



Property 'blind spot' denies us justice

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THE MYSTERY OF CAPITAL

Hernando de Soto
Bantam, £15

The book by de Soto which was published a decade ago (*The Other Path*, Harper & Row), presented an intelligent and well-documented critique of the Peruvian economy. It described difficulties in the way of building housing, providing transportation, moving goods, and selling goods. There were so many obstacles in the way of doing worthwhile things legally in Peru that most of the useful and productive effort had been forced into illegal and extra-legal channels.

As a prime example, de Soto documented in detail the incredible amount of time and energy required to work one's way through the legal steps needed to establish a small garment factory. His recitation of the hurdles a Peruvian entrepreneur faced was, in itself, an adequate explanation of why "illegals" thrived. He replicated the experiment by obtaining a building permit, establishing legal title to a piece of land, and getting a license for a taxi route. In every case it was tiresome, troublesome, and time consuming to follow the required legal steps. From this experience de Soto concluded bad laws, not bad people, were the cause of so much "illegal" economic activity.

Laws governing security of transactions were a case in point, as were laws governing "property rights" (therein lay the unavoidable minefield – the definition of property)! He described the economic role of property rights as he saw them: the Role of the Law in an economic system, and emphasized the importance of "good" laws, some of which he listed.

One of de Soto's significant conclusions was that in modern Peru, laws were used mainly to redistribute, and almost exclusively to distribute income. This led, he said, to special interests organizing to obtain income. He describes public relations firms in Peru, for example, as "redistributive combines whose main job is to file petitions to governments", a description that is apt enough elsewhere!

Key to de Soto's argument was his view of the purpose of legal instruments. He specified three: "to protect private rights and property; to permit orderly access to productive activity; and to facilitate harmonious interaction of the whole".

His final shot was at the politicians: right-

wing and left-wing. Both were mercantilists, "more concerned with transferring wealth than laying the basis for creating it." Did I agree with this parting shot because I found de Soto's research compelling and certain of his insights spectacular, or because too many books of the genre economic offer "not bread but a stone"?

IN HIS latest book, *The Mystery of Capital*, de Soto summarized his persuasive account of the attempt to open a small legal garment workshop on the outskirts of Lima. He and his team had spent six hours a day filling out forms, standing in lines, and making bus trips into central Lima to get all the certifications required to operate that small business. This had taken 289 days.

His conclusions about conditions in Peru evidently drove him to seek further for the source of obstacles to the formation of capital, "the mystery of capital" as he calls it. With the help of his research team and local associates in other countries de Soto decided to expand his inquiry to the Philippines, Egypt, Haiti, and Mexico. He found the "obstacles were no less formidable than in Peru, often they were even more daunting". In fact, in every country they investigated, they found "it is very nearly as difficult to stay legal as it is to become legal".

New and fascinating as all this research was to me, I found it strange that de Soto never once placed his analyses within the context of the distribution of land; not for his own country Peru, or for the others investigated. Documentation on the fact of highly skewed landownership patterns in every one of these countries was entirely absent. Furthermore, as is so much the norm nowadays, the word "land" does not appear to be a topic indexed. The index subject "property" fills two columns; the index subject "real estate" fills another half-column; the word "land" is included in neither.

Señor de Soto has entered the minefield of definitions. "Land" has suffered the fate of the *disparu!* Do not mention it: "land" does not exist. It is *capital*; it is *real estate*; it is never to be *itself*. Here is a blind spot in de Soto's view of economy that is at least the equal of those he attributes to other economic and social commentators.

It is "political blindness", says de Soto, not to recognize there has been "a gigantic movement away from life organized on a small scale to life organized on a large one". Further, the problems the investigated societies face are not new. The system of legal property they live with is "outmoded". Sadly, the proposed path de Soto suggests as sufficient looks like the one we in the West have followed. We already have the "formal integrated property system" which "allows assets and economic agents to interact, and governments to rule by law." But surely our prisons, food banks, streets of homeless, and our depressed unemployed are proof that we too are not yet on the "right path".

Avoiding, or masking, the existence of the perennial "land question" in human society is not the only flaw in de Soto's proposal. In seeking to understand Capital, de Soto began with a definition with physical connotations, with the origin of the word in the medieval Latin for "cattle", or more precisely, "head of cattle or livestock". Cattle are low maintenance possessions and easy to measure. They also have the "useful attribute of being able to reproduce themselves".

Thus the term "capital" began to do two jobs simultaneously, capturing the physical dimension of assets (livestock) as well as their potential to generate surplus value."

Progressing with his argument, de Soto, with apparent ease, carried the word Capital from the physical to the metaphysical. He endeavoured to release the readers' minds from the notion that Capital is tied to real things, like cattle. He speculated that the term had as much to do with the word "head" as with "cattle". "The head is where we hold the tools with which we create Capital."

Flights of fancy certainly have their creative place, but beware of phantasmagoria. Economic definitions separated too far from origins, from reality and location are the sort that gave fuel to the South Sea Bubble. They do not help us to understand economics.

Early on in this book de Soto had insisted that "money is *not* Capital". Right. He said also that Capital is *not* a synonym for "money saved and invested". Right. He wrote also of a "collection of assets of very different types, such as machinery, buildings, and land", adding that money was invented to provide a standard index to measure the value of "dissimilar" assets. Right.

If de Soto could have stated forthrightly that Land is not Capital, that to subsume Land within Capital is confusing and therefore mischievous, he might have been led on to write a book more useful to the countries investigated as well as to us. We, after all, have the "integrated property system" which he urges upon them as the solution to unlocking productivity. But it has not yet brought justice to the land.