

April 13, 1989

The Editor, Forbes
60 Fifth Ave.
New York, NY 10011

Dear Sir:

In your issue of April 17, Michael Novak ventures to explain why Latin America is poor. He is prompted to refute a nun who blames "capitalism." Instead, he blames the statist regimes, inherited from Spanish rule.

One of your letter writers in that issue referred to Mr. Novak's "new and generally overlooked perspective." But Mr. Novak has achieved a monumental overlooking himself. How could he have missed the terrific concentration of land ownership in most countries of Latin America? It is reported frequently via newspapers, magazines, television. In many of these countries 1% to 2% of the population own most of the arable land while the mass of people are in desperate poverty.

This could easily be mistaken for "capitalism" but it is not. It requires no particular enterprise or ingenuity to collect the lion's share of the product by monopolizing the land. Indeed, this land monopoly throttles true capitalism as well as impoverishing the masses.

The ingenuity, if any, of the large landowners is in controlling their governments. Behind Latin American states are the military, behind the military are the landlords.

In evidence, Mr. Novak digs up one 19th century Dominican who was worried about handing down his property to his children, but is uncertain because of "the present state of things" (1871). Ironically, at that time there was a move to annex the Dominican Republic to the United States. Is this what worried that landowner?

But Mr. Novak need not worry. By far the vast preponderance of Latin American landowners have succeeded in keeping their holdings intact, even enlarging them, despite revolutions, upheavals, democracy, dictatorships.

There are three exceptions: Cuba, Nicaragua and Costa Rica. Cuba and Nicaragua, with their socialized economies, are failures. Costa Rica is the one successful example of a peaceful, stable, democratic state, hospitable to what I am calling "true capitalism." And note that there is a widespread distribution of land ownership in that country- not because of any ill-advised government schemes but because that is the way the country was settled.

Mr. Novak, take another look.

Sincerely,

Robert Clancy

The Larger Context

Some people blame capitalism for the poverty of Latin America. They ignore its (continuing) precapitalist legacy.

WHY LATIN AMERICA IS POOR

By Michael Novak



A Midwestern nun, Sister Mary, wrote me that she has just returned from serving as a missionary for ten years in "a Catholic" nation of Latin America, and is appalled at the "capitalism" she saw there.

She fears that, reading my column, "a good American capitalist could comfortably settle back into self-satisfaction, and not feel any further need to question." There are, in fact, plenty of questions for everyone—including Sister Mary.

Why, for example, are Latin Catholic nations as poor, as badly governed and as riddled with corruption as Sister Mary says? And why does she blame these wrongs on capitalism, seeing that Latin America is still precapitalist?

Sister Mary's letter reached me just after I returned from some lectures in Santo Domingo, the very

island on which, during his second voyage of 1493, Christopher Columbus launched the first European experiment in the Americas.

Actually there were to be two great experiments in this hemisphere—one in Latin America, begun on Nov. 22, 1493, and the other in North America, begun more than a century later, in Virginia in 1607 and in Massachusetts in 1617.

Writing from Scotland in 1776, Adam Smith observed both of these experiments—one imitating the political economy of the Holy Roman Empire, the other pioneering a new model without precedent on earth. Smith foresaw that the former would end in the poverty and misery quite visible to Sister Mary today, and that the latter would end in unparalleled liberty and prosperity. Smith urged the nations of the world to break from the former and to follow the latter into a new era of humane development.

Hispaniola, as Columbus called the rich, verdant and spectacular island that is today divided between Haiti and the Dominican Republic, was established under Spanish law and Spanish concepts. Through and through it was a statist project.

The Spanish Crown clasped all economic powers to its silken bo-

LEVERA

THE BEST-KEPT SECRET IN THE INVESTMENT WORLD.

som. No industry could be launched, no crop planted, no manufacturing undertaken without a grant of economic power from the state. Further, the Crown at first demanded in taxes 50% of all fruits of labor. Not surprisingly, agriculture and industries barely begun immediately collapsed.

Historians record that many of the Spanish immigrants wished from the beginning to set up a feudal system on ancient patterns. They thought less of creating new wealth by invention than of seizing bright metals, the glinting objects of avarice. They neglected the laws and liberties that reward industry, cultivation and investment over generations. Even in 1871, a Dominican told an American journalist, "All I want is to be sure that my property will be handed down to my children with certainty, but under the present state of things there is none."

The Spanish thought that poverty was relatively unchanging. A good Christian aristocrat would treat the poor leniently and paternally, a bad Christian harshly. The poor are passive recipients, whose eternal lot is dependency. These are feudal, not capitalist, ideas.

Oppressive Spanish taxation of the New World opened the Caribbean

to raiders from France, the Netherlands and England—to traders in contraband, to pirates and huge fleets of warriors intent on seizure. Wealth was gained the old-fashioned way, by taking it. Sir Francis Drake's invaders sacked Santo Domingo in 1586, stripping the Cathedral of St. Mary's of its gold and precious vessels. For generations other marauders looted, pillaged and kidnapped for ransom. In this precapitalist world, natural rights to life, liberty and property found no institutional anchor.

Even today, in most Latin American countries, as Peruvian economist Hernando de Soto says in his brilliant book, *The Other Path*, a large majority of the vigorous economic activists among the poor are forced to work outside the law. So narrow and antiquated is the legal system governing economics that they are treated as illegals or informals, subject to criminal penalties.

Compare by contrast the industry, orderly fields and productive agriculture—and the sway of institutions of ordered liberty—that delighted the admiring eye of visitors to North America from Crèvecoeur to Tocqueville. Throughout the northern experiment, the vast bulk of those who came poor did not long

remain poor. The new idea of economic order that so engaged Adam Smith—the new emphasis upon invention, discovery and the orderly protection of economic activism—was absent from Latin America, and is absent still.

Sister Mary should think on that before she blames Latin America's poverty on "capitalism."

The condition of *les misérables* in Latin America today is as utterly unnecessary as it was in Victor Hugo's France in 1832. Ancient ideas, ancient institutions and ancient customs hold back the entire Latin American continent, which came from the hand of God one of the most richly endowed in natural resources on all the earth.

Sad. Even our missionaries fail to understand the powerful new ideas that made the North American experiment so liberating for "huddled masses yearning to breathe free." Ideas matter. Laws matter. Institutions matter. The "new order" makes the difference. ■

Philosopher, journalist and ex-U.S. ambassador Michael Novak directs social and political studies at the American Enterprise Institute in Washington, D.C. Among his recent books are Taking Glasnost Seriously and Free Persons and the Common Good.

AGE

It can be as simple as the difference between knowing your limits and knowing how to make them work for you.

Risk-versus-reward is just one of the factors your CENTURY 21® Investment Professional explores as he assists you in identifying your comfort zone. Once you do, he can then help you use the leverage available to you. And that can help you make the real estate investment that's most appropriate for you.

You'll find CENTURY 21 Investment Professionals doing this kind of work in select CENTURY 21 offices. All across the country. Every day.

Call your local CENTURY 21 office and ask if they have an Investment Professional who can help you find what you're looking for.

When it comes to prudent leveraging, it's business as usual.



The Real Estate
Investment Professionals.