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What's the Matter with South America?

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This is a brilliant and necessary article, a masterpiece of integration between economics, business strategy, culture and institutions. Those of us who have worked in the region know that "culture is the mother of institutions … We also know that prosperity increases the possibility of progressive human values like tolerance for people unlike ourselves … and optimism about the future.
-Michael Fairbanks, Fellow, Weatherhead Center, Harvard

What's the Matter with South America

Edmund Phelps* and Juan Vicente Sola**

The social and economic performance in South America continues to presence of some powerful values inimical to individual success and innovative pursuits has given rise to corporatism, lag behind most of the world. What accounts for the widespread governance failures in South America? At bottom, the problems in South America lie in the institutions and the values that led to those institutions.

There has been a rise throughout the continent of the social and economic system known as corporatism. The system operates to prevent political and economic competition in the name of social harmony and national unity. A result is an economy in which the business sector is enmeshed with the public sector and tied down by state restrictions. Yet, there is more to be said.

The institutions and practices there derive from the presence of some powerful values inimical to individual success and innovative pursuits. In the near-absence of the modernist values that sparked massive, grassroots innovation in Britain, America, Germany, France, and Sweden from the mid-nineteenth into the twentieth century, South Americans have remained wedded to a loosely defined traditionalism. A result is a continent in which only a minority of people are oriented toward engaging careers of creating or venturing and thus flourishing.

Corporatism

South American corporatism emerged from a search for a Third Way (*La tercera posición*) in place of American-style capitalism and Soviet-style socialism.[1] In the 1930s, even the trade unions in South America abandoned the traditional class struggle, and the region became a laboratory for a new idea that pretended to offer a solution to the quest of social peace.

So, corporatism was a response to the global debate over socialism, and to demands for social arrangements that would be acceptable to both workers and employers – particularly during the Great Depression. With the belief that liberal democracy could not provide a solution to the crisis, populist leaders proposed a new form of representation that insisted on the unity of "the people" against their enemies. These enemies went by different names, most of which referred to imperialism, and specifically to the United States and the social classes associated with the imperialist forces.[2]

Moreover, the concept of a corporatist society – with new forms of organic representation hostile to political and economic competition and innovation – became embedded in nationalist and Catholic thought. A new look at ancient doctrines offered a way to overcome the political and economic conflicts of the 1930s. The search for collaboration and harmony among the social classes was particularly influenced by papal encyclicals, and driven by the need for national unity in relatively new nation-states with a high influx of immigrants from Europe.[3]

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1 Juan Domingo Perón, Mensaje a la I Conferencia de Países No Alineados, Septiembre de 1952, Cartagena de Indias, Colombia.

2 Sola, "The corporatist antagonism to economic dynamism," in *Achieving Dynamism in an Anemic Europe,* (Springer, 2015), 197-230. See also "The 'Constitional Economy' of Dynamism and Inclusion," *Journal of the Center on Capitalism and Society,* vol. 5, article 3, 2010.

3 Rerum Novarum on Capital and Labor, Encyclical of Leo XIII, 15 May 1891, and particularly Quadragesimo Anno Encyclical of Pope XI on Reconstruction of the Social Order, 15 May 1931.

Although the main foe was communism, capitalism was also regarded as a threat to traditional values – among them the centrality of the family – and as a mechanism for establishing a culture of materialist greed. The new corporatist vision proposed a society organized in guilds and embodied by a form of government based on participation in economic activity and social movements, rather than through political parties.

Though South American corporatism originally followed the model of European authoritarian regimes such as those of Benito Mussolini in Italy, António de Oliveira Salazar in Portugal, and Francisco Franco in Spain, it evolved and assumed its own form. It embodied a quest for a society in which social and economic conflicts, including political debate and market competition, would be controlled by a form of a corporatist representation. Trade unions and business chambers would discuss the main policy issues, under the arbitration of the government.

As this process implies, corporatism tends to give power to the executive at the expense of parliaments and courts, which are replaced in substance by interest groups representing capital, labor, and institutions like the Church. To justify corporatism, its advocates tried to adapt ancient and medieval organic ideals to modern societies, and oppose both political pluralism and economic competition.

At the heart of corporatism are the myths of political unity and social harmony. To maintain these illusions, the state would order employers to pay better salaries, require better working conditions, and penalize layoffs. Employers would be compensated with tariffs that impeded import competition, as well as limitations on market entry by new enterprises.

Moreover, new businesses would be discouraged by excessive labor costs and complex, expensive regulations to protect big corporations, punish beginners, and thus prevent innovation. Similarly, new trade unions were to be excluded from the centralized system, and had to seek

incorporation into the existing structure. The central conceit of this tripartite model of social organization – in which government and peak labor and business associations controlled the commanding heights of economic policy – was that it represented a unity of all human activities.

