

Chapter 6

Capitalism and Freedom in Latin America

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This paper addresses the question of why the Latin South within the Western Hemisphere has fared so differently from the English-speaking North, over both economic and political affairs.

When the Latin-American Republics became independent in the early nineteenth century, to many they seemed called to outstanding destinies, quite comparable to those of the former English colonies. Adam Smith, looking at them before independence, believed that their wealth of natural resources would largely offset the handicap resulting from the inferiority of Spain and Portugal as metropolitan powers. “In a fertile soil and happy climate,” ran his sanguine appraisal of their prospects, “the great abundance and cheapness of land, a circumstance common to all new colonies, is, it seems, so great an advantage as to compensate many defects in civil government.”¹ About a hundred years later (and little over a century ago) Lord Acton expressed views quite as optimistic as Smith’s, and as George Canning’s had been in the 1820s, when England recognized the sovereign status of the former Spanish dependencies. Quoting George IV’s Foreign Minister to the effect that his support of Latin American emancipation had “called a new world into existence to redress the balance of the old,” Acton wrote that, although “it [was] still generally believed that in point of political and material success [the new countries contrasted] much to their disadvantage with the North American Republic...[by 1868] in the greater part of South American this [was] no longer true, for in several of those vast communities population and trade [were] growing at a rate that [exceeded] that of the Union.”²

It might be pointed out that the latter part of Acton’s comparison left out the political side. Perhaps it was just ellipsis, and it was being tacitly

assumed that political improvement would follow in the wake of material progress.

Not all observers agreed. Alexis de Tocqueville, writing in the 1830s, downplayed the role of natural resources. Yes, he admitted, nowhere in the world could one find “more fertile wildernesses, greater rivers, and more untouched and inexhaustible riches than in South America.” “Nevertheless,” he bluntly interposed, “South America cannot maintain a democracy.” And he dealt quite as tersely with the economic half of the comparison: “Other nations in America,” he commented, “have the same opportunity for prosperity as the Anglo-Americans,...and these nations are wretched.”³

And, of course, it was Tocqueville who was right—the benefit of hindsight allows us to speak confidently—and the others wrong. The Latin American Republics may have been called to prosperity and the rule of law, but they missed the appointments. Whether there will be another chance is a different matter, with which I will come to grips before I am through.

The Latin American Economies in the World Context

That Latin America would have disappointed Canning, and reaffirmed Tocqueville in his skepticism, does not require proof, but I will provide some illustrations.

Table 1 summarizes an array of economic indicators laid out in a well-known textbook. The figures remind us that very close to one half of the earth’s population live in conditions of unspeakable poverty. Two hundred and sixty dollars per head a year implies degrees of penury which we find hard to imagine. Moreover—something the table fails to show—the economies of the first class are growing very slowly in comparison to their populations. At the growth rate that they recorded during the ‘60s and ‘70s—a better time for economic development than the ‘80s are proving to be—they will take 58 years for their *per capita* GNPs to become twice as large, and that would only amount to a pitiful \$520. Within this appalling class we find only one Latin American country, Haiti, quite unlike the others, furthermore, in most other respects as well.

The bulk of the Latin American population⁴ live in the middle-income group of countries. This still means poverty, by the standards of most people, but of a different kind. Moreover, average growth in the sample period would lead the per capita income to multiply by two—should it be kept up—in 20 years.

On the other hand, even if Latin America’s level of poverty is not quite of the tragic kind, even if the two variables in the table that proxy for

quality of life—adult literacy and life expectation at birth—suggest that Latin America does better in that connection than regarding measurable income, that is not this paper's subject. What the table says about the point in question is that Latin America on the one hand, and the United States and Canada on the other, may live in the same hemisphere geographically speaking, but economically they live worlds apart.

The table also shows Latin America growing significantly faster than the United States, although more slowly than the industrial market economies, and just barely ahead of Canada's speed. Should these trends linger on, Latin America would catch up with the United States in a century and a half. I suppose hardly anyone would attach any meaning to that kind of an approach. We cannot reason as if growth rates were tangible objects, instead of the summation of a large number of varying forces. What is significant is that a country that has achieved a high level of economic development has at the same time shown that it has possessed certain virtues, without which sustained growth is impossible—virtues of stamina, creativity, stability, resourcefulness in the face of change or challenge—virtues that one day may depart from a given society, and the next day may settle down in the midst of another, but by and large have to do with the more enduring features of their cultural make-ups. Latin America has yet to prove that it has acquired these virtues. A fairly good growth record kept for two decades, *by itself*, affords no decisive evidence. The United States may have lost them, in spite of its having possessed them in eminent degree, but a lull in its advance is far from conclusive proof.

Superlative ability to grow, on the other hand, even if maintained for as little as a couple of decades, carries with it a lot of credibility. This is the case of the Southeast Asian countries. Table 2 lists the economies in that region, and in Latin America, that grew at annual rates of 4 percent or more on the average during the 20-year sample period. The two regions are similar in size of population (Latin America roughly 10 percent larger). The comparison shows that Southeast Asia outperformed Latin America by quite a lot.⁵

When one looks at the records of the economies listed on Table 2 one is generally impressed. One's skepticism at official growth statistics tends to melt down. One tends to recognize in them the sort of drive that elsewhere has materially changed living conditions, the sort of qualities that at different times have distinguished England and the United States, Germany and Japan. Well, all this in Latin America is largely concentrated in its Portuguese-speaking area. Abstracting Brazil, the region's growth rate for the relevant period reduces to a lackluster 2.4 p.c. It hardly seems that the Spanish-speaking Americans (outside the U.S.!) have already found the way out of their troubles.

The picture darkens further if we inspect it from the angle of specific economic difficulties. We then see the Latin American economies assailed by the twin foes of inflation and the foreign debt.

The author's insistence in comparing Latin America to Southeast Asia, now again in Table 3, might perhaps be objected to as unfair, Southeast Asia being admittedly too well-behaved a region to serve as an unbiased term of reference. The author admits this readily, but would in his turn point out that his starting point, the Smith-Canning-Acton great expectations regarding Latin America, justifies his criterion: Latin America was cut out to withhold comparison with the United States and Canada, let alone the Far East.

And then, does Table 3 not bring out with tremendous power the Latin American frustration? Does it not instantly explode all the exogenous-forces theories, or devil theories if you prefer, of the Latin American indebtedness?

The exogenous forces, I hasten to record, were real enough. William Cline has worked out an interesting appraisal of the effects of four different shocks to oil-importing LDCs. The high price of oil is reckoned to have cost them \$260 bn between 1974 and '82; high real interest rates (above the 1961-80 average) are supposed to have meant \$41 bn; the influence of lower commodity prices and export volumes, both due to the world-wide recession, is assessed at \$100 bn; \$401 bn in all, whereas the corresponding debt between 1972 and '82 had risen by \$482 bn.⁶ However, as Cline does not fail to point out, domestic policies, including reaction to the external shocks, were highly instrumental to bring about the debt crisis. And it is in this respect that the Latin American countries' debt profile stands out into the unmistakable individuality that Table 3 portrays. "Brazil," Cline writes, "...after the first oil shock,...consciously followed a high-risk strategy of pursuing high growth based on rapid accumulation of external debt. The resulting legacy of large debt proved to be an oppressive burden when the international economy weakened and exports declined instead of continuing their earlier rapid growth." Argentina, still according to Cline, incurred gross overvaluation of its currency by trying to combat inflation through the tabular exchange-rate system, eliciting high imports and discouraging exports, and was ineffectual at adjusting the ensuing disequilibrium, allowed inflation to get out of control in 1981, and topped everything by getting itself into the South Atlantic war. In the cases of Venezuela and Mexico, but also in those of other Latin American countries, "policies led," in the words of the same author, "to large capital flight abroad." Cline further writes:

The basic flaw was maintenance of an overvalued exchange rate on a fully convertible basis, combined with domestic interest rate policy that failed to provide sufficient attraction to retain capital domestically. As a consequence, in 1982 the decline in Venezuela's official external assets reached over \$8 billion, although on current account, its deficit was only \$2.2 billion. Similarly in Mexico errors and omissions showed outflows of \$8.4 billion in 1981 and \$6.6 billion in 1982, and short-term capital outflows added \$2.1 billion in 1982, for total capital flight of \$17 billion. In Argentina, in 1980 and 1981 errors and omissions and short-term capital outflows registered total capital flight of \$11.2 billion. Thus recent capital flight has contributed nearly one third of total debt in both Venezuela and Argentina, and approximately one fifth in Mexico.⁷

There is a missing link in the above-outlined scenario. The running down of the central bank's assets (or running up of its liabilities) absorbs money. There must have been one source in every case that kept the public well supplied, despite the public's permanent swapping of domestic currency for the central bank's international reserves. And most certainly, that inexhaustible source was the fiscal deficit. "In Mexico," Cline informs us, "the government...allowed budget deficit to surge to 16.5 percent of GNP in 1982 when the upcoming presidential election made the authorities reluctant to carry out effective budget-cutting measures."⁸

In other countries in the area the fiscal deficit was of comparable size. When the limits of foreign indebtedness were reached, other methods of deficit financing became mandatory. Convertibility at fixed or crawling parities had to be discontinued, and currency floating or, more frequently, exchange controls, often in combination with fast-sliding parities, instituted in its place. In short, inflation replaced debt expansion as the key financing expedient.

By referring again to Table 3 the reader may grasp the singularity of Argentina's debt situation. It should be no surprise to him or her that as soon as the country's creditworthiness collapsed in 1981-82, the Argentinean inflation reached levels that even in Latin America were unprecedented.⁹ Table 4 records them.

These data tell us of the tremendous acceleration of the price growth, particularly since the second half of 1984. In the first 15 days of June 1985, producer prices zoomed at 3200 percent (annualized rate), and many observers found they had to revert to the long-unused word *hyperinflation* to describe a phenomenon that looked headed for the complete demonetization of the Argentinean currency.

The story told by Table 4 ends on an encouraging note—the last two lines bespeak a successful shock treatment of inflation. Moreover the Austral Plan, as this campaign has come to be known, despite its paraphernalia of price controls, was centered around President Alfonsín's solemn commitment not to print any more unbacked currency. So after all Argentina might have a new start, just like Germany did in 1923. But... yes, there is a but, and it could be couched thus—*but...we are in Latin America!*

And, in Latin America, remedies never go deep enough, never get to the roots of the evil. The Germans in 1923 went all the way to hyperinflation, and then all the way back to stability. Theirs was an exhibition in German thoroughness. Argentina's stopping just short of hyperinflation, and just clinging to the ledge of the precipice, has been a show of Latin American brinkmanship.

