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Transcript:
Juan Vicente Sola on Corporatism

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Introduced by Edmund Phelps

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Edmund Phelps: It's a great honor to introduce viewers to Juan Sola, Professor of Constitutional Law and Director of the Center on Law and Economics at the University of Buenos Aires. I asked him to talk on a subject on which he is the greatest world authority, and that is corporatism. I feel that we in economics occasionally have to take a little time to consider some bedrock matters in economic theory. And that's why I think it's quite appropriate that students of macroeconomic theory have some exposure to these fundamental matters. Juan, I give you the floor.

Juan Sola: Thank you very much. I'm very honored by your comments. I rarely receive those favorable comments and affectionate words. So I'm rather embarrassed. I'm very, very happy of course.

Corporatism is an economic, social, but also philosophic theory, or doctrine, which has a vast bibliography. Generally, people consider corporatism a circumstantial doctrine when, on the contrary, it is a very deep philosophy and doctrine that has been in development for over a century, especially after the First World War. After the Russian revolution, there was this very important idea to find a doctrine that would be different, both from capitalism and from socialism, communism, or Stalinism. Of course, first it was more opposed to communism than anything else, but it developed afterwards into a very strong opposition to individualism and capitalism.

Among the authors that we could mention from before the First World War there is, of course, the one person you always mention, Ned, Ferdinand Tönnies, who wrote a book that was an enormous development: *Gemeinschaft und Gesellschaft* considered the idea, for the first time, of an organized society, a society that could be compared with a commercial enterprise.

The other great origin was religious doctrine. At the end of the 19th century, due to what was called the social question, the Pope Leo XIII wrote an encyclical letter called “Of New Things,” or *Rerum novarum*. There was this idea of finding a “new way,” a new direction separate from capitalism. It was believed that capitalism and individualism would bring suffering to the working classes by creating huge differences in wealth and all that.

A second great document, also religious, was another encyclical in 1934, forty years after *Rerum novarum: Quadragesimo anno*. Pius XI believed there was a new way to solve social problems. It was that the government could find a way to have an arrangement with companies, or enterprises, and trade unions. Together, these three could create a new establishment, a new way that would stop social differences, social problems – and at the same time, the excesses of capitalism. He also imagined the doctrine of subsidiarity. Subsidiarity means that the lesser institutions – the smaller institutions – should do all the things they can possibly organize or do; the bigger institutions – let's say the state, or large organizations – only do things the smaller institutions cannot do. This is the basis, even today, of the European Union. So it is not surprising that still, in Europe, in spite of the recent evolution, we still have very strong corporatist institutions.

Corporatism was associated with authoritarianism in the 1930s—Salazar in Portugal, Franco in Spain, and Mussolini in Italy had this idea that there could be a new form of representation instead of representation by parliament or representation by capitalist corporations. There could be a new organization, politically, in economic representation. Economic representation means that people are represented not by political parties (or they could be by political parties, although this would be of secondary importance). They instead would be represented by the economic activity that they were doing. If I'm a member of a trade union, I would be represented by the trade union. If I'm an entrepreneur, or even a businessman, I would be represented by the chamber which represents my business. In some countries, like Portugal, there were chambers of corporations similar to those in Mussolini's Italy.

But even after the Second World War, when all that disappeared, this idea that the real representation of a person in society comes from that person's work is still active. It's active in

South America. It's active in many parts of Europe. When, for example, the government needs to make some sort of conference, analysis or consultations, they go to trade unions and the representations of the big corporations. So the idea is that the economic system is based on the government, big corporations and trade unions, and together, economic and social councils (or just political consultations) in a way arrange the economic decisions.

That poses several problems. First, in order to get this sort of equilibrium and to avoid conflicts, trade unions need to ensure that they have a great amount of employment. I mean, that there's not massive unemployment. So the only way that companies can ensure that there is high employment is to ensure that they are protected. How are they protected? First, by autarky. Autarky means closing, in a great way, the economy.

