

COMMENT TO MARIANO GRONDONA'S PAPER

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It is not an easy task to comment on such a well written and soundly based paper as Mariano Grondona's one. He starts pointing out the overwhelming and two-dimensional social debt that characterizes Latin America (LA). The first dimension is the *intra-generational*, i.e., the solidarity debt between people from the same generation, whose main responsibility is in the hands of public officials, political, economic and social leaders and those who are better off. The second one is the *intergenerational*, i.e., that of people in active ages towards the elder, the youngsters, the children and generations yet unborn. According to Grondona, nobody is innocent. We all are debtors, because life is a gift we have received from God and, as a consequence, we all were born theologically and philosophically indebted. But, as in Orwell, some human beings are more indebted than others and they are those who have received more talents. Although their debt is, per se, unpayable, this does not exempt them from moral obligations towards those who have received fewer talents. The amount and obligations arising from this intragenerational debt compound when we consider future generations at the same time, for the very simple reason that they are innumerable. And this is particularly true in LA and other developing countries, with their high demographic growth, infant morality and malnutrition.

In order to pay the payable part of such unaffordable debts, Grondona argues, not only are needed the efforts from those directly responsible, but also from those of the developed countries and the unprotected people themselves. The solution to this complex process requires establishing priorities. Grondona thinks that in the case of LA the intergenerational debt towards future generations has the main priority, not only for demographic reasons – the high proportion of youngsters and children – but also because of its own nature, i.e., it includes many generations. It is impossible not to agree with Grondona when he says that 'the adequate prepara-

tion of children and youngsters is the place where the decisive battle of intergenerational solidarity takes place’.

Grondona then investigates if, regarding the intergenerational debt, LA backwardness could be an advantage. To do this, he first explores if the future of developing countries is going to be nothing else but to walk along the same route already walked by developed countries. Perhaps it is, but this is not necessarily desirable because, ‘confronted with the deterioration of family values in developed countries, developing countries must learn in order to prevent a damage that has not reached them yet’. Grondona suggests that a mixed development model, combining the positive values of developed countries with some socially highly valuable traits of the LA traditions could be the ideal.

Regarding intergenerational solidarity, the most relevant of these values is the higher prevalence of family life in LA. But this prevalence leads to other important question and it is if ‘familism’ – as a sort of extra-limitation of the prevalence of the family life – could not be, at the same time, an obstacle to economic development. In order to explore the point Grondona mentions alternative hypotheses that have been suggested to explain LA backwardness. They are structuralism, institutionalism and culturalism, but the author analyzes mainly the two last ones. Culturalism criticizes familism as something particularistic, opposed to law, and associated instead to corruption or tax evasion. Grondona argues that recent economic progress of Buddhist or Catholic countries shows that the old Weberian thesis of some sort of incompatibility between those religions and economic growth has proved to be wrong.¹

If there are good arguments to sustain that, regarding family, backwardness could be an advantage, very different is the case when we turn to institutions, whose lack of development in LA is one of the clearest weaknesses of our continent. More than that, Grondona thinks, and I agree, that it is the main cause of LA underdevelopment. It is true that we need good social policies to pay our social debts. But they require good politics, meaning here the organization of the State conceived as an efficient agent of the common good. This requires a solid consensus of the main political parties on which can be called ‘statepolicies’, as different from the policies of a particular government.

¹ From my point of view the issue has already been proved in cases like Belgium or Northern Italy. On the other hand, only time will say if growing non-Protestant countries will be able to preserve the value and the prevalence of the family.

The Moncloa Pact in Spain is the canonical quotation in this context. In LA, instead, changes of government very frequently imply changes of *regime*, on a zero-sum base and political opposition also tends to be perceived as the enemy. Fortunately, LA is beginning to show that a basic consensus and state-policies are both possible, being Chile the clearest example.²