Thomas Sargent has lately laid down with great clarity what the essence of the 1923 German anti-inflationary policy was. "The government," he has written, "moved to balance the budget by taking a series of deliberate, permanent actions to raise taxes and eliminate expenditures." Then, quoting J.P. Young, he reports that, by a decree dated October 27, 1923, the number of civil servants was cut by one fourth; all temporary employees were to be discharged; all those aged 65 or more were to be retired; the railroads discharged 120,000 men in 1923 and 60,000 more the next year; the Post Office reduced its payroll by 65,000; and the Reichsbank itself, now that the days of hectic, round-the-clock money printing were over, started cutting down its staff.¹⁰

Not so in Argentina. The bureaucratic fat also there awaited the surgeon's scalpel, lest it would suffocate the patient. Instead of which the Argentinean government has come up with a diet. In Argentina not one civil servant has been touched. Their real wage has been allowed to dwindle some 30 p.c. A few new taxes have been instituted but, more than anything regarding revenue, real tax collections have benefited from the lower inflation. And the authorities have been able to borrow more locally, given the Argentines' new readiness to hold securities denominated in local currency. But their success, which is far from complete, as the table shows, is also felt by most to be precarious. Structurally nothing has changed. The bureaucratic burden that began by pushing the country into a huge foreign debt, and went on to make it stumble to the brink of hyperinflation, is still intact. The core of the Austral Plan, after one year's enforcement, still consists of the initial psychological shock—the Argentinean inflation is down from four digits to two, largely because the people believed that the Austral Plan, to them essentially incomprehensible, somehow would work. Like the Baron of Munchhausen, the Argentinean

government has freed itself from the quicksands by pulling at its own bootstraps.

But the essential facts remain, and the same applies to Brazil, who followed suit with its Cruzado Plan, and to Mexico, who is about to contribute a new specimen—the Aztec Plan—to the collection. We are not about to witness the happy ending of a horror story. We are just out of the theatre for an intermission. And then the show, with its triad of blood-curdling ingredients—deficit, debt, and inflation—will be resumed, God knows for how long.

Hardly the context within which we are likely to see Latin America finally keep its long-deferred appointment with prosperity.

A Political Survey

The Western Hemisphere may be properly said to be the hemisphere of democracy. The Northern half is where democracy started. The Southern half is where democracy is most talked about.

This author is aware of the fact that democracy as a subject for speaking and writing has not been quite neglected in the North. Still, the sway it holds over the South's political discourse must be unparalleled. This is more clearly understood as soon as it is realized that in Latin America the word *libertad* is used invariably as synonymous of *democracia*. A country is free if its citizens have free access to the poll booths. If the elected authorities then make all the other decisions for them, still they are free. Free to choose? Yes—candidates.

A glossary of essential political terms within the Latin American context must have entries for two more words: sovereignty and revolution.

Democracy is a word with a small rational nucleus and emotional connotations that are both vast and intense. Sovereignty seems to be devoid of the rational core altogether. If the IMF subjects its financial assistance to certain conditions, the country applying for help has had its sovereignty impaired. If foreigners buy land—perhaps a hangover from Mexico's Texan experience—sovereignty suffers. If you suggest that a country's gold stock, that lies totally idle while substantial interest charges accrue on its foreign debt, should be sold, you are overruled for having ignored the role of sovereignty. This author has been accused of treason to the national sovereignty for proposing that the central bank should be shut down and people allowed to import and use whatever currency suited their whims. The fact that people would then contemplate the effigy of foreign, instead of national, heroes on their money was widely held to be sovereignty-offensive. As I was driving to my office this morning I heard someone state,

vis-a-vis the alleged privilege of foreign public-works contractors in local tenders, that sovereignty was at stake. Semantically, the word does not seem to exist. When its sound activates the ear drums, the connection with the spine appears to be direct, leaving the brain clean out of the circuit.

Revolution does have a clear meaning. It refers to drastic political change, something like the French Revolution, the infinitely prestigious paradigm. And then, of course, it has its thick emotional coating. Revolutions are good. *All* revolutions, that is. Results are sometimes good, sometimes bad. When they are bad, then the revolution has been betrayed. Anti-communists believe that Stalin fouled up the Russian revolution, or even Lenin did, if they hold stronger views. And so did Fidel Castro, and the Sandinistas. If by a conservative we are to understand someone who shares Burke's dislike of the French-style revolutions, then there are no conservatives in Latin America. By the way, the word *conservative* is still in use in some countries in the region to designate political parties; in most it is just a term of abuse.

This essential glossary can be turned into a cultural *vade mecum* by just pointing to the conceptual omissions that loom largest in the region's political discourse and by making one or two remarks about political education in the schools.

In the first place, I should mention that the Latin American's concept of the state has no conspicuous place for the judiciary. For a Latin American the making of laws is everything; their enforcement, nothing. The region produces a great many lawyers, but very few of the more competent or ambitious would contemplate joining the bench. They would much rather sit in congress, where a type of advocacy more suited to their talents—attaching more weight to eloquence and less to learning—is prevalent. Judges tend to stand much lower socially than in the Anglo-Saxon countries. Court-houses tend to be depressingly poor. Proceedings tend to be lengthy and dominated by red tape. Since as a rule there are no juries, only very rarely has the ordinary citizen any kind of contact with judicial affairs.

Perhaps in this connection Latin Americans are merely being consistent with their love of democracy. When Tocqueville came to America in 1831 he found the aristocratic ingredient in the society's otherwise democratic disposition "at the bar or the bench." "The courts," he wrote, "are the most obvious organs through which the legal body influences democracy." He had already placed on record his belief that "the prestige accorded to lawyers are now the strongest barriers against the faults of democracy." And a little further on: "There is hardly a political question in the United States which does not sooner or later turn into a judicial one. Consequently the

language of everyday party-political controversy has to be borrowed from legal phraseology and conceptions. As most public men are...lawyers, they apply their legal habits and turn of mind to the conduct of affairs." And he rounds off his vision of the aristocratic influence of the courts tempering the democratic inclination of society by adding: "Juries make all classes familiar with this."¹¹

So it is perhaps in order that a society whose heart is turned wholly toward democracy should allot a lowly place to men who owe their authority more to their own qualifications than to the favour of electors or the preferment of those that the electors have placed in high office.

In the second place, the Latin American society diverges from its Anglo-Saxon neighbour on account of the reduced estimation that it places on the institution of property. This feature is more clearly visible from a historical perspective. A prominent Latin American, who was destined to be one of the pioneers of the idea of independence from the Iberian colonies—Francisco de Miranda—visited the United States in 1783-4. In the diary he left of this tour, he commends the workings of the courts, deplors the lack of brilliance of the legislative assemblies, and, quoting Montesquieu to the effect that the foundation of a democracy must be virtue, laments that North Americans attached so little weight to virtue, and so much to property, in allotting power and influence.¹² It is transparent that Miranda was disappointed at finding that the legislatures, both at federal and state levels, were essentially assemblies of property owners, with essentially business-oriented interests, instead of men of sensitivity, bent on rewarding merit and succouring need. I imagine that, had this visitor had access at the time machine and visited Congress in the twentieth century, he would have found its climate more congenial. But, although one of degree, the difference still stands. Property owners, or tax payers, have never been openly represented in Latin American parliaments, while they have always been a significant constituency, albeit often a minority one, in the United States.

From the angle of political theory, it might be said that Latin American democracy has sought its inspiration very much in Rousseau, and very little in Locke.

Finally—last but not least—I believe there is an important difference between North and South regarding political education. It has to do with the concept of the state that Latin American children imbibe in schools, particularly—again—the emotional coating with which the substantial core is thickly covered. It has to do with the role of national heroes in the system of values that Latin Americans build up during their young days.

A visitor to any Latin American town is bound to be struck by the number of men celebrated in bronze and marble in public places, generally on horseback, almost invariably in uniform. By leafing through the school history textbooks, he would learn that these men form a hierarchy, and that those on the top echelons are openly proffered to the children as the proper objects of a quasi-religious cult. Perhaps it could be said—even further—that they are treated as incarnations of a godlike entity, the Nation. The Greek city-states and their pantheons of gods and goddesses is the closest analogy that history can offer. Through the veneration of these heroes, children are taught that selfless service to the Nation, in uniform and on horseback, with a view to make it larger and more powerful, is the supreme calling for a human being. And that uncritical devotion is the proper attitude with which to consider their relationship to the State and its affairs.

The difference between South and North may be again one of degree, but I believe it to be pronounced.

Allow me to sum up the politico-cultural portrait of a Latin American. He or she believes that democracy is the *summum bonum*, that sovereignty is sacrosanct, that progress proceeds through revolutions, that the two powers of the state are the executive and the legislative, that property has to do with the seamy side of human nature, and that his particular republic has a claim to his undivided, uncritical loyalty.

And now let us inquire how the communities made up of such men and women have fared in history, particularly in the direction of freedom, or the rule of law, still from the same North-South comparative viewpoint.

The differences do not take long in making themselves manifest—they start at the very beginning, with the emancipation process. The Anglo-American colonies declared for independence because they had a grievance against the English Crown; the Spanish-American, because they perceived that the Spanish Crown lacked the power to enforce its sovereign rights.

When around 1810 the South rose against their Spanish authorities Ferdinand VII had been deposed by Napoleon, who had installed his brother Joseph on the Spanish throne. The Latin American rebellion adopted the appearance of a legitimist movement, in support of Ferdinand, on the same lines as a large faction of the Spanish army had revolted against the French, with strong popular support, in what the Spanish called their War of Independence.

A casual observer might conclude, therefore, that one and the same independence war was being fought on the two sides of the Atlantic. Behind

the legitimist facade, however, the Spanish Americans were interpreting the word independence in quite a different meaning. What set them on the war path was the perception that Joseph Bonaparte had too much on his hands, with the Spanish and Portuguese uprisings and the presence of an English Army under Wellington on the Peninsula, to send reinforcements to its American garrisons. There is ample evidence that this was so, but the matter became transparent when Ferdinand recovered the Spanish Crown, and his transatlantic subjects showed themselves less than enthusiastic about returning to the fold, in fact were prepared to fight for the preservation of their newly won autonomy, with the help of Mr. Canning and the English Foreign Office first, and President Monroe's opportune doctrine later.

