

Example of literature review on the mystery of capital

[Technology](#), [Development](#)



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Introduction

This could be classified among the most important writings on economics in any given century. The author, Desoto notes in this book that close to over a decade since the fall of Marxism, the capitalist revolution that was expected never occurred. However, despite the existence of capitalism in the developed nations; it has little progress to report in the former communist states and the third world countries. He notes that the problem lies with the improper definition of property rights – the citizens of the underdeveloped nations have property, which they own informally – these people cannot use these properties to gain capital. In this respect, he argues that the role of real property in underdeveloped countries is nonexistent.

In his writing, he concludes by suggesting a solution, which is rather obvious: he is convinced that formalization of the informal properties (De Soto 221 – 263). He cites in his writing that informal acquisition of property has an indicated history in the most developed states including the United States. In his opinion, for the property law to be implemented, a government that responds to the needs of the citizens is mandatory. He also understands that despite the political barriers in achieving the goal of formalization, both the

rich and the poor in these economies stand to gain. *The Mystery of Capital*, which bears the subtitle: *Why Capitalism Triumphs in the West and Fails Everywhere Else*, tackles the conflict by considering the advantages property law in ensuring capitalism work for the poor populations of the world.

Book review

Desoto runs a think tank in Peru. *The Economist Magazine* ranks it second most important in the world. He delivers a convincing set of arguments in this book that property laws are the core players in the economy. As earlier mentioned, he recognizes the role capitalism has played in improving the lives of millions of the world's population. He also appreciates that capitalism has the ability to make such improvements on living standards across all nations of the universe. Nevertheless, he points out that this method has lost its meaning and implementation in developing nations and the nations that were previously communists.

He writes that the fact that capitalism has failed in almost two thirds of the nations in the world is not attributed to cultural diversity. The White-Anglo Saxon-Protestant (WASP) culture, which has been the most dominant culture in the United States since its foundation, is the reason behind the success of capitalism in the United States. He also mentions that poverty in most developing countries does not imply that people have a negative attitude to work, but that these people are willing to work and they lack substantial work to do and support them. Additionally, the traditions and culture of the indigenous people do not differ inextricably with the capitalists dogmas. In support of the above idea, in this book, the author asks, “ is the

illegal squatting on real estate in Egypt and Peru the result of ancient incredible nomadic traditions among the Arabs and 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?" (Stein 364). In this book, the author refers to the above statement to show that the different cultures in different countries do not influence the success of capitalism, however, it points out that due to the lack of property laws, different communities adapt to cultures that best suits the provisions of the laws. For instance, if it would take a person fifteen years to legal property rights, the person would automatically be demoralized. They would resort to practices such as nomadic practices, which do not require permanent ownership of the land since the land user only stays in that piece of land for a short duration and leave when their interest in the land expires.

Desoto outlines six ways through which capitalism and property law helps in generating capital. First, he believes that these laws shape the economic potential of assets. Secondly, they integrate dispersed information in the system. Thirdly, it eliminates anonymity thereby making people accountable. The fourth reason according to Desoto is networking, transaction protection and finally rendering assets fungible.

In the book, it is clear that the key source of the inexhaustible wealth of the developed countries, especially the United States is the property law. These property laws secures assets, such as a car or land that allows for its usage for other purposes other than those for which they were initially intended. For instance, a house is generally used for residential purposes; however, it

can also be used to secure a loan. In this manner, this kinds of properties, if protected by laws, would be leveraged to create working capital. According to the author, the idea of using property to acquire working capital to fund existing business or startup new ones is unavailable in most parts of the underdeveloped nations of the world.

In this book, the author indicates that more than 150 years ago, the United States was in the same condition of confusion as is witnessed in these developing economies. They lacked property laws that would render a property to be considered by banks and other loaning institutions as secure enough to make a loan against the property in question. According to him, the United States and other western nations endeavored to create a system of laws and social contracts that permitted for accountability of property. People were also held accountable for their obligation. However, it can be noted that despite Desoto's explanation for the endeavors of these nations to create these laws, there is no clear reason he gives for the forces that brought about these changes. What exactly transpired that brought about these changes to be considered necessary? Desoto concludes that uniform property law majorly makes the difference between capitalism as a system that is accessible by the masses and as a tool only for snobby leaders, as is witnessed in most of the world's economies.

However, despite Desoto's argument, property laws alone cannot suffice; there must be a combination of several players in the economy, which coexist. These players include the rule of law, societal instructions for commerce, science, religion, favorable culture, innovations and technology. According to these contradicting studies to Desoto's idea of property

systems, the deficiencies in law alone cannot explain why the capitalism system is effective only in the west and not other nations of the world (George, Lipsey, and Bekar 234 – 40). They argue that the above factors are dependent and help in shaping the economy. They also argue that this idea by Desoto would only be applicable in the past. However, in the current state of affairs, there are several ways of collecting and gaining wealth, despite the property ownership. Individuals could resort to these alternative sources, such as pensions that suit their needs just as property systems would have provided.

In my opinion, Desoto's idea is only applicable in an ideal situation. But in the real current conditions, it would be inappropriate to mention that property laws could be the sole reason why nations outside the west and those that were communists have a disparity in adapting capitalism. The economy of any nation is composed of several interplaying factors that must coexist in their functions. Even if the property law is enacted and fully implemented, there would be other barriers to this system that if not streamlined, there would be limited developments. However, I would agree with him to some extent, since the property law allows the dead capital to be transformed into working capital. Nevertheless, this could only achieve its goals when all the economic, social and political factors are well coordinated.

The other shortfall in Desoto's book is the recognition of individual rights. Converting the dead capital into working capital does not imply converting all illegal property into legal property. However, securing human rights should be precedent. Nevertheless, it should be noted that the writer missed

this since his intention was to give the disparities in developing and developed nations. This is evidenced when he compares the histories of the developed nations with the current situations in the developing nations. He fails to realize that these developed nations recognized that human rights are endowed than a higher power than the government.

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