

public assistance to faith-based institutions, such as “parochial schools at the primary and secondary levels,” although he does issue a caution that “in utilizing the resources of houses of worship for the redistribution of immaterial resources, great care is needed both to safeguard freedom of religion and to ensure the separation of church and state.”

With respect to material issues, he concludes that the most urgent item on this agenda “is guaranteeing workers the pensions and health-care services to which they are entitled.” His primary policy recommendation is a gradual increase in the payroll tax that funds Social Security and Medicare from the current 15.3 percent level “to the neighborhood of 25 percent of payrolls.” Fogel argues that such an initiative is both demographically necessary and economically feasible: necessary because of longer life expectancy and slower labor force growth, and feasible because he assumes that

even if the economy grows at only 1.5 percent per capita annually, the average income of workers in 2030 will be about 56 percent higher in real terms before payroll taxes and about 38 percent higher after payroll taxes.

With regard to the *political* feasibility of such a program, he reasons that the public has already accepted, through past Congressional action, an increase in the required age for receipt of full Social Security benefits from sixty-five to sixty-seven by 2025, and “there is growing support in Congress to delay the normal starting age to seventy.” If this latter proposal were enacted into law, this would amount, in Fogel’s judgment, to “the equivalent of a cut in the value of Social Security payments by 37 percent.” Therefore, he concludes that “it would be fairer, and more expedient politically, to spread the burden of the transition over several generations.” His concerns about the elderly, as it turns out, are not limited to their material circumstances. In fact, Fogel states that “the elderly today command markedly low levels of spiritual resources,” with a significant incidence of depression, alienation, and substance abuse. In response, he emphasizes the importance of educational programs that provide opportunities for lifelong learning, in addition to the provision of ways in which senior citizens can engage in *volwork* that is designed not only to benefit young people, but to create a stronger sense of self-worth for the volunteer as well.

How will the unfolding of the Fourth Great Awakening be affected by the events of September 11, 2001? In his “Capital” column on the front page of the October 4, 2001 edition of *The Wall Street Journal*, David Wessel writes that for college-age Americans,

September 11th will likely prove as important in shaping attitudes and behavior as the traumatic Kennedy assassination and the divisive Vietnam War were for an earlier generation, and it is truly impossible to predict just how that will show itself in the decades ahead.

Will this current cycle of spiritual renewal be intensified by the West’s struggle with international terrorism? If so, what will be the economic implications for both public and private stewardship, particularly if nonmaterial considerations become more important in people’s lives? Is it possible that the reform agenda that Professor Fogel has outlined, drawing upon the emphases of both the Third and Fourth Great Awakenings, will be derailed as more attention and resources are devoted to defense and security issues?

This is a fascinating and thought-provoking book, and I recommend it heartily to all ACE members. ■

The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else
Hernando de Soto. New York: Basic Books, 2000. ISBN: 0-465-01614-6. \$27.50.

Reviewed by William Anderson, Frostburg State University (MD).

When my wife and I traveled to Guatemala City in 2000 to adopt a baby girl, I was struck by the many contrasts there. Guatemala City certainly did not conform to my expectations. It was a bustling, well-planned metropolis with hard-working people, modern amenities of life, shopping malls, fast food restaurants, and freeways.

Yet, at 6 a.m. on any given morning, at a time when thousands of people are already driving to work, there is a long line at the U.S. Embassy of Guatemalans attempting to receive visas to enter the United States in order to find work. They already understand that if they apply the same work effort in the USA that they give in their home country, they can easily earn a higher standard of living.

There is an interesting paradox at work, and one that economists, including me, have wrongly interpreted throughout their careers. We have explained this inconsistency with many answers, including political oppression, culture, rapacious capitalism, socialism, and political corruption, to name a few.