It is true that the Latin Americans could have invoked the harsh, monopoly-ridden, economic treatment that their metropolis dispensed them, in comparison to England and its colonies, as Adam Smith had pointed out.¹³ Under Carlos III (Ferdinand's grandfather) some liberalization of the obnoxious trade restrictions to which the colonies were submitted had begun, but grounds for complaint certainly existed. It is true also that self-government in most cases brought along free trade, and the consequent encouragement to material progress. It remains to be factual that the Latin-American independence wars were not fought over these issues. What seems significant, furthermore, from the point of view that this paper determines, are the political effects of the specific forces that wrought Latin American emancipation on its subsequent development.

It seems fair to classify those forces as centrifugal. All empires generate them. While the centre remains powerful, they are neutralized. Once the centre weakens, the empire exploded into many pieces. This happened to the Roman Empire in the fifth century; and to the Spanish Empire essentially the same thing happened in the nineteenth century.

This, in part, accounted for the political fragmentation of Latin America, while the Union to the North held firm, although, of course, the much larger size of the former at independence time surely contributed. Thus also the enormous difficulty of carrying out any integration project to fruition in Latin America is made less intriguing. The Central-American Common Market, that everybody saw destined to succeed, scuttled after just a rough soccer game; LAFTA abandoned after an extension of the original period—in its turn identical to that set by the Treaty of Rome for the EEC's customs union—with two-thirds of the targets unhit; the Andean Pact no longer even talked about. These failures are puzzling, quite unlike any other results of integration projects executed elsewhere in the western world, such as the EEC's customs union and common market, or the *Zollverein* in the nineteenth century. The idea of centrifugal forces kept

operative under the surface of brotherly solidarity therefore seems useful as a safeguard against total bewilderment.

The concept of centrifugal forces has the disadvantage of being a metaphor. It would be desirable to have something more objective and less fanciful instead. An economist might be tempted to hazard a utility-maximizing model for this purpose, in which the elites in the different regions were the maximizers, and the holding of power was a major utility-generating variable. The plurality of regional maximands would constrain one another, and would ensure the plurality of political units. One essential feature would be the absence of significant variables in the objective functions that worked toward social cohesion, like the purpose of preserving a unitary rule of law over the territory common to all the agents. Another relevant feature would be that the men likely to hold political power in their own hands—say, the men in uniform and on horseback—were a very high proportion of the elites, and those whose utility came from other sources, say business success, or just money, were correspondingly few.

But through the concept of centrifugal forces, despite its lack of scientific rigour, easier communication can probably be achieved. There is another dark spot over Latin America that this idea can help illuminate. I mean the area of territorial conflicts between Latin American states. It is well known that in the late 1970s a war between Argentina and Chile over a couple of islets in the Beagle Channel was only very narrowly avoided. El Salvador and Honduras actually had their war, not long ago. Paraguay and Bolivia, Chile, Peru and Bolivia, and Argentina and Brazil are other examples of belligerent confrontations. But this is not all. Reciprocal territorial claims are still alive, and plentifully so. Bolivia and Peru have them against Chile, Ecuador has them against Peru, Mexico and Guatemala have border delimitation problems, and so have Venezuela and Colombia, Uruguay and Brazil, Peru and Brazil. In some cases—fortunately not in all—military spending by these capital-hungry countries is strongly influenced by their antagonism. All along, in the meantime, the protestations of brotherly love and solid endless flow. Yes, centrifugal forces are an indispensable idea.

What Happened after Independence?

The new states needed constitutions, and it could come as no surprise to anyone that they inspired themselves largely in the constitution that their prosperous neighbour to the North had adopted. Nor could it be thought astonishing that the results in fact of charters almost exactly equal in law differed fundamentally.

There was a shrewd observer, for whom it did not take long to grasp this, nor to associate the deep cleavage to the dual nature of the law, made up of letter and spirit, like human beings are said to be composed of body and soul, and to the varying difficulty of duplicating one and the other ingredients. Back in the 1830s Tocqueville wrote:

The Mexicans, wishing to establish a federal system, took the federal Constitution of their Anglo-American neighbours as a model, and copied it almost completely. But when they borrowed the letter of the law, they could not at the same time transfer the spirit that gave it life...In fact, at present Mexico is constantly shifting from anarchy to military despotism, and from military despotism to anarchy.¹⁴

And this cyclical pattern of anarchy and despotism has lingered on throughout the region. Anarchy stimulating the hunger for order, causing the pendulum to swing, but, alas! all the way to despotism; despotism whetting the appetite for freedom, causing the pendulum to swing back, but, for some reason, all the way to anarchy; and so on and so forth; only despotism and anarchy assuming different garbs as time goes on and places change. For example, inflation, strikes and other labour-union-inspired methods of disrupting order make up the threatening profile of anarchy in Uruguay's horizon today, just after twelve years of military dictatorship, whereas in the previous anarchical period urban guerrillas played the leading role.

The cycles in the region are not synchronous. While this author grew up in a mildly anarchical Uruguay that thought itself the model democracy, the Caribbean was a dictatorial lake. At the time, the South of the South looked down on the North of the South and whispered jokes about banana republics while out loud protesting their solidarity to the enslaved peoples. Later the pattern was reversed.

Besides cycles there seem to be trends, or the political equivalent of the Kondratieff long cycles. Lloyd Reynolds believes he can detect *turning points* that are not just inflections on a cyclical curve, but the initiation of long-run, *intensive-growth* trends for the eight largest Latin American economies, that he includes in a study of "third-world" economic growth.¹⁵

Reynolds writes:

In Latin America, independence was in most countries followed by a prolonged period of recurring civil wars, lasting as late as 1876 in Mexico and 1885 in Colombia. The turning point usually dates from the emergence at long last of a stable government able to exercise effective control of the country for an extended period.¹⁶

For Argentina, Reynolds sees the turning point in 1860, and it is certainly true that Argentina had fabulous growth in the next seventy years. The other River Plate country, Uruguay, too small to make Reynolds' sample, would have probably shown its turning point somewhat earlier, in the early 1850s. By the 1860s Uruguay's economy was growing at fantastic rates. Between 1864 and '68 several variables, like foreign trade, tax receipts, postal deliveries (in physical units) more than doubled (in real terms). Immigration was causing the population to grow at over 4 percent annually.¹⁷ And roughly the same was happening in Argentina. Moreover, there was nothing about either country that would induce an observer to use the expressions "third world" or "underdeveloped" to describe them. At the time they were usually referred to as *young* countries, like Canada, Australia, or New Zealand, by which their high ratio of land and other natural resources to population was alluded. I would like to revert to my earlier quotation of Lord Acton, to the effect that several Latin American economies were growing at rates that exceeded those of the Union; at the time of his writing (1868) the River Plate countries at least seemed to bear him out. What is particularly relevant to my subject, both countries were practising capitalism after the Western paradigm and had achieved reasonable standards of freedom. They had very open economies, both commercially and financially, in which government intervention was small and predictable, and they had sound money. Uruguay in fact had never had any official currency. It practised free banking, and private banks issued bank notes convertible into gold.

My point in having focused on the River Plate in the 1860s is the idea that one turning point, however suitable it may be for Reynolds' specific purposes, fails to meet my own. I am dealing with capitalism and freedom in Latin America and I find that in the 1860s or, say, one hundred years ago, both capitalism and freedom were not doing badly over large areas of the region. And I could certainly say nothing similar today. One century ago a high-calibre observer like Lord Acton was implicitly extrapolating certain trends unfolding before his eyes to forecast that the South would eventually turn into something quite like the North. Today a similar view would be hard to find. The great riddle that Latin America poses is not that it is taking so long in reaching take-off speed. After all one in six of Reynolds' sample have not made their turning points yet. The riddle is that, after reaching something that could be perceived as *the turning point*, Latin America failed to stay on the course that seemed to follow naturally therefrom. Their difficulties do not have to do with backwardness, they have to do with instability.

Why?

It is foolish, before the image of a country's failure regarding material prosperity and effectiveness of the rule of law, to stand in bewilderment, like Oedipus before the Sphinx. The answer may lie just in the utter simplicity of Milton Friedman's dictum in *Capitalism and Freedom*—"the typical state of mankind is tyranny, servitude, and misery."¹⁸ Development theorists err when they indulge in so much hand wringing before some economies' inability to grow. They should concentrate on the handful of countries that succeeded in establishing the institutional structure that we call the rule of law, after which material prosperity flowed naturally in, and inquire, day in and day out, how on earth they achieved that unbelievable wonder—to constrain those in power, those who wield the sword, to act within the prescriptions of abstract law, and set them to abide, while in bright uniforms and on horseback, by the rulings of old men in black robes.

If Latin America's case calls for more than our repeating Friedman's dictum, it is because its countries were so close to joining the exclusive club of the prosperous and free. Adam Smith and Canning thought them eminently eligible for membership. Acton believed that some were already in and, in fact, so they were. But then they opted out, and *why* they did is a problem that seems genuine.

Allow me to go back to the skeptic in my sample of illustrious observers. Tocqueville attributed Anglo-American success to "their laws and *mores*." He wrote:

Other nations in America have the same opportunities for prosperity as the Anglo-Americans, but not their laws and *mores*, and these nations are wretched. So the laws and *mores* of the Anglo-Americans are the particular and predominant causes, which I have been seeking, of their greatness.¹⁹

By *mores* he understood "habits, opinions, usages and beliefs." He recalls that the imitation of the United States' Constitution had failed, South of the Rio Grande, to duplicate the North's economic and political success, and concludes that *mores* are paramount as explanatory factors.²⁰

Tocqueville speaks as if *mores* could be set up, transferred, or adopted, at will. "[Anglo] Americans," he concludes, "have shown that we need not despair of regulating democracy by means of laws and *mores*."²¹ Laws, he has already pointed out, can be copied, but only the letter of the law is thus transferred. To infuse the spirit of the law is more difficult. Surely what Tocqueville refers to sometimes as the *spirit of the law*, and sometimes as *mores*, are one and the same thing.

Nowadays, we tend to call it culture. The root of the difference between North and South is cultural. Any bridging of the gap has to involve cultural change. And to bring that off is far from easy.