To ensure high employment and to avoid social conflicts, companies had to be protected by the government or the state. How they could be protected, in general terms, is autarky. That is, avoiding competition from abroad – imports, if possible. So they had some sort of protective tariffs, selective, in general. In some countries, like in South America, they are generally protected, and others are more selective, but in general, they are protective. They also avoided internal competition. That is, it is rare in corporatist societies that new companies are created. There are primarily the old companies: they remain over time, they have troubles, but in general, they are protected or helped by the government or the state in order to keep, in a way, the social peace. If there is a company that has problems and goes bankrupt, in many cases, it is nationalized by the state, or the state arranges for it to be bought by other companies. The idea that you have destructive creativity, new companies, or innovation only happens inside the big companies.

The trade unions, at the same time, help the companies because they are associated with this idea of not having strong competition. The term “general use” means you don't want excessive competition. Excessive competition means that companies could go bankrupt or disappear or be reduced. The idea is that to have social peace you avoid strong competition. The new companies will replace the old ones. At the same time, trade unions are centralized. This was the great invention of Mussolini in the *Carta del Lavoro*. In the *Carta del Lavoro* of 1927, Mussolini

invented or created only one trade union by activity, not several trade unions, so as not to compete. Trade unions were, in a way, obligatory. If, let's say, a worker does not want to be part of the trade union, there is no other trade union he could go to, or he has to pay some sort of fee to the trade union, even if he's not affiliated. That is more or less the basic idea of corporatism.

How is this related to innovation? Innovation is needed in every society. Let's say big companies know that there is some innovation in some country. They try to arrange it or buy it or have the innovation through their companies and not through new companies. This is one of the ways new companies are prevented from growing – I mean they're not completely prevented.

Another way is to have very rough or very strong regulations. If you have very strong regulations that new companies have to abide by – for example, very rigid social or labor laws – those very rigid labor laws make the small companies have to organize at the same level of a big company. That is extremely costly and very few companies could do it. In general, a new company will try to associate with a traditional company and work with that. So we are inside this regulated society.

Regarding the ideology of corporatism, its first idea is the myth of unity. The idea of unity means that society should not be disorganized. A capitalist society is considered disorganized. There are people doing different things, new companies, new ideas, and new problems. The idea in corporatism is an organized society. Juan Perón said, in a famous speech in 1949, "We must create an organized society that destroys the problems of individualism." Mussolini used a similar word. It's called the "moral society." The idea is that society cannot be left to itself in some sort of disorganization. It has to be organized by regulations, organized by the state. So this state not only regulates in general, it also indicates which type of activities should be done. For example, in South America, the idea that Raúl Prebisch indicated was to substitute imports of industrial products. In Europe, it's agricultural products which are not allowed to be imported. And so there is some form of subsidy to industrial activities or to agricultural activities according to the situation.

The other point that comes with this idea of unity is that we should create an organized society so employees will keep their jobs, companies stay stable over time, and there will be little innovation. In this organized society, innovation can only occur if it comes from inside the system, not from outside the system by new companies.

The other ideology is what Carl Schmitt said in the 1920s, and then later in the 1930s: the dialectic of friend-enemy. There is, in the political relation, two alternatives, two extreme poles: friends, and enemies. There are no alternatives. There can be no indifference. So this idea that you are with us or you're against us, this is very important because your enemy defines you. In a political populist system, a corporatist system, the definition of the government and the definition of the society is made by the enemies that it indicates. My enemies are those that define me. Those who are not with us are against us. If you're not with us, if you are not helping the national activity – the development of the nation, the creation of new jobs – then you're an enemy. I quote Perón because he was very eloquent in this, but there are many others who spoke on this. Perón said, "To the enemy, not even justice." The enemies define me, moreover, they define what I think, my policies, or the policies of the government. In summary, I define who is my enemy – real or hypothetical, foreign or national, imperial, United States, or whatever. With the definition of my enemy, those who are not with the enemy are with me, and this is the strength of the government. You have to choose. This is very strong because you are in a way an enemy of the nation. Of course I'm giving extreme examples, but you will find even in European nations that this fight between certain positions is sometimes very strong. And I would say recently in the United States, I've also seen this type of confrontation – populist confrontation.

