can help the most impoverished people on Earth, be it the farms of Latin America, rice paddies of Southeast Asia, or stagnating economies of the former Soviet Union. His analysis and perspective is creative, but poignant. He is above all an optimist, who believes that the world's poor are bustling entrepreneurs who lack the efficient and representative government systems of the West, which protect the economic rights of their constituents. De Soto rightfully points out that without collateral many would be capitalists lack access to credit, even foreign lending. It's an interesting and provocative take on economic

underdevelopment, and one that economists and development experts should keep in mind when trying to improve national economies. Naturally, there are many different deleted variables, such as national political and economic volatility, which could impact national and foreign economic policy negatively for the country's poor, but even then de Soto would argue that the presence of such volatility is a factor of the country's government stability and legitimacy/efficacy to rule, so property rights would more than likely not be afforded to the impoverished areas anyway. Like any economic analysis, it is imperfect, but more than that it is a fresh perspective on modern economic development that provides new and creative approaches to a growing and never ending problem. Perhaps he's on to something. Perhaps these thoughts and ideas can be applied to a real world situation.

Concise examination of the primary barrier to success in the 3rd world. An effective examination of the obstacles one has to overcome to simply compete in the international market if you are not from a "developed" nation. Insight that is sorely lacking in implementation so many years after the fact. When will we get the hint?

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