It would be wrong to say that what Latin America is in need of is sound economic policy. Up to a point economic policy can be improved from the outside, by persuasion and pressure, like the IMF often does. But exogenous policy changes are also flitting policy changes. *Cherches le naturel, il revient au gallop*, the french say, and they are almost right. Not quite right, though, because the word *naturel* in this context is based on the dichotomy of Greek origin and enduring reception between *natural* on one side and *artificial* or *conventional* on the other; while there is a third class of entities that the dichotomy misses out, as Hayek has explained.²² In the dichotomy *natural* stands for everything that is clearly independent of men's actions, and *artificial* for what is the intended effect of men's actions. The third class includes all the effects of men's actions that are the results of "human actions but not of human design."²³

The difference between North and South is not *natural*. It is not geographical; it is not ethnical.²⁴ It is, at the same time, not the intended result of men's actions. There are, it is true, parts of Latin America where the revolution-issued governments have chosen to dissociate their communities from both capitalism and freedom. But they are as yet only a small minority (even if a growing one). Most governments and influential parties pay lip-service to private enterprise, and as for political freedom, they proclaim themselves its most ardent devotees. And yet, political freedom is precarious, and imperfect at the best of times, and private enterprise is frustrated and impeded to yield the fruit that it is capable of bearing, indeed that it has borne generously in the past, in several parts of the South.

The trouble lies, therefore, in the depth of cultural undercurrents, where light does not penetrate easily, where deliberate manipulation defies the resources of social engineers.

What Could Be Done?

Culture is not immovable. If allowed, it will travel. It can be changed from the inside, perhaps even in the desired direction. But there is no simple way of achieving success. Beliefs and prejudices are deeply ingrained in consciousness. Apart from which there are always vested interests with a stake in the existing arrangements, ready to resist change.

By concluding that the root of the problem is cultural, and not natural, however, we at least know that we do not have to sit and wait until a lucky cosmic ray hits a Latin American chromosome, and brings about a favourable mutation. Cultural mutations you can strive for.

Economic policy is not at the root of the problem, but some economic policies can help. That is very particularly the case with policies that promote commercial and financial openness.

On the contrary, nothing could be more damaging than intensifying the tendency to economic seclusion that the region incurred after World War II, largely due to the influence of ECLA's Raul Prebisch and his theory of the declining long-run terms of trade of primary producing countries.²⁵ The renewed danger that this seclusion might be intensified now comes from the financial side, and the mushrooming recommendations that Latin American countries repudiate their international obligations or—what is not materially different—submit them to unilaterally-determined constraints, after Peruvian President Alan Garcia's decision to limit servicing of his country's foreign debt to ten percent of its exports.

International economic relations are highly effective at bringing about cultural diffusion, by penalizing attitudes contrary to generally accepted practices and discipline, and, conversely, rewarding performance attuned to international standards.

Back in the early 1950s several Latin American countries cut themselves off from that fabulous engine of growth that foreign trade was again to become, once again, in the next two decades, by foolishly raising tariffs and other barriers to trade. Now it is being suggested that they cut themselves off from the world capital market as well. The necessarily finite burden of debt servicing, again foolishly, is implicitly assumed to justify forever relinquishing the international sources of investment financing. But that is not all. Isolated economies can do as they please over all matters. The world has no carrot or stick to entice or coerce economic agents in Albania. There is a country enjoying superlative sovereignty. If this is what Latin Americans really want, they should call their creditors and tell them to jump in the ocean.

On the contrary, everything that Latin Americans do to promote their international competitiveness and creditworthiness is bound to foster a cumulative strengthening of prosperity and freedom.

Then, of course, there is education. Education is the number-one method of promoting cultural change, only it presents a serious difficulty in the form of a vicious circle—who educates the educator?

The first thing in this connection seems to be to realize that a system of state schools is likely to become subservient to a quasi-religious cult of the state and its pantheon of heroes. With a method of education vouchers, on the other hand, even if there are no guarantees that it will change the countries' outlook and values, because of the vicious-circle nature of the

difficulty, the possibility of a return to rationality at least becomes feasible.

And then, finally, there is leadership. Leadership that can manifest itself in all walks of life. By and large, this must have been the principal variable accounting for cultural change in the history of mankind. Unfortunately, its random component must be very strong. So when one gets to this point one is really just wishing Latin America, after such hard times, a streak of good luck. It could certainly use it.

Table 1
Basic Indicators of the World Economy

	Per Capita GNP				
	Population (millions), 1980	Dollars, 1980	Average Annual Growth (%), 1960-80	Adult Literacy (%), 1977	Life Expectancy at Birth (years) 1980
Low Income Economies	2,160.9	260	1.2	50	57
within which: Haiti	5.0	270	0.5	23	53
Middle-Income Economies	1,138.8	1,400	3.8	65	60
within which: Latin America ^a	314.1	1,890	3.5	74	63
Industrial Market Economies	714.4	10,320	3.6	99	74
Within which: United States	227.7	11,360	2.3	99	74
Canada	23.9	10,130	3.3	99	74
High Income Oil Exporters	14.4	12,630	6.3	25	57
Soviet-Bloc Economies	353.3	4,640	4.2	100	71
Total World	4,381.8	2,590	2.5	66	62

^aFourteen republics: Costa Rica, Cuba, Paraguay, and Uruguay not included.
Source: Fischer & Dornbusch.

Table 2
The Success Stories
Fast-growing Countries in Latin America and Southeast
Asia, 1960-80

	Population (mm.)	Average Growth Rate (%)
Southeast Asia	253.2	4.7
Indonesia	146.6	4.0
Thailand	47.0	4.7
South Korea	38.2	7.0
Malaysia	13.9	4.3
Hong Kong	5.1	6.8
Singapore	2.4	7.5
Latin America	126.7	5.1
Brazil	118.7	5.1
Ecuador	8.0	4.5

Source: Fischer & Dornbusch

Table 3
Debt Owed to Industrial-Country Banks by
Latin American and East-Asian Countries, June 1982

	Debt (billion dollars)	Debt per Capita (dollars)	Debt Service as% of Goods & Services Exports	Debt Servicing Disrup- tion in 1982-83**
Mexico	64.4	920	58.5	yes
Brazil	55.3	470	87.1	yes
Venezuela	27.2	1,830	20.7	yes
Argentina	25.3	910	102.9	yes
Colombia	5.5	210	23.9	no
Peru	5.2	299	53.4	yes
Regional total/average	182.9	660	66.5*	
Percentage of debt disruption	97			
South Korea	20.0	520	21.1	no
Philippines	11.4	230	36.1	no
Indonesia	8.2	60	11.3	no
Malaysia	5.3	380	5.0	no
Regional total/average	44.9	180	21.2*	
Percentage of debt disruption	0			

* Weighted average of debt-service to exports ratio computed by using debt as weights.

*** Debt-servicing disruption" alludes to a discontinuity of any sort in debt-servicing during the sample period.

Source: Cline, p. 35.

Table 4
Price Inflation in Argentina

		Percent increase, annualized	
		Consumer prices	Producer prices
	1st half	312	276
	2nd half	590	595
1984:	1st half	571	543
	2nd half	826	720
1985:	1st half	1530	1900
	2nd half	44.5	7.38
1986:	Jan-May	53.2	20.6

Source: INDEC, Argentina.

NOTES

1. Smith, Bk 1, Ch XI, Pt III.
2. Acton, pp. 214-5.
3. Tocqueville, pp. 306-7.
4. The sample reflected on Table 1 contains approximately 95 p.c. of the total population.
5. Despite which Latin America's per capita GNP was still over twice the South-East Asian by 1980. Incidentally, the East-Asian land availability per head was about one hectare, Latin America's almost six. This would have given Adam Smith a bit of a shock.
6. Cline, pp. 20-6.
7. Cline, pp. 26-7.
8. Ibid.
9. Only Bolivia surpassed, more or less simultaneously, Argentina's record.
10. Sargent, pp. 83-4.
11. Tocqueville, pp. 263-70.
12. Miranda, vol. 1, p. 22; vol. 2, pp. 118-20.
13. Smith, Bk. IV, Ch. VII, Pt. 11.
14. Tocqueville, p. 165.
15. Reynolds, p. 958. Reynolds defines *intensive growth* as "capacity to produce rising appreciably faster than population" (p. 943).
16. Reynolds, p. 964.
17. I have dealt with this period of the Uruguayan economy elsewhere: Diaz (1985), p. 33.
18. Friedman, p. 9.
19. Tocqueville, p. 307.
20. Tocqueville, pp. 307-8.
21. Tocqueville, p. 311.
22. Hayek, p. 180.

23. Hayek, *ibid.*
24. The North Americans differ from large areas of the South in that their ethical background is quite independent from the continent's native populations. But the same applies to the River Plate, and to some extent to Chile also, and the River Plate and Chile have come to look more and more like the rest of Latin America. This simple fact exempts me from the rather difficult task—although, as I believe, feasible—of attempting proof that the difference is not ethical, or racial, or natural, after all.
25. I have dealt with this theory at some length in Diaz (1973), Chapter 2. Uruguay's catastrophic results for having heeded ECLA's advice despite its tiny size I have dealt with in Diaz (1984 and 1985).

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Discussion

Edited by Michael A. Walker

Michael Walker Ramon Diaz has some opening remarks, and then Arnold Harberger will comment on the paper.

Ramon Diaz I would like to comment on Latin America in the context of the discussion we have been having so far. A number of success and failure stories have been emerging, and I think Southeast Asia—Hong Kong primarily—is very much a success story. I would propose to have Latin America counted as a great failure story. I think Africa, which could not be termed a success, elicits less surprise than Latin America.

At its inception, Latin America was considered a land of promise, and for a time it worked well. We have a totally different problem from the African one. When we asked ourselves what might be done, we were confronted with a situation in which nothing good, or very little good, has happened. In the case of Latin America, we find a set of countries that were doing perfectly well in the 19th century, at least some of them, and then declined. In Southeast Asia in Hong Kong we find civic freedoms and the rule of law. We don't find political freedom as a general feature. It is a fact in Japan. It is not in Hong Kong, in the sense that it is a colony. Hong Kong is a very special situation.