Other very clear manifestations of institutional underdevelopment in LA are corruption – not only corrupted behaviors but a corrupt State as well – and the lack of republican values and procedures. In contrast to what happened in more developed political systems, in which the development of republican virtues and institutions preceded the development of democracy, in LA military or civil autocrats – sometimes more republican – were very frequently replaced by non republican democracies. As a consequence, authoritarianism has been, and still is, another almost permanent manifestation of LA political underdevelopment, not only during military governments, but also in many democratic restorations. This authoritarianism is associated to *caudillismo* and the lack of a solid two-party system.³ Very frequently, the typical LA authoritarianism has been combined with different sorts of populism, i.e., the propensity to give answer to the immediate needs of the people without taking care of the future. The only way to overcome populism, Grondona concludes, is a bipartisan agreement. Only ‘when the heart – rending dilemma between the short and the long term, between demagogic temptation and political prudence, is thus eliminated from the political competition, only then the way is open to the social and economic development whose omission Latin Americans have suffered’.

The Structural Hypothesis

I have three main comments to the paper. The first one refers to the structural hypothesis of LA underdevelopment, the one that is mentioned but not fully analyzed in Grondona's paper. The second one seeks some additional links between economic backwardness and institutional under-

² Chilean history, however, it is not an ideal one, since most economic and social reforms were put in place by a military dictatorship. But the crucial ability of Chilean politicians was to agree on a transition scheme from dictatorship to democracy.

³ The bipartisan formula is nowadays accepted as the more efficient one in democratic regimes. There are signals of its development in Brazil, Chile, México and Uruguay. On the opposite side, we find nowadays the cases of Argentina, Bolivia, Paraguay and Venezuela, among many others.

development. The final one refers to the opportunity that LA has in order to preserve one of the 'advantages of its backwardness', i.e., its higher prevalence of the family.

Urban modernity in LA constituted itself on fragile bases. The continent, and particularly South America, has had from the very beginning a very generous endowment of natural resources relative to population. However, it suffered a huge expropriation of these resources during the colonial period, as well as a very unequal distribution of the land, in a Prussian rather than in an American way. As a consequence, vast and growing impoverished populations were obliged to immigrate into the cities. Until the fourth or fifth first decades of the XX century, governing elites did not realize the necessity to gradually develop a more diversified productive structure, large enough as to give employment to these new urban masses. From the middle of the last century onwards, a new system of political economy was put in place. Its core was the extraction of resources from the primary sector to assign them to the manufacturing and other urban activities. This system was similar to the ones applied in other newly industrialized countries, but in the case of LA it was more biased towards the domestic market, closing the economy almost completely. During the first years, approximately until the Korean War, the system worked reasonably, because of the favorable international terms of trade. But they did not last and, with some exceptions during the oil shocks in the seventies, the terms of trade severely deteriorated.⁴ Of course, one of the main explanations of this deterioration was the development of a system of huge agricultural protectionism and subsidies, set in place by Europe, Japan and the USA since the second Postwar. The result of this combination of worse terms of trade and orientation to the domestic market was a chronic shortage of foreign resources, and the economies of the region thus resulted exposed to violent turbulences, with equally violent social and political consequences. Even the tragedies of the seventies are impossible to understand out of this framework.

Trying to replace the role of their natural resources, LA societies give to the State a protagonist role, not only in the distribution of income but also in the creation of wealth. This was, and still is, one of the typical traits of LA populism. With some delay, the development of the LA State was more

⁴ Since the nineties, and as a consequence of the growing Asian demand of commodities, LA foreign terms of trade have improved.

similar to that of some European countries in the interwar period, than to its modern version, in which the steady development of a sounder welfare state was compatible with endogenous growth patterns, more market-friendly, open to the world and increasingly based on human capital and technology. Additionally, the development of the State in LA was based on the extraction of resources from the primary sector of the economy and on domestically biased manufacturing. These foundations proved to be essentially fragile. LA populism thus resulted in a political sort of magic realism, based on the belief that it was possible to create wealth almost from outside of the civil society. Some negative but logical consequences were chronic inflation and public sector indebtedness, both originated in the same sin, the failure to develop fiscal responsibility prone institutions.