Hernando de Soto, president of the Institute for Liberty and Democracy in Lima, Peru, and author of the acclaimed *The Other Path* (1990) in which he investigates the “informal sector” of Peru’s economy, has a different answer in his new book, *The Mystery of Capital*. In this book, de Soto goes into a very detailed explanation of why the Third World nations have not shared in the general prosperity of capitalism that characterizes the western world and some Asian nations. I must admit that the author managed to force me to change a number of my own conclusions on the subject. In short, as I read this book, it seemed that “the scales fell” from my own eyes as he demolished one Third World myth after another.

De Soto's explanation is rather simple. The problem in Third World countries is not that they are victims of rapacious capitalism, as so many evangelical academics believe, but rather that the lack of property rights and outright bureaucratic barriers prevents the poor from gaining access to capital. Thus, they languish in the vast "informal sectors" or underground markets that so characterize much of the Third World.

Elites of Third World nations, he writes, have been able to take advantage of western systems of laws and property rights to participate in ownership of capital, which is why they are prosperous. Using Braudel's (1992) analogy of the "bell jar," de Soto writes that the elites are inside this "jar" and have been able to take advantage of the blessings of capitalism while the poor, who are "outside the jar," are left out. This also helps to explain the phenomenon of why many people from the Third World seem to do well economically speaking only after they have left their home country and settled in the West. Therefore, it is not capitalism that creates poverty in Third World nations, but rather the fact that the poor are not able to partake in the capitalist system because of legal barriers. This obviously contradicts a wealth of literature from evangelicals on the subject, most notably Sider (1977) and Schuurman and Dykema (1986) that the seemingly intractable poverty that characterizes so much of the world's population is due to capitalism that is practiced both in the West and Third World.

De Soto is hardly a wide-eyed idealist. The book was written after he and his staff spent nearly five years painstakingly researching property holdings in numerous Third World nations. As the book jacket says,

Their findings are dramatic. The data they have collected demonstrate that the world's poor have accumulated all the assets needed for successful capitalism. The value of their savings is immense: many times all the foreign aid and investment received since 1945.

The problem, writes de Soto, is that the assets of the poor in those nations amount to what he calls "dead capital." In other words, because of problems dealing with legal ownership of assets, the poor cannot transform what they own into capital needed for business startups and expansions. Instead, the vast majority of the world's poor operate in the underground economies of small-scale enterprises, squatter settlements, and payoffs to bureaucrats.

The legal barriers to setting up legal businesses in the Third World, he writes, are enormous. In *The Other Path*, de Soto and his team set up an experiment to launch fictitious legal businesses in the United States and Lima, Peru. Working six-hour days, the team managed to have the business approved in the USA in one day.

The Lima experience, however, was much different. De Soto writes that the red tape was so prevalent and thick that using lawful means (filling out forms and having them

officially approved) took 289 days and \$1,231, a sum of money far outside the reach of most Peruvians. To combat this bureaucracy, says de Soto, most of the Third World poor simply move into the informal sector. Thus, they solve one problem, but create many others.

De Soto does not just criticize the system; he also looks toward solutions. He is not naive enough to believe that the passage of new laws will solve the problem. Rather, he understands that this is a "political challenge," one that is likely to take many years. Moreover, he says that essential change in this process is evolutionary, not change that simply occurs because a majority of legislators state that it is so. He writes

Why do you need a political strategy today? Who could possibly be against removing a legal apartheid that is so obviously unjust? Few, in fact, would dispute the need for reform. But a tiny, powerful minority will intuit that reform is bound to perturb their little niches, and they will resist silently and insidiously. . . . Opening up capitalism to the poor will not be as simple as running a bulldozer through garbage.

For example, many of the Third World elites who have benefited from being able to partake in the accumulation of capital resist extending those blessings to the poor because they wrongly believe that doing so will make them (the elites) worse off. De Soto believes otherwise, noting that extending those legal rights would solve a large number of the social and economic ills that plague Third World nations.

Interestingly, de Soto looks to the history of the West, and especially the United States, as a model for development, but not in the way one may think. The author examines the evolution of property rights in this country, including the problem of squatting on what was then government land. The westward settlers of the United States, he says, found large numbers of legal barriers to owning title to land, and it took more than 100 years to develop a workable system of property rights that was respected by nearly everyone.