In Latin America we find a wealth of natural resources we don't find in Southeast Asia. This was considered very relevant by observers in the 18th century—Adam Smith, in particular, and later by Lord Acton. This is something in common with the United States. Another thing in common stems from the fact that Latin America adopted institutions that at least superficially looked like those of the United States. I think we have to bear in mind a complication. When Latin American countries became independent they had two paradigms, the American and the French one, and two philosophies of the state—the Lockean one that had shaped the American Constitution and Rousseau's that had been extremely influential in France. And the two lived side by side in the history of Latin America in a dialectical way and to a large extent in a state of confusion.

In the course of Douglass' paper we became conscious of the difference between densely populated countries in Latin America, which also occur in Africa, and very sparsely populated ones, as in the United States and in the River Plate. But we don't see a big difference as time goes on. Coun-

tries that had a sparse native population do better at the beginning, but then we see them converge and get more and more like the others, as though a cultural factor was becoming dominant.

We have mentioned the instability of the River Plate, Argentina in particular, when it was a success story. I could refer to the case of my own tiny country that clearly has to be an open economy more than a bigger economy. It was doing marvellously well in the 1870s and 1880s, and towards the end of the 1880s it began adopting protectionist policies. Why? I really don't know. The arguments given in support of these policies were totally contrary to fact. Supporters of these policies invoked the need of creating jobs, but at the time we were receiving a tremendous influx of immigration attracted by excellent job opportunities.

The philosophy of populism was very readily bought in Argentina and in Peru whenever it was presented. I think that there are cultural undercurrents that have been dominant and prevalent in this respect. It is the Rousseauian conception that the state, to which individuals resigned all their rights, will provide all the good things.

We have talked about democracy and majority rule. From a Latin American perspective, I want to stress that democracy is more than majority rule. I would like to stress that liberal democracies of the West have the rule of law and, particularly, an independent and competent judiciary, an expedient judiciary. Latin American countries don't, and we are tremendously at fault in having failed to produce this.

The extremely interesting question that Tibor was asking is: what could be done? I think there is nothing but to preach, to explain, to get more people to understand and particularly to press for policies of openness. Those are the great dispensers of discipline.

My country, which had done very well and was one of the high income countries of the world in per capita terms, closed itself and declined steadily. There was nothing to show that things were going badly. With an open economy, I think your mistakes show much more quickly. I think openness will make for better development of institutions that will ensure property rights and promote investment.

Arnold Harberger I have known Ramon Diaz for a long time, and I have come to have a very high respect and regard for his erudition and opinions. I very much appreciated his paper.

To explain the lack of economic development in Latin America is difficult, particularly since, as we have pointed out earlier, some episodes of good economic progress indeed have taken place. I wrote down a list of things that I find different in Latin America. The role of the state, which

Ramon emphasized, is certainly a lot higher. It is a more unified and commanding state than we have in the United States and Western Europe. The role of the military is very different from that here—much more interventionist and feeling themselves somehow responsible for how things go. The role of the Church, obviously, has been very great in Latin America throughout history, although it has varied and there have been a lot of anti-clerical movements too—but very different from North America. The role of business has been very different.

I am thinking of these as a hierarchy with the state on top, the military, then the Church. So pretty far down in the scheme comes business. Business is often too much hand-in-hand with the government, and the rest of the time it is being stepped on. It seems to me that very rarely is business just going about *doing business* as it is in this part of the world.

Last, I would say education has had a low priority in Latin America compared with North America and Western Europe. It has been unfortunate that there has been relatively little upward social mobility in Latin America, which I think is part of the reason why populist and romanticist notions catch on.

Autocracy is an old story, as Gordon has pointed out, and it is old in Latin America. But the expanding role of the state is new. It is new world-wide, and I think it has taken some roots in ideas. I know of only two cases in Latin America of a contracting role of the state: one is Uruguay in the period after 1974, when friends of free markets were in charge of the Uruguayan economic policy; the other is Chile, when other friends of free markets were running *that* economic policy. By the way, the Chilean reduction in the role of the state entailed eliminating 150,000 government jobs, which in the United States would be equivalent to eliminating three million jobs. So you can see something of the task that faces a lot of these countries if they are going to seriously reduce government's role.

Now, military government is no guarantee. This is part of our dilemma. The best eras of economic policy in recent time in Latin America have largely been under military governments: the Brazilian miracle; the Uruguayan miracle, turning around a quarter century of stagnation; the Chilean mini-miracle, and perhaps a second mini-miracle now in progress in Chile; Guatemala, definitely in the 1960s and early 1970s; and maybe Nicaragua even in that period (I'm not so sure about that case, but I think they had a good growth rate anyway). The really good performances that were *not* military governments are Mexico in the period 1955 to 1972, when they had two profoundly valuable people, Rodrigo Gomez and Antonio Ortiz Mena, running the show for 17 years. These two men produced

more growth and more stability in Mexico with no oil than Mexico had later with all the oil but no Rodrigo Gomez. You figure that one out.

In Latin America, unfortunately, there is a predilection to romanticism. There is a tremendous, incredible vulnerability to demagoguery—that is our great enemy in Latin America. There has been a tremendous development of mythologies in the intellectual communities in the universities and in the press—nationalist, protectionist, distributive mythologies.

Self-pity is almost a continental attribute vis-a-vis self-reliance. Asians think self-reliance in any situation in which you put them. Anything that happens to them was done by fate, and they respond positively to try to get out of the dilemma. Latin Americans are forever explaining that somebody else did it to them; they didn't do it to themselves. They are not thinking, how can I climb out? The military governments are best at leading them to think their way out of that, but it is a terrible dilemma for us as freedom-loving individuals. How do we cope with that dilemma? Eighty percent of the time we see something we like in government policy it comes from a kind of government we don't approve of as a political system. This dilemma of freedom versus autocracy is present in Latin America.

I go to East Asia and I admire them, but I think their autocracy is much tougher than the Latin one. But somehow it doesn't strike us, or our press representatives, or our people as so bad, because they come out of a different tradition where that is a more natural course of events. So I don't really know how we should react. I think the big challenge for us to think about in Latin America, and ultimately the linchpin for what's going to happen, is how can one reduce the size of the state?

I am just going to tell one final story. I worked for the government of Panama in the Planning Ministry for more than ten years, helping with economic policy, happily, in a good period. We had quarters behind the Presidency of the Republic, with a galvanized roof that sometimes leaked and a floor that had holes in it. Gradually we got carpet on the floor, the leaks were patched in the roof, and a couple of things were added. When Nicky Barletta was minister, there were two cars in the whole Ministry of Planning—an old Mercury that the Minister himself drove, and one car with one driver that everyone else could go around in if they needed to for some official business. I went back in 1984 on two or three occasions. The same ministry was now housed in a five-storey, gleaming white building. There were 80 cars and 80 drivers. There was a raft of secretaries in the front of the office where I was working, all reading novels or talking to their boyfriends on the telephone. I would want somebody to place a call, and I would come to the secretary closest to me, and she would look up from her book and say, "Why me?" Now that vision of government—as

having to give people jobs, people having the right to those jobs, the idea of productivity absolutely disappearing, and people asking why you are putting upon them when you ask them to do one little thing that is productive—has proliferated more through Latin America than many people are aware. When I say you have to cut the size of the state, I really mean it, and I am referring to this kind of thing which is endemic in many, many parts of Latin America. It is the true danger as far as I can see.

Milton Friedman I wanted to expand a footnote which Ramon Diaz has in his paper that has to do with the reference to Adam Smith. In discussing it with Rose's brother, Aaron Director, who is a great admirer and expert on Adam Smith, he points out that there is a very significant difference between the statements Adam Smith made about North and South America. With respect to North America, he said it was both prosperous now but it also will continue to rise in prosperity. He said, if it remained part of the Empire, the capital of the British Empire would move over to the other side of the world because it was already more prosperous and would become increasingly so—a remarkably accurate prediction.

On the other hand, with respect to Latin America he made the statement that they had lots of natural resources and it is possible that they would be able to overcome the bad features of their institutions, but he never made any predictions that they would.

Walter Block I wanted to get back to Tibor's question of what is to be done. I certainly agree with Arnold that reducing the size of the state is the best thing, although I would say that second best is reducing the productivity of the people in the state. I like the idea of secretaries not doing anything, because mainly what they do in these five-storey buildings is to make it impossible for the private sector to work. So if we have to have a public sector, let's be happy that they talk to their boyfriends or whatever.

What can be done? I think reducing the size of the state is the key. Given our discussion of Ciskei, my question is, can we have a Ciskei here? And my answer is, not really. I regard Leon Louw as similar to the way Milton Friedman described George Washington—unique and accidental. Leon is articulate, personable, charismatic, and I think it would be hard to replace him.

Ramon mentioned the Lockean theory, and one of the things I would like to put on the table in this regard is the question of land reform. It seems to me that the discussion of South American and Latin American development is missing an integral point without this concept. As I under-

stand it, there are three views on land reform in the South American situation: the socialist, the libertarian and the conservative. The socialist advocates land reform from rich to poor. The libertarian advocates land reform from the thief to the victim of the thief or, given that the thievery took place many years ago, from the children of the thieves to the children of the victims. Whereas, the conservatives derisively dismiss all notions of land reform. They say we should not have any land reform at all. It's too complicated; we'd have to go back to the year one; it's impossible.

Another argument against land reform on the part of the conservatives is that it is not in the interests of these people; they would be better off not advocating land reform and to just have a free market from now on. This is a confusion of positive and normative economics as I see it, because both can be true. That is, it may well be that the peasants would be better off if they completely forgot about all notions of land reform (positive economics) and also that they are morally entitled to land reform (normative economics), however unwise it would be for them to press on this issue, and just concentrate on bringing about a free market. As well, if you look at this issue from the point of view of the peasants who have had their land stolen, or their grandfathers who had their land stolen, they see two main viewpoints. The socialists want to give them land reform. They want to give them their property because in many cases the two go together; namely, that the theft was from the poor to the rich. From the viewpoint of the average peasant, it is the socialist who is advocating private property rights, and it's the conservative who is opposing private property rights. So, the peasant says to himself, if socialism is in favour of private property rights, I am a socialist.

Gordon Tullock These Indians never owned that land; the Inca owned it. They can't have had anything stolen if they never had it.

The other thing I want to say does deal with the Indian. In South America there is a very favourable development which is called "Ranchitos" in Caracas, "Favelas" in Brazil, and so forth. A lot of land is owned by the government in South America. The government is careless about protecting it, and people move in and set up a settlement. The government fights, and after 20 years the government gives up. So, in essence, they have it. But during the period that this is going on, you are going to have self-governing small communities which, to all intents and purposes, are illegal. Hence, they are not under very much state control. In the western part, the former Inca empire, they are perfectly clearly carrying on the tradition of village self-government which the Indian tribes had before. I think they are the most promising thing we see in South America.