Corporatist leaders reflect themselves in the mirror of populism – as an association of charismatic leaders, industrialization through imports substitution and a rebellion against the constitutional system. Populism calls for a direct relationship between the people and their leader, and it rebels against constitutional constraints. It is an anti-status quo scheme that simplifies the political environment by symbolically dividing society between the "people" and the "other." By conjuring a common enemy or oppressor, populism puts the rest of the citizenry in the same boat, rendering all seemingly equal.

Corporatism represents a moral change, proposing solidarity against individualism, which is seen as degenerating into egotism. Every person is to acknowledge his place in society and not to envisage personal progress relative to others. In accordance with traditional religious belief, this form of politics makes poverty a virtue: one should embrace being poor and reject greed and cupidity. Since competition fosters periodic crises and breeds egotism, arrogance and inequality, it should be abandoned in favor of corporatism, which is said to favor stability and social equality.

With individualism condemned as a form of moral degradation and a source of political turmoil, personal freedoms are seen as deriving from collective rights. The community, organized around "solidarity," is the antithesis of pluralism and the open society. As the Argentine autocrat Juan Perón put it in 1949, "The ultimate meaning of ethics is correction of

egoism. The Platonic idea that man and the community to which he belongs are in irresistibly mutual integration seems to us fundamental."[4]

Perón's description clearly follows Mussolini's conception of "moral community." The seventh of Perónism's "Twenty Truths" holds that, "No Peronist should feel more than what he is, nor less than what he should be. When a Peronist begins to feel more than what he is, he starts becoming an oligarch." Accordingly, some values are simply inimical to corporatism, among them individualism and the entrepreneurial spirit. In the social ethics of corporatism, while poverty is considered virtuous, acquisitiveness is insidious, divisive, and a manifestation of idolatry.[5]

The Corporatist Economy

A corporatist economy is organized to end the anarchy of the market. It therefore permits only a limited number of dominant companies to bargain with state agencies and trade unions over public resources, and it features a revival of the corporatist organization of labor (centralized trade unions) modeled on Mussolini's Carta del Lavoro of 1927.[6]

The founding myth of corporatism is unity of the Nation against foreign enemies and against the divisions created by political pluralism. Social bodies such as trade unions, business organizations, universities, and the Church are prized as natural institutions against the disruptive forces of

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4 In his speech to the National Congress of Philosophy in Mendoza Argentina 1949. In the same Congress of Philosophy an important theorist of Fascism, Ugo Spirito, gave two speeches, both published in 1950.

5 In the words of Pope Francis, " all the goods that we possess were given us by the Lord to make the world go round, humanity progress, to help, to help others. " With these words he meant to deter individuals' quest for achievement on the grounds that "[t]his cupidity will make you sick, because it makes you think of everything in terms of money.…[G]reed is a tool of idolatry," Speech during mass on10/21/2013 at Casa Santa Marta, Vatican.

6 It would be convenient to mention Article 1 of this Labor Charter: "The Italian Nation is an organism having ends, life, and means of action superior to those of individuals, singly or in groups, of which it is composed. It is a moral, political, and economic unity, realized wholly in the Fascist State."

political debate and extreme economic competition. The latter is said to upset the harmony among economic actors and sow conflict between owners, managers, and workers.

The ideology of unity necessitates a program of social coordination. The government participates actively in economic decision-making, and seeks to create the appearance of social justice by representing the people as a community with a common destiny that is threatened by enemies foreign and domestic.

A goal of the corporatist economy is to solve social conflicts through money transfers, which become entitlements. As Eva Perón explained in an oft-quoted speech, “Where there is a need, a right is born.” But these handouts are not subsidies for work; on the contrary, corporatism relies on a political clientele that itself relies on state donations, including a centralized national pension system. Under this arrangement, around 80% of the Argentine population would receive some form of payment from the federal government.

Traditionalism

Around the world, people take basic pleasure from their home life, personal friendships, and other voluntary associations that embody traditional values. People are also pleased when there is a general increase in incomes, especially when these come as the just rewards of hard work.

In parts of the world, many people (more in some times than others) have an intense desire to succeed at something – especially in a society that celebrates individual success. To see “your ship come in” is hugely gratifying. In America from the 1850s to the 1950s, immigrants and other new entrants in the economy were driven by the hope of “making it” – the true “American dream.” Under the right conditions, this drive toward

success is capable of stimulating entrepreneurship, thereby fueling economic progress more generally.[7]

Also of great importance is the deep satisfaction that comes from imagining something new or embarking on a voyage of discovery and seeing what comes of it. Many people have a deep-seated longing to express their creativity and a willingness to venture into the unknown by pursing innovation. Many also find satisfaction in "making a difference" or otherwise "acting on the world."