The Structural Hypothesis and Institutional Underdevelopment

My second comment is referred to what is perhaps the core of Grondona's paper, i.e., the idea that institutional underdevelopment is the main cause of economic backwardness. This is a well documented hypothesis, at least since the days of Adam Smith and Tocqueville and developed, more recently, by Douglas North, Mancur Olson and Mariano Grondona himself in previous works. More recently, Dani Rodrik has criticized this hypothesis, arguing that the economic progress of Asian Pacific countries shows that an institutional set very different from that of Western republican democracies is also compatible with economic development. Rodrik's arguments have some strengths, as well as some limitations. First, Asian economic development is a relatively recent phenomenon, so it cannot be compared to the long run development of Western countries. Secondly, it is true that migration is not good for institutions, but this is true for every country, not only for Asia. And, in the case of LA, it would be unrealistic to think of a set of institutions different from those of the republican democracy that all LA countries established in their constitutions since the middle of the XIX century. Having said this it is also important to understand that the institutional difficulties confronted by LA countries are not isolated from the historical malformations succinctly described in the previous section. So, from my point of view, our institutional underdevelopment cannot be fully explained by cultural or institutional factors themselves but we need to add to them a deep understanding of those malformations.

Perhaps the following typology can help us to a better understanding of the relationships between economic and institutional development. For

instance, the place a country has in this typology is critical to understand the institutional quality and the prevalence and the kind of corruption it has and its future development.⁵

Countries in the NW quadrant not only have been the most successful regarding economic development, but also have had their regulations enforced by governments long ago established *from the civil society upwards*. Those regulations are, for that reason, legitimate or, as Max Weber said, people in those societies tend to act *as if* those were legitimate. This legitimacy is the matrix that gives birth, simultaneously, to accountability and law enforcement. At the same time, the principle of fiscal correspondence, clearly stated in sentences like ‘no taxation without representation’, was crucial to that legitimacy. This was typically the case of constitutional monarchies in Northern Europe, their offshoots in North America and Oceania and commercial, normally republican, cities. In these countries, and for the same reasons, local governments have been traditionally very important. The possibility of corruption is always open, but societies’ control imposes stricter limits to bribery.

TYPOLOGY OF GOVERNMENTS

KINDS OF GOVERNMENTS	ESTABLISHED ‘FROM THE BOTTOM’ Stronger civil society	ESTABLISHED ‘FROM THE TOP’ Weaker civil society
LEGITIMATE	Constitutional monarchies New countries Commercial republics	Absolutist monarchies and successor states
ILLEGITIMATE	Parallel governments: mafias, guerrillas, bandoleers	Dictatorships (Africa, Asia, Latin America)

In countries of the eastern quadrants, on the other hand, the presence of absolutist or very powerful monarchies or dictatorships was much more pervasive and, as a consequence, people got used to perceiving much of

⁵ This part of the paper is elaborated after Llach (2001).

their regulations as illegitimate.⁶ More recently, something similar has happened in most LA countries as a result of the disenchantment with the reforms of the nineties and the resulting backlash. Moreover, the idea of legitimacy itself originally became from top to bottom and an anthropomorphic idea of the State, with capital letters, still tends to prevail. Local governments, on the other hand, tend to be very weak.

Let me quote in this context the Italian saying: 'Se piove, governo ladro; e se non piove, governo ladro'.⁷ Illegal activities have tended to be frequently seen as legitimate, because they were considered as a reaction against a government perceived as illegitimate. A very clear and widespread example of illegal behavior is tax evasion. And a typical situation in which it arises, as we can read from the Gospel onwards, is the imperial or colonial domination. Of course, if because of international economic conditions or otherwise, legal ways of winning the bread are scarce, different kinds of rent-seeking and bribery are going to be much more frequent. The other side of the coin of this 'legitimate' bribery of the citizens is the equally 'legitimate' corruption of governments whose control from society is very weak.

Under extreme conditions, a complete parallel government is created through guerrillas, mafias or bandoliers (SW quadrant). One the most interesting cases we can quote in this context is Sicily. Its capital, Palermo, was the most populated European city at the eve of the second millennium (Shleifer and Vishny, 1998). Precisely in those times a never ending succession of foreign princes invaded and dominated the island, as Lampedusa in *Il Gattopardo* so wonderfully tells us. The most striking outcomes of this incredibly long historical process were the economic stagnation of Sicily and the development of a powerful mafia, so pervasive that have even been exported to other countries.