Strictly speaking, you don't have them in the southern cone because you don't have this particular class. In fact, Argentina and Uruguay and Chile had a radically different history from the rest of Spanish-speaking South America.

But I think we have a very promising development popping up there which may—particularly if the government is prevented from totally strangling it, which of course it tries to do—lead to the development of a significant open economy. Certainly it is open right now within the ranchitos running up the sides of the hills in Caracas. They are building their own roads, putting in their own utilities and so forth. But they are also resisting payment of much taxes or paying any attention to government regulations.

Lindsay Wright I want to bring up a new point. I agree with Ramon's description of the growth of the state and his comment that it is a fairly recent development—certainly, since the 1930s under Vargas in Brazil, the state has taken on a new character that it didn't have before that time. But I was surprised that he didn't mention the contribution of a corporatist ideology to state expansion. Under Spanish colonialism there was a transfer and adoption, by native populations of the Iberian-Catholic tradition, of an organic society in which the state played a large role in structuring state/society relationships from above. This phenomenon is different from that which some claim is occurring in Western Europe where state/society relationships are being structured more by societal interest groups. In the Latin American context, I think it is difficult for democracy to survive, even though a number of countries have recently returned to democratic forms of government. Given the continuation of that corporatist ideology, it will be difficult not only for democracy to survive but for the state to be reduced. In this case, I would agree with Walter that reduction of the state's role in controlling and organizing interest groups and associations, unions, business and professional groups is problematic and a great limit to political freedom as well as economic freedom. Perhaps Doug's analysis of institutional development would benefit from an examination of the ordering of state/society relationships from above.

Ramon Diaz On Lindsay's point, I'd like to say that one of the best reasons for optimism in Latin America is the fact that during the early 20th century you have to remember that the homelands of that part of the world—France, Spain, Portugal, Italy—were also very unstable democracies with many interruptions in democratic processes, if they had them at all. We now have a solid group of fairly successful democratic regimes

with predictable legal systems and so on, in a sense that we never had before. It seems to me that Latin American countries that have always looked to these countries may now be in a much more favourable position for authentic and predictable progress in the future.

Assar Lindbeck The corporatist nature of some Latin American societies strikes me as interesting and important. Certainly the Peron regime appeared to be a fascist-influenced corporatist state. Let me ask two questions of those who know something of this. The first one is, what is the main difference between the corporatist in Latin America and in Europe? In Northern Europe, Norway, Sweden, Denmark, and perhaps Germany, you have strong, organized interest groups, particularly labour markets. But other groups like homeowners and pensioners also have their own organizations in some European countries. Austria has this kind of coalition between government and unions and to some extent business also. What is the main difference between the corporatist in Western Europe and in Latin America?

Secondly, I understand that one country tried to destroy the corporatist in Latin America; namely, Chile and the Pinochet government. They tried to create a more atomistic society. Big corporate structures and interest groups in society can be a protection for the individual against a strong state. Some of those who have criticized the Chilean experiment say that this shield from the state provided by big organizations was removed by the Pinochet regime. How do you look at those things?

Brian Kantor The Austrian experience in corporatism is an interesting one. Corporatism there has been perfectly consistent with rapid economic growth. The difference, of course, is the degree of openness to international trade. Austria has a common market with Germany, so the room for inefficient economic policies is really very limited.

So it comes back to the point that Ramon raised about the importance of openness. If you can hold your economy open, it will have to be efficient. But, of course, people in different countries may not choose to remain open. I think that is really the issue: why do some countries as opposed to others choose greater degrees—it's always a question of degree—of openness? The pressures to close are important everywhere. They are very important in South Africa, Australia, the U.S. and in South-east Asia as well, in Taiwan and Thailand. They all have degrees of protection, yet restraining the populist appeal of protectionist policies is so important.

Walter Block I hate to be a pest or a gadfly, but I don't see why we have to call this phenomenon "corporatism." Robert Hesson of the Hoover Institute wrote a marvellous book in defence of the corporation. I think we can call it fascism or statism or something else. Why are we giving up this word "corporation"? It is part and parcel of the free enterprise system, and I can't see why we should conflate this economic fascism with the corporation. It is true that some corporations get involved in that, but it is certainly not intrinsic to the nature of corporations.

Assar Lindbeck The word doesn't come from there. You are mixing terminology.

Lindsay Wright "Corporatism" actually has nothing to do with corporations, as you are referring to them in terms of business enterprises. It actually refers to corporate groups; meaning, in the traditional sense of the word, any group that is organized to pursue its interests.

Assar Lindbeck Producers mainly.

Lindsay Wright Traditionally it referred to guilds. In the newer terminology now used, it has a broader meaning including business groups, labour groups, certainly those involved in production, but other societal interest groups as well.

I disagree with what Assar said about corporatist institutions providing protection for the individual against the state. What has happened in Latin America is that corporatist institutions have been given monopoly representation by the state; in effect they are simply extensions of the state and, in my view, don't provide extra protection for the individual against the state.

Arnold Harberger Responding a bit to the corporate and corporatist issue and to what Assar was asking about Chile, I think we can identify two free market experiments that took place in Chile. One of them was prior to the general collapse in 1982. Sergio de Castro in Chile, whom many of you know, was the intellectual leader of that. I know him extremely well, he is a very good friend of mine, and it *is* his way of thinking. He says, you have to take action first, then let people live with it for a while, and only then expect them to approve. That was his whole way. In the early days of those reforms, I used to come to his office and say, "Tejo, what new friends have you made since the last time, and who are your friends?" By the time it ended, the only friends he could name were the exporters.

Then came the dramatic appreciation of the real exchange rate, and there went the exporters, so that there were no friends at all. Some time after de Castro there was an interlude where a new minister, Luis Escobar, tried to hark back to the ad hoc policies of the 1950s or early '60s. Happily, the Chilean business community in particular recognized that this was no path to follow.

The present minister, Herman Buechi, is much more artful, and he probably learned the lesson from the earlier experience. He seems genuinely to be cultivating the different interest groups in society without giving up very much. It is a great art, if you know how to do it, to hand small bones out and maintain the general structure of economic policy. That's what happened, and I really do agree with what Assar said. It is an atomistic principle of economic policy that is being pursued.

Ramon Diaz Latin America is big. It is probably not as heterogeneous as Africa, but it is big. For instance, about land reform without going into the issue, the word "peasant" is not interpretable in Uruguay/Argentina. There is no one who considers himself a peasant. There are no landless peasants. The ranches are huge, very capital-intensive, and they employ very little labour. No one has ever been deprived of ownership of land.

I am not an expert on what happens in the densely populated countries of Middle America and other places with large Indian populations, but I hear that Mexico has really wrecked its possibilities of developing agriculture through land reform. What I hear about the land reform that has been imposed, largely through the State Department's offices to El Salvador, is more or less the same. And about corporate or guild socialism, we have nothing of that. Our interventionism has been French oriented; it is based on a conception of the state as a benevolent dispensator of goods. It has nothing to do with Catholic social theory. It was brought in by a strongly anti-clerical party. The Church simply does not play any part at all. There are lobbies, of course, but this is common to all countries.

Peter Bauer The discussion of land reform seems to me to be both overblown and confused. In much of Latin America, as in Asia and Africa, millions of extremely poor people live in areas where uncultivated land is a free good. There is, nevertheless, agitation for the expropriation and redistribution of cultivated land on which effort and money have been spent to make it valuable. Who will not welcome a gift of valuable assets?

If redistribution of wealth and income is thought desirable, why should this take the form of the confiscation and redistribution of one particular

form of asset rather than proceed on the basis of differences in wealth and income?

Tibor Machan Just a couple of things on land reform. We were talking about economic freedom and the other freedoms—civil rights and political liberties and so on. I am not sure that the ideal land reform here doesn't really capture a lot of other things such as some conception of justice. If our doctrine of economic freedom doesn't in some way accommodate a basically felt need for justice, either on the part of the people who are actually in those societies or on the part of the people who presume to talk for those societies, then I think economic freedom is doomed. I think the notion that peasants never owned the land, even if that is true, is irrelevant. Suppose you chop off my hand, and I go into court and get money from you. I never owned that money. But we are not literalists here; we are compensating for an evil that they perceive had been done.

I think it is a myth to believe that somehow everything has been hunky-dory, and that major segments of the populations in many of these societies haven't been mistreated. They know they have been mistreated, and they feel they have been mistreated. However much we want to be positivist economists, this value judgement on their part has to be accommodated *somehow* lest we lose the battle completely.

My point is that a compensatory or restitutionalist political approach is absolutely indispensable. The question is how to make it so that it is indeed accommodating to criteria of justice. Obviously, we ought not to just randomly distribute wealth and goods and services and whatever is of value and desired by people. That is not what I have in mind. But to ignore these claims does indeed fall smack into the hands of market critics who pretend to rectify these matters. I don't think they rectify it, but they make a hell of a big claim about going about rectification. If we dismiss the notion of rectification outright, as Gordon Tullock's remarks seem to suggest, I think we are doomed. This directly relates to the notion of the relationship between economic freedom and those other goods with which we are concerned at this conference.

Milton Friedman For Tibor's information, I want to quote from my great teacher, Frank Knight, who used to say over and over again, "What's really going to ruin this world is a search for justice." He is right. If you take justice as your objective, you can be sure you are going to end up with a totalitarian dictatorial state. Justice has to be a by-product, or it will never be achieved.

Gordon Tullock Actually, Tibor and I have been going on about this for quite some time. He feels more strongly about it than I do. Nevertheless, firstly I was responding to his statement that the land had been stolen from these people. Politically, there is frequently much to be said for impoverishing certain people for the benefit of others, if the people you are going to impoverish are going to be permanently removed from power. So I don't rule it out.

But the problem with justice is, unfortunately, that different people think different things are just. The really bloody wars in history have been between people, both of whom are convinced that they are right. I am not going to say that you will not eventually invent a legal system or an argument for a justice which will become something that everyone will believe in. But I do say that right now there is very little agreement as to what is just. Khoemeni, you must remember, is a very just man; he just has different ideas of justice than I do.