The other point is this idea of a regulated society. Corporatism thinks that there are certain natural institutions. Which are the natural institutions that should be recognized? Well, trade unions, corporations, companies (of course, companies are natural institutions), landowners, and the church – in Catholic countries the church is extremely strong, but not only in Catholic countries. So those are the natural institutions that the government should talk to more than to political parties or groups of opinion. Political parties, of course, do exist. But as you see in probably seven countries in Europe, political parties are not so strong. The present crisis in Italy shows this. The new prime minister is someone coming from the bureaucracy – a banker, not

really a politician, not really someone voted by the people to become prime minister. The same happens in Spain. In France it is quite common that public officials sometimes afterwards become elected officials. So there's a tradition of public officials maintaining their positions for a long time, sometimes for a very historic time, and then they are elected to political positions. This idea of pure political parties is in a way foreign to corporatism. Political parties do exist, of course, but they are of lesser importance than these famous natural institutions.

Let me give you two ideas and then we'll do some summing up. The first idea: my co-national, Pope Francis, has very strong words in encyclical letters on the idea of individuality, on the idea that it brings riches, creates differences in society. He says words that are quite strong, like, "Those who look for riches are looking for the devil." The ideas of the Pope, like the ideas of the social doctrine of the Catholic church, are strongly corporatist and have enormous influence. The Pope wrote an encyclical and several speeches against individualism and against looking for wealth.

The other point of corporatism is entitlements. The basic idea of corporatism, on top of the regulation of society, is that to solve social problems, we should give some sort of economic or monetary transfers – entitlements. Eva Perón had a phrase, "When there is a need, there is a right." If someone has a need, we should give them some sort of money, riches, in order to solve the problem. This is not the idea of giving money in order to develop a company or develop an industry or to innovate. But, on the contrary, as a social solution. This question of entitlements makes the government the greatest purveyor of resources to poor classes. In the system of corporatism, we have, of course, the government, the big companies, the trade unions, other institutions, the church, and other types of companies, but also a great number of persons live off the money given in entitlements by the state. In a way, there is some sort of army of sometimes extremely poor people that can receive money and depend on the will of the government. That makes stagnation a rule of corporatist societies. Corporatist societies, I think, still survive in South America, Central America and Mexico, also in the Philippines, and even in Western Europe.

There is another point: this system tends toward corruption. Corruption is flagrant in corporatist societies. Why? Because the government chooses winners. And of course the government also gives money to trade unions, and in general, part of the society.

Thank you very much.

Edmund Phelps: Juan, thank you very much for this striking and really amazing description of a system that has arisen in many countries at many times. I won't speak on the complicated question of whether the US is there – certainly it's not mainly there, but whether the US is moving in that direction? I don't know. It's hard to say. It could be.

Juan Sola: I think it was, in the past.

Edmund Phelps: There are those that thought Trump was strikingly like Mussolini. He wanted to control the economy like a puppeteer controls the puppets. I don't know that that is central to corporatism as you see it, but it certainly has a corporatist flavor. Don't you think?

Juan Sola: Oh, definitely. Not only him. There are those in the United States, including [John Kenneth] Galbraith and there was a famous book called *The Managerial Revolution* (James Burnham, 1941) that argue the US has at times engaged in near corporatism. I think Trump was a populist and populism is the political branch of corporatism. Populism is the way that you create a society, a regulated society. I believe Trump tried. Of course, the United States is huge, it's different, all that, but he tried. And if he had been reelected, probably he could have succeeded and created a sort of regulated society, choosing winners and entrepreneurs and arranging with trade unions and churches, quite probably. I think the United States was quite lucky to get rid of him, if I may use that term.

Edmund Phelps: Thank you again for this eye-opening discussion of an extraordinary line of development in the past – little more than a century ago. I'm very grateful to you for introducing this to my students.