

1. Introduction

Although the title might suggest a narrow focus, this book is rather the product of years of cogitation on a variety of subjects and experiences, all of which inform the subject of investment. Specifically, it focuses on the subject-matter of economics, which logically is the main determinant in any investment strategy. And that is the primary reason for the subtitle. *A Guide for the Perplexed* is sorely needed, given the shortcomings of received economic theory. Economics is supposed to help people understand the economy and so act in it in a responsible way, hopefully to maximize returns on investment. But economics as currently understood falls woefully short of this task, and in fact more often only serves to confuse people and muddle issues. This will become clear from the discussion of my alternative, common-law economics, which therefore forms the backbone of the discussion.

In a sense, this book is the result of trains of thought begun back in my college days, first in forestry school (having graduated from Virginia Tech with a B.S. in forestry in 1983) and then in a hut in Paraguay as a Peace Corps volunteer, as an extension forester. At the time I was constantly considering forestry within the broader context of development, which then led me to grapple with development economics. I became convinced that what was holding back the developing world was institutional and cultural: there was a need for the institutions and orientation by which a market economy could be fostered, not for the benefit of the rich, but for the benefit of all, including those poor farmers I worked with at the bottom rung of the ladder. I also became con-

vinced that the development industry, as we might call it, was standing in the way of that goal, what with its top-down programs showering money on indigenous governments, precious little of which was making its way to that bottom rung of the ladder. And the university-educated types with whom I worked all were convinced of the deleterious nature of capitalism, especially in the specific form of the multinational corporation. This became especially clear to me when I proposed that a multinational would be the best entity to exploit, on a sustained-yield basis, the beautiful and lucrative forestlands of eastern Paraguay. Even though the existing forest service was doing *nothing* towards realizing such a goal, the idea was received with distinct coolness by my superiors, and an article written for the *Journal of Forestry* suggesting this solution was not even responded to.

I was planning on a career in international forestry, even to the point of having applied (and been accepted) to the Master of Forestry Program at Yale University. But I declined to matriculate and have since gone my own way with regard to study. I realized that the university environment was perpetuating a closed mind set with regard to the problems of development, and indeed with regard to economics in general. There would be no solutions forthcoming therefrom.

In my sojourns I ended up in the Netherlands, having married a Dutch M.D. My interest in economics and development continued, and I got a job as a translator at a financial services firm in Amsterdam. Here I learned the jargon and intricacies not only of translating Dutch into English but of textbook economics as applied in the world of finance. I have translated millions of words of business and macroeconomic news and analysis, and so have become intimately aware of how these matters are viewed by the professionals in the field.

In all of this I remained convinced of the essential rightness of a free-market approach to development, but all the economics I had learned still had not answered all my questions, nor dealt conclusively with all the issues I realized were involved. I had become familiar with the work of Hernando de Soto, through his book *The Other Path*, and saw in his seminal work the way forward. But it was not complete. Nor did his book *The Mystery of Capital* provide the conclusive answer, although it did provide a great deal from which such an answer could be fashioned. I also did a lot of reading in such brilliant albeit eccentric economists as Henry Dunning Macleod, who made the breakthrough of understanding that economics deals not with physical objects but immaterial ones – rights – and therefore that the legal system is to be integrated into any real economic theory worth its salt, and Irving Fisher, who likewise understood the importance of rights to economics, and added the crucial element of accounting practice as something to be taken into consideration if economics was to be a real-world discipline.

And then, finally, came the real breakthrough, when I discovered the work of Gunnar Heinsohn, Otto Steiger, and Hans-Joachim Stadermann. Their work for the first time takes full account of the legal order as well as the economic order, doing so in a completely integrated manner, the two in fact being different dimensions of the same reality, so much so that economics cannot do without an understanding of law and rights. The property/possession distinction, the understanding of property as being possession plus the capacity to encumber, therefore that property is simply possession put into the service of contract: these simple propositions constitute the breakthrough in economics. Specifically, they provide the key to understand the phenomena of money and interest, an understanding which hitherto

has eluded economists of all stripes. This will become clear in the succeeding discussion.

Heinsohn and Steiger themselves noted the affinity of their work with that of De Soto's, and indeed the confluence of these economic theories have made possible my own contribution of common-law economics. It comes at a propitious time, because this brand of economics understands and takes advantage of the promise of the emerging markets, the developing world, thus fulfilling the wishes of a lonely Peace Corps volunteer in his hut in Paraguay, wondering how all the pieces fit together. The developing world, as the following exposition makes clear, is the new frontier of capitalist entrepreneurship, of grassroots economic growth, of vibrant economies and dynamic citizenries. It all comes not a moment too soon, considering the dimming prospects of a developed world wherein risk and reward are being exchanged for the certainties of gray dependency.