Arnold Harberger I think Tibor has a point. I don't feel the same way he does concerning land reform, but I feel that in some sense the myth of equal opportunity is a necessary piece of a good free market system. In the United States, men born in shacks have ended up in the White House. Many others from like origins have ended up on Wall Street and in our universities. It is a commonplace event with us.

In contrast, I have been going to Chile since 1955, and I don't know of a single member of the Union Club in Santiago who was born of landless labourer stock. Not one in thirty years, and I have been on the lookout for these people. The carbineros, who are the police force, are made up of two groups—the officers come from one social group; the men come from another social group—and it has always been that way.

To get into the university, you have to pass exams. The university is virtually free, but—and this is true broadly in Latin America—to get good secondary schooling you have to go private. The people who can afford good private secondary schools are the wealthy and the middle classes. So the poor people have to send their kids to schools that don't prepare them adequately to take the exams to get into university. In each country there are some good secondary schools, and they provide some filtration for the children of the poor. But it is small relative to the size of the population, and I think it is a tremendously important aspect that has to be surmounted. Mexico has done quite well in surmounting it. Panama too, for that matter.

Walter Block I would like to talk about land reform also, but first just a brief word on the corporatist issue. It might or might not be correct etymologically, but certainly as a public relations endeavour everyone assumes, as I do, that corporatism has something to do with corporations. Further, Lindsay Wright maintains that this word means a group that is organized to pursue its interests. To this Assar stresses that it is mainly a corporate group that is involved. But what is so wrong with a corporate group organizing to pursue its interests? I maintain that there is nothing intrinsically wrong with this at all. So, whether it is “corporation” or “(producer) co-operation,” this can be a legitimate activity. Why denigrate it?

On the land reform question, we have a whole continent that we are in danger of losing, and people like Milton Friedman and Gordon Tullock and, if I interpret him correctly, Peter Bauer as well, are proposing in effect a banner which says “down with justice.” This is my interpretation of the statement, “What’s going to ruin the world is a search for justice,” and my interpretation of Gordon’s view that since there is very little agreement, we should oppose it. How do you expect to win the hearts and minds of the people of South America and get them to rally under the banner of “down with justice” or “ignore justice” or “don’t search for justice” or anything of that sort?

As for Peter’s claim that all this land is a free good, I don’t know what the Conquistadores were doing there then. If land was such a free good and there were surpluses, why did anyone have to conquer anyone? We have a question of fact and of value; it is not *only* a question of fact. If Milton, Gordon and Peter were convinced of the fact, they would take the same view anyway that the search for justice is going to ruin the world and it is Khoemeni-ish and it will be bloodthirsty. I think there is a great value difference here on the land question and the justice question and between me and the supposed value-free positive economists who are making very normative claims about justice and injustice.

Tibor Machan If we are having problems with the meaning of the term “justice,” I submit we surely have problems with the meaning of the word “freedom.” If we cannot endorse justice because of its ambiguity and its multifaceted interpretation throughout the world, we have to follow suit with the concept of freedom. Marxists interpret freedom differently; T.H. Green interpreted freedom differently. There are numerous different usages of the concept freedom. Roosevelt interpreted it in a most insidious way and so forth. I don’t find that to be a great argument. If subjectivism is supposed to be our ruling “metatheory,” you might as well forget talking about anything.

The second point is that the land reform issue is, for me, simply a symbol. Obviously, in some areas it has no bearing.

Finally, justice is a more substantive issue for us. I think the concept of economic liberty is an ingredient of the broader classical liberal concept of justice. In fact, justice is supposed to be secured, in a classical liberal framework, by first securing liberty for all. This is one of the roads to justice. There are other ingredients to justice, but one way, for example, that you treat a person justly in classical liberal theory is by not depriving him of his liberty without due process. That is an ingredient of justice. If, as Frank Knight argues, the pursuit of justice has gotten us into very bad trouble, then I would submit that the pursuit of liberty is also going to get us into a lot of trouble because liberty is a necessary though not a sufficient condition of justice as conceived within the liberal philosophical framework.

Peter Bauer I want to address Al's comments with a brief reference to what Tibor has just said.

Al emphasized the importance of equality of opportunity, which he said was absent in much of Latin America. Equality of opportunity is often an ambiguous idea. Normally, it refers to an open society, one in which there is *carriere ouverte aux talents*. In this sense, equality of opportunity results in differences in income and wealth, which reflect differences in people's attitudes and motivations. The poor in such a society are often thought to be oppressed simply because they are less well off than others. This is so both in the West and in less-developed countries. The Malaysian government imposes strict ethnic quotas against the Chinese because they have greatly outdistanced the Malays in spite of preferential official treatment of Malays since colonial times.

I am sceptical about the significance of secondary education and of class differences as factors behind economic differences. Many people in Latin America have become rich even though they had little or no formal education. Academics are particularly apt to over-estimate the economic benefits of formal education. Current ideas about human capital formation may have contributed to this. Capital should refer to accumulated fruits of the investment of resources. It is not sensible to use the term simply to describe aptitudes and motivations. What was the human capital of the very poor, illiterate, unskilled coolies who flooded into British Malaya in their hundreds of thousands between 1880 and 1930 and who transformed the economy of that country? Absence of formal education is entirely compatible with material success.

Nor are differences in social class necessarily correlated with differences in wealth, much less are they causally related. They are certainly not so related in S.E. Asia or in much of Europe. I know that the class structure does not present a major obstacle to economic advance in Britain, and I doubt whether it does so in Latin America.

Milton Friedman I want to come back to this justice versus freedom thing, because we don't want to make this an empty play on words. We don't want to beg the question. If freedom means anything, it is incompatible with justice, if justice means anything.

If we are going to have a defensible definition of freedom, as I see it freedom fundamentally means the absence of physical coercion. Justice means that people get what they deserve. But somebody has to decide what they deserve and what is appropriate to them. So, the underlying basis for Frank Knight's comment—which may be a smart crack, but which had a very strong basis in a very deep analysis of society—is precisely that the attempt to achieve justice will destroy a free society because it pits people with different conceptions of what other people deserve, one against the other, and Khoemeni is a perfect example of that. You have that over and over again. Now, if you take freedom as your fundamental objective, equality of opportunity, in the sense in which AI was discussing it, becomes part of the concept of freedom. People are free to use their own resources in whatever way they wish, so long as they don't interfere with the freedom of anybody else to do the same thing. That is not the same as justice. If you insist on making justice a component of freedom, I think you are emptying both concepts of meaning.

Douglass North I want to point out to Tibor that his comments that have generated all of this heat are in direct contradiction to the earlier comment he and I made in the exchange on which he had no body of theory that he wanted to use. Now, suddenly he has implicitly got some theory about how justice is playing a major role, therefore there is implicitly a theory in it. I wanted to remind you that you have actually done that.

I want to talk about justice in a different way, Milton. I agree with what you are saying, but to ignore as a part of the modelling process its effect upon human behaviour is to make a big mistake. May I suggest, again, that you all go back and read the theoretical parts of the paper I wrote for this conference. In talking about norms of behaviour, it is explicitly concerned about the degree to which people will overcome the free rider problem and that that is a negatively sloped function in which the higher

the price you pay for your conviction the less these things count. But the function shifts and if you pay low prices, ideologies or your views about justice, fairness and so on play enormous roles in the world. I tried to say that over and over again in the paper, and it doesn't seem to have had much effect on you. It *does* play a big part, and if we structure institutions in such a way that people at low cost can express these convictions of justice and fairness, whatever they are, they play a big part. That is what we are trying to model in this process of trying to understand how institutions work. So justice plays a role. I agree with your point, but I don't want to ignore justice because, in terms of people's perceptions, the institutional structure may very well make it have a big role in what happens.

Arnold Harberger In trying to judge societies and countries in a reasonable way, I have come to think much more in terms of generations than in years or quinquennia. I think economic progress is well measured when we see the children of one generation living a lot better than their parents did. I think that is easily measured, and it is one of the things that we should do in a more serious way in economics and in the social sciences.

I think equality of opportunity is distinct from economic progress as such, because you could have progress with each caste in an Indian system going up but nobody changing deciles, so to speak. Natural social mobility entails churning; people from higher deciles drift down and lower deciles drift up. In Brazil I once supervised a wonderful thesis that dealt with only a five-year period using income tax declarations arranged according to deciles. The typical person who was in a given decile at the end of that five-year period had been two deciles below at the beginning. Similarly, the persons who were in a given place in the beginning, fell two deciles by the end. I felt this was a wonderfully positive statement about the upper reaches of Brazilian society, that this was really happening.

Peter Bauer That seems to contradict what you said before about social rigidity.

Arnold Harberger I was talking about Chile in particular.

Peter Bauer I see. The situation you just described completely pertains to Malaysia, for example. I thought it contradicted what you said before. But perhaps what you just said applies to Brazil, but not to Chile, though I am surprised that this should be so.

Assar Lindbeck I would like to comment on Milton's justice. I think Milton is throwing out the baby with the bathwater here. There are some concepts of justice that are extremely important for modern civilization, not only as myth but also as reality. I think most of us would agree about the importance of justice in the sense of equality in relation to the legal system—that people are treated in an equal way by the law. We talked about legal justice, and I don't think Milton would like to throw that baby out with the bathwater.

What you are worried about is the concept of justice as translated to the distribution of wealth. We should make the classical distinction between equality of opportunity versus equality of results. I think you would also accept the idea about justice in the sense of equality of opportunity in starting points in life. But here we come to a real dilemma, because the starting point in life of one generation is often the result of the outcome of the previous generation. If you have a society where different families have accumulated different amounts of wealth during a few centuries, then baby A and baby B are born in different dynasties, so to speak, one with zero and one with much wealth. What is the difference between opportunity of outcome and manipulation results? That depends on how we look at the institution of inheritance. Is inheritance something completely sacred that society should never intervene in, even if it would mean that 99 percent of all wealth is held by 1 percent of a population?

I don't find it unreasonable to intervene in the distribution of wealth in a society where it is completely reckless, as I think it was in Nicaragua during Samosa's regime, if I understand it correctly. Whereas, in a wealthy state of the Western European kind, I would be less willing to intervene in the distribution of wealth as accumulated over the centuries because of the cost of doing that. Also, the benefits would be much smaller than to intervene in Samosa's Nicaragua. So I think a more balanced view about justice could be defended.

Alan Walters Discussing this problem of justice, I thought we normally took the view that we could not agree on the ultimate sharing out of wealth or anything of the sort. It is impossible. I quite agree with Milton there.