Now that a system of legal ownership has been in place for about a century, however, de Soto says that Westerners often are unaware of just what it is that makes capitalism work. He writes

Why has the genesis of capital become such a mystery? Why have the rich nations of the world, so quick with their economic advice, not explained how indispensable formal property is to capital formation? The answer is that the process within the formal property system that breaks down assets into capital is extremely difficult to visualize. . . . The only way to see it is from outside the system—from the extralegal sector—which is where my colleagues and I do most of our work.

As stated earlier, this is very different from the typical view of economic development that is taught in the typical economics class of an evangelical college. For the last three decades, many Christians have taken a quasi-Leninist approach to the Third World—western capital is responsible for the poverty of other nations. For example, Sider (1977) writes

But what would happen if large numbers of North Americans began to consume less? Would not the economy stagnate and millions lose their jobs? . . . Significantly reduced consumption of energy (fewer cars and air conditioners, for example) would not necessarily mean widespread unemployment. Certainly there would be fewer jobs in heavy industry. But more jobs could be created in the arts, in recreation and in social services such as education and health care. . . . We might have to reduce the length of the workweek for everyone. But these things are all possible if enough people in affluent lands come to see that the God of the poor demands an end to hunger, malnutrition and starvation in the midst of plenty (p. 238).

From his later writings, one can surmise that Sider has progressed somewhat in his thinking from such naivete, that de-industrialization would mean that just as much food is produced as before, that all that extra food would be easily shipped to the Third World, and that such an economic move would lead to greater leisure time for all. However, even his most recent work (1999) demonstrates that he has only a partial understanding of what creates wealth, and he is still nearly as hostile to private property rights as he was in the first edition of *Rich Christians*.

I believe that de Soto has something to say to Christians who do believe that private property is Biblical, and that capitalism is not an evil system created by economists and their greedy, villainous allies with handlebar moustaches and wearing long, black capes. He certainly deserves a hearing in Christian circles.

However, I also realize that numerous evangelicals in academe have made a career of blaming capitalism for all social ills. They are not likely to change their tune, even after reading this book. But those folks who are serious about changing the lives of the poor everywhere will find much to like in *The Mystery of Capital*.

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- International Debt Relief: A Moral and Economic Challenge**
 Todd Flanders, Gary Quinlivan and Michel Therrien. No. 2, Christian Social Thought Series. Grand Rapids, MI: Center for Economic Personalism, 2001. ISSN: 1531–4057. \$6.00.
- Reviewed by William P. Jordan, Cornell University.*
- T**his brief analysis of the highly visible and politically charged debate around debt relief adequately addresses several of the topic's key issues from both economic and moral perspectives. It leaves out some fundamental facets of debt relief issues, somewhat conveniently, to affirm an obviously strong orientation in support of foreign direct investment.
- The book's introduction includes a goal that most readers can agree upon: "The goal of any debt relief policy must be the real and sustainable improvement of those most in need." The authors then set out to explain basic economic and accounting terminology to allow understanding by the non-economists or business accountants amongst their intended audience. Concepts such as balance of payments accounts, current account, capital account, net export of goods and assets, capital flows and direct and portfolio investment are generally adequately defined. Foreign direct investment is singled out as "mutually beneficial to the foreign corporation and the host country." It is also identified as "the most coveted by countries."
- The authors proceed to critique portfolio investment as the form of capital flow that typically causes external debt problems for developing countries. Such equity flows are deemed especially problematic when domestic governments use them to subsidize "state run enterprises or to support other pet projects" (thus implying that all state run enterprises are pet projects of the government). The authors confuse portfolio investments, which are equity flows such as foreign mutual funds' investments through local stock markets or securitized debt instruments in domestic corporations, with lending, which actually appears in a completely different place in the balance of payments. This confusing oversimplification seems to be intended to create an easy explanation that foreign direct investment is good, while any other type of investment is bad, and has contributed to the present debt crisis.