'Quality of government' and, more recently, 'institutional development' have historically meant legitimate and deep rooted origin, fiscal correspondence, rule of law, accountability, societal control and law enforcement. On the other hand, once behaviors like rent-seeking and bribery become widespread in society, they tend to survive far beyond the removal of its original causes. It seems clear that deep changes in the political decision making process, along

⁶ By the way, this typology could also lead us to a better understanding of the relationship between religion, economics and politics. Even when protestantism appears as positively associated with less corruption and more economic development, it is probable that the efficient cause of this association is the type of government, as suggested in the typology.

⁷ If it rains, thievish government; if it does not rain, thievish government.

the lines just mentioned, are critical to foster institutional development in LA countries. The reconstruction of fiscal correspondence, i.e., the unification of the roles of citizens, tax payers and beneficiaries of public expenditure, can also play a crucial role in this institutional building process.

Finally, what can we say about the future prospects of LA? Do we have some chances of simultaneously improving our institutions and our economic development performances? First of all, it should be said that Chile's success story very clearly shows that nothing idiosyncratic impedes political and economic development in our region. Furthermore, coincidentally with the recent recovery of their foreign terms of trade, there are nowadays some signals that the aforementioned structural factors might be changing. As a consequence of the failure of the so-called neoliberal reforms during the nineties, particularly in South America, a new 'heterodox orthodoxy' is emerging. And contrary to what happened in the past, social democrat governments have been adopting sounder economic policies, based on fiscal equilibrium or surplus, inflation-targeting as the goal of the monetary policy and an open economy. This is what is going on not only in Chile, but in Argentina, Brazil, México, Peru or Uruguay as well.⁸ These developments are crucial, because as it is true that economic development needs a good institutional framework it is also true that a good performance of the former can help to improve political institutions. Additionally, LA is showing some signals of reconciliation with its natural resources endowment, not considering them as a curse anymore, but as a blessing, and opening to the primary sector full opportunities to develop. This could help to strengthen the other, and mostly hidden, weakness of LA, i.e., the fragility of civil society, because in a context of development of the agribusiness sector also local communities, the fabric of civil society, will improve. For the same reason, the dismantling of agricultural subsidies and protectionism, is the best thing developed countries could do to help LA. Only in the context of the development of social capital it would be possible to get at the same time economic and political development and to create the conditions for an effective practice of intergenerational solidarity. Looking at the past, we can hope, but not be sure, that recent improvements in LA economic performance might gradually make more solid and denser our civil societies.

⁸ Llach and Crespo (PASS, 2005). There are, at the same time, different doses of populism in these countries. They are almost absent in Chile, moderate in Brazil, México, Peru and Uruguay, and stronger in Argentina, as it can be seen in the tolerance towards inflation and the degree of State intervention in the prices mechanism.

I arrive now to the point referred to the family and family values. Our Chancellor put the day before yesterday a question mostly addressed to economist that remained just floating in the air. Does the market disincentives the constitution of families and having children? My very provisional answer is that one of the consequences of economic growth is a continuous increase in the price of time and in the opportunity cost of non-economic activities. The problem with the market arises because it is the most efficient institution to 'produce' economic growth and, for that reason, both the market and economic development tend to be identified. As a consequence, we can hypothesize that economic development has negative externalities towards the family. This is a problem not only for the ones that believe in the importance of the family regarding human life. It is also a problem for the good performance of all human societies. The reason is very simple. Families 'produce' two very valuable goods: children and the values that cement societies. Additionally to the erosive effect of economic development on families, the State intervention through taxation and public expenditures is not neutral to the constitution of families either.

If this is the case, and adding some dose of wishful thinking, we can hypothesize that LA countries still have the opportunity to preserve at least some of the 'advantages of backwardness' mentioned by Grondona, i.e., family values and motherhood and fatherhood vocations. This could be made possible through an integral family policy, including (i) at least equal incentives/disincentives to have children in the income tax legislation; (ii) a family wage, implemented in such a way as to be neutral regarding labor demand of people with or without children and (iii), a true improvement of educational policy, putting more emphasis on early childhood, pre-school and primary school. I would not say that this integral family policy would fully answer and solve the question posed by our Chancellor. But, at least, it could be not only a fascinating experiment of social policy, but also an act of justice towards present and future generations.

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