Such successful lives and the resulting innovation can come only to people with the "right stuff." Values such as individualism, vitalism and self-expression are high on the list. These values arguably emerged from the Renaissance – making their way from Pico, Luther, Cervantes, and Shakespeare to Keats, Shelley, the Brontë sisters, and so forth. (Americans were further influenced by Melville and Twain, later Nietzsche and Robert Frost.) When these influences reached a critical mass – first in Britain and America, soon after Germany, and France – there was an explosion of modernism, largely displacing the traditionalism of their past.[8]

The question at this point is whether the modernism that permeated the West and still has great influence there largely bypassed South America, thus leaving a larger place for traditionalism. Fortunately, in the great investigations by Ronald Inglehart of attitudes and beliefs across countries we find evidence that modernism has been generally weaker in South America than in the West.

The survey data collected in 2000 show that people in the West tended to value the "initiative" offered in the workplace distinctly more than

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7 People also draw satisfaction from obtaining better terms for one's work, a point made by the economist Kenneth Boulding. Lecture at Temple University, Philadelpha, ca. 1968.

8 This thesis was developed in Phelps, *Mass Flourishing* (Princeton: Princeton University Press,2013) and tested in Phelps, Bojilov, Hoon and Zoega, *Dynamism* (Harvard, Cambridge and London, 2020).

people in South America do, on average. In the US, 62 percent rated this attribute important, compared to 58 percent in (pre-unification) Germany, 52 percent in Sweden, 43 percent in France, 39 percent in Britain. In contrast, only 41 percent did in Argentina, 45 percent in Brazil, 25 percent in Colombia, 40 percent in Peru and 48 percent in Uruguay.

Regarding the importance placed on "achieving," 84 percent rated it important in the U.S., 68 percent did in (pre-unification) Germany, 72 percent in Sweden, 58 percent in Britain and 50 percent in France. In contrast, only 48 percent did in Argentina, 50 percent in Brazil, 44 percent in Colombia, 47 percent in Peru and 60 percent in Uruguay.

Lastly, regarding the importance put on "interesting" work, 82 percent rated it important in the U.S. 70 percent did in Germany and 66 percent in France. Here only 39 percent did in Argentina, only 28 percent in Brazil, only 12 percent in Colombia, 33 percent in Peru and 50 percent in Uruguay.

In such a complex matter, there are often issues of causality. Did South Americans' traditional values pave the way to the crippling institutions of corporatism, as argued here? Or did corporatist institutions deprive South Americans of the modernism they would otherwise have acquired? The causation may run both ways.

Aftermath

Long adherence to traditional values, combined with more than 70 years of the resulting corporatism, has left behind a range of ill effects. Some are plain to see. Vast bureaucracies, centralized trade unions, and a business class protected by governments against foreign competition through a closed, autarkic system are all standard features of South American political economy. Bankrupt companies are routinely expropriated by the state or transformed into worker cooperatives to "protect employment" and avoid layoffs.

Other consequences are hidden. New endeavors are viewed with misgivings. There is great suspicion of innovation and distrust of young entrepreneurs who are ready to run the risks of offering new products and services to consumers. Few companies have employees oriented toward conceiving of novel products or better methods.

To be sure, productivity gains do occur in South America and new products do emerge. But these gains have derived almost entirely from advances in the lead economies such as the United States, the European Union and, now, China. Outside of agriculture, very few innovations are indigenous to South America.

Nevertheless, South America's future performance may turn out to be better than it has been over the past 70 years. In the West's current era of slow growth (which started in the early 1970s), the sources of innovation have narrowed, globally, to Silicon Valley, Beijing, Oxbridge, and little more. Hence, South America's few cosmopolitan companies have an opportunity – after being in the shadows for a century or more –to flower and make a mark on the world stage – assuming, of course, that the pandemic is brought under control quickly with minimal long-term damage.

Moreover, it now appears that factions in the West are pushing back for a return to traditionalism and a rejection of the modern. Westerners today do not report as high an interest in their working lives as they did in the 1950s or even the 1970s. They are more interested in money more than novelty, security more than adventure. Competition is giving way to state protection and interference. US President Donald Trump's threats and favors to companies represent a further step toward corporatism in America. Unless this shift in values reverses, the West could find itself resembling the South America of today.

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Appendix

Importance Placed on Attributes of Work

	"It is important in a job to have opportunities to use initiative."		"It is important in a job to feel you can achieve something."		"It is important to have a job that is interesting."		"In my life, work is very important."	
Country	1990	2000	1990	2000	1990	2000	1990	2000
Argentina	55	41	50	48	51	39	76	74
Brazil	51	45	53	50	46	28	82	84
Colombia	na	25	na	44	na	12	na	72
Peru	na	40	na	47	na	33	na	69
Uruguay	na	48	na	60	na	50	na	71
America	52	62	71	84	69	82	62	54
France	38	43	42	50	59	66	61	69
Germany	58	53	68	52	65	70	61	45
Great	46	39	66	58	72	68	51	42
Sweden	71	52	85	72	80	70	67	54

From R. Inglehart et al. *Human Beliefs and Values, A Cross-cultural Sourcebook Based on the 1999-2002 Values Surveys*, México: Siglo XXI, 2004, tables C016, C018, C020, A005.