What we can agree on, however, is some sort of rules or procedures. That's what we see coming in this theory of justice. I think societies can agree on rules and procedures for resolving issues of this kind.

The equality of opportunity is a very slippery fish indeed. When you try to grasp it, it slips away from you. What opportunity? Do we dare penalize natural talent?

I find the argument that AI used quite nerve-wracking, because of his emphasis on formal education. Many of the formal education systems in Latin American countries are products of the state. You *have* to get a Ph.D. or an M.A. to get *this* job. Consequently, they have a degree of state corruption built into them. You find entirely different attitudes, for instance, in Hong Kong. It is much more varied and not dominated by the state at all, as it is in many Latin American countries. I think what Peter says is substantially consistent with all my observations. Formal education and achievement—although most of us have a formal education, so we hate to admit it—are not highly correlated, except in academic work, of course. Lady Bracknell had the appropriate view when she said, “There is far too much education in the world, but fortunately most of it has no effect whatsoever.”

Walter Block I would like to take issue with Assar’s statement which equates justice and intervention in the distribution of income. In my view, that is just “Robin Hoodism.” A critique of inheritance is just an attack on giving people gifts, and I think people have a right to give other people gifts if they own the property in question.

I want to concentrate my main criticism on Milton Friedman’s equation of freedom and the absence of coercion. He misses a crucial point. It is not the absence of coercion; it’s the absence of initiatory coercion. To say that it is just plain old absence of coercion is fundamentally conservative in the worst sense. The banner here would not be “down with justice” but “whatever is, is right” or “the status quo for us.”

Take, for example, the case of slavery. When we had slavery in the United States this was a clear case of injustice because those slaves, in justice, owned their own bodies. The only way their ownership rights over their own bodies could be alienated from them was by using coercion. Those people who did not want any coercion or any force to be used, were upholding an unjust system, were upholding the status quo. Suppose Marcos, right before he was forced to abdicate, declared that he was the owner of the whole country. According to the Friedman view of the absence of coercion, no one would have the right to overturn his ownership of the entire Philippines. He would then collect rent instead of taxes. The point is that it is the absence of initiatory coercion that is of relevance, and how you determine whether it is initiatory or defensive depends upon who owns the property.

Milton Friedman I think we ought to get rid of straw men. Walter has a great preference for straw men.

Brian Kantor I thought it would be helpful to introduce notions of end-state use of justice and process. One might regard the process as being just, as being fair, without regard to what happens at the end, without any view of what is a desirable outcome. If the process is fair, you can approve of it. So the question raised by Walter is, where do you start this process? At what historical point in time? Clearly, people acquiring wealth by theft is not a fair process and you wouldn't want to protect them. But when did the theft occur? How far back in history do you go to exercise retribution? I think that is the real problem. Unless one can legitimize the status quo, it becomes very difficult to go forward.

Take the example of slavery. The way out of slavery was surely through compensation not through expropriation of wealth in the form of slaves. Similarly, perhaps an appropriate way to think about how you go forward is through a process of compensation. If you can make a change and compensate the loser—and I think you should compensate him—then there is room for improvement. There is room for negotiating your way out of an impasse which the status quo may have imposed.

When you remove rent control, shouldn't you compensate the existing tenants? You shouldn't have introduced rent control right at the beginning. But once you have done it, how do you get out of it? Those are the ways I like to think about the issue.

Raymond Gastil The last few speakers have actually made the point I want to make. It basically boils down to this. There are many different ways in which one can support the proposition that freedom and justice go together and are not antithetical at all. The only way in which one would understand Milton's position, as I see it, is to have a very specialized definition of justice, referring to a redistributive philosophy which says you go into a situation with no history and no past. You then decide these people seem to be less well off than those, so you start dividing things up differently. I think we might be able to agree on the problem with that approach. There are so many *other* senses of justice, and a number of those have already been brought out.

Herbert Grubel I find the discussions of justice, equality of opportunity and all this very interesting, but I thought this session was concerned with Latin America and the experience of freedom and how it affected all kinds of other things.

I would also like to support Doug North's suggestion that perhaps we can be a little bit more systematic in our discussion. I would like to ask Ramon Diaz and Arnold Harberger whether they have any hypotheses about the origin of romanticism in Latin America. Does it have something to do with the openness of the economy in the educational system, statism, or the class system, to mention just some of the ideas that have been introduced in earlier discussion? How important is romanticism in explaining the development of Latin America? Can it explain the different experiences of the Latin American countries and permit any generalizations about why some did better than others?

Ramon Diaz I think romanticism, education and statism are closely related to one another, as one would have expected. I think a Rousseauian concept of the state is at play. I think nationalism is at play through education. In my paper I developed and stressed the idea that each country has its pantheon of heroes, and children are taught to think about their own countries in a different way from other objects. They are not taught to think of their own countries in a rational way; idols are proposed to them.

Herbert Grubel Why?

Ramon Diaz This, I don't know. It is a philosophical current, inherited perhaps from Spain, but to me that is a datum. I really don't know how it evolved or why the Anglo Saxons had a much more rational attitude.

Herbert Grubel The Church?

Ramon Diaz No, I don't think the Church does that. Actually, the idolization of heroes—the liberators you see on horseback in bronze all over the place—is anticlerical. They represent a religion that is in collision with the traditional Christian religion.

Herbert Grubel If we don't know, we can't really do anything then.

Ramon Diaz No. We can try to instill reason where there isn't any, try to explain, try to move the discourse from a plane of irrationality onto a plane of rationality.

Voice You want to tear down the statues.

Arnold Harberger I think what Herb was asking for has one answer in that every society of whatever kind tries to transmit some essence of itself from one generation to another. We see the roots of these various things at different points in the past. You ask: why is it there now? That is the society now, and it is transmitting its values as religious families transmit their faith to their children and as some intellectual families transmit their beliefs. It is just social values being passed on.

Tibor Machan I can't let Doug's remark go by, because I hate contradicting myself. I don't have anything against theory, but I do question whether *formulas* can be had in connection with all problems. My suspicion is that some of the theoreticians around this table and around a certain profession, including certain versions of the neo-classical economic school, are looking for formulas by which to have changes instituted. That doesn't mean that someone who doesn't look for formulas doesn't want *explanatory* schemes.

Obviously, I am very interested in theory to explain value judgements, the facts, even to anticipate the future, but I may not agree with a theory that demands, for example, utter predictability in all facets of human life. I suspect—and granted, this is a very large topic—you and I differ on this. That is why you are looking for a certain kind of structural approach, and I am not looking for that kind of structural approach.

Another point is that just as we have a difference between political/legal justice and moral justice (of the sort among friends and members of the family and so forth), so we have legal and political freedom. We do not mean by “freedom,” when we use it in classical liberal circles, the “freedom” that people use when they say they are “free” of a headache, for example. So I am talking about procedural legal justice in the non end-state sense that Nozick made prominent.

Finally, as far as opportunity is concerned, as a refugee, I wanted to come to America because of a certain kind of equal opportunity. Not an equal economic starting point, but equal opportunity in the sense that wherever I ended up economically, no one had the right to come in and stop me from moving on. In that I was equal to everybody else, or at least as equal as anywhere in Western civilization or in the world where that was possible. Now that is an equal opportunity that is very much cherishable without having to buy into some crazy notion of equal opportunity meaning that you start at the same point. So I think it is perfectly possible to say that justice requires *that* kind of equal opportunity—no one has the authority to stand above you and hold you down. It doesn't mean

that you have to start with the same heart, the same eyes, the same height, the same wealth, the same grandparents, the same whatever.

Milton Friedman I just want to say that there is another straw man being thrown around. There is nobody in the world who really argues that you have to have perfect predictability or that you can have perfect predictability of anything. It is just a straw man.

I want to say one more thing along Doug North's line. I agree with his position, and I want to recommend to everybody what I think is the most perceptive statement of that position and that is Ed Banfield's book on *The Moral Basis of a Backward Society*, which exactly makes your point, I think, extremely well.

Ingemar Stahl Just a few words on Lindbeck's theory of acquisition and justice. When we discuss economic freedom, I think the relationship between the state and the individual is a basic thing. There are very good reasons not to accept wealth taxation. That raises a time consistency problem immediately, and taxation can be retroactive. In a declaration of economic rights, a basic rule would be that taxes should always be on returns.

Inheritance taxes create a specific problem in the sense that there is an obvious transfer from one person to another. There is also a practical problem. If I give some better genes to my children by marrying a nicer girl, how do we treat that from the taxation point of view? Kurt Vonnegut has a very nice short essay about how these problems could be solved; we would turn to some ridiculous forms of taxation. So it seems, especially in a society where most of the property is transferred between generations—genetically within the family rather than land or liquid assets—that we would have very good reasons for giving up inheritance or gift taxation.

Walter Block I wanted to reply to Brian on the two points he made about compensation, and how far back do you go in determining property rights. In terms of compensation, I think we have to distinguish between justice and political feasibility. Now, with justice it is clear that the people we compensate for rent control are landlords not tenants, although it might be that the only politically feasible way to get rid of rent control is to compensate the tenant, but that is a different question. It is the same thing with slavery. The people you compensate are the slaves, not the

slave owners, although political feasibility or reducing debts due to war might indicate the other alternative.

As to how far back you go, the libertarian theories I espouse indicate that you go as far back as there is proof. If there is proof that the property was stolen, then no matter how far back it was—there is no statute of limitations in justice—you make the appropriate changes. If there is no proof, then you can't. Then you go to Milton Friedman's view of no coercion and assume that the status quo is correct. It is an entirely intellectually coherent system. It is not a straw man whatsoever, and it can't be derisively dismissed. It has to be confronted.

Michael Parkin I was provoked by Brian's suggestion that it was helpful to distinguish between process and end-state theories of justice, and equally provoked by the latest remark that it is. I used to think it was helpful, but I no longer think it is a helpful distinction.

There will still be arguments about justice, whichever way you approach it, simply because we can visualize the end-state consequences of any particular process. So there will always be an argument as to whether this process or that process is the appropriate process. The essence of the justice dispute is the distributive dispute. It is about who gets the stuff. There is simply no solution that all people can agree to. Therefore, it is as Milton says—a pointless concept to build into our philosophical discussion. Brian's examples were all examples of Pareto improvements. If there is a Pareto improvement to be had, the prediction is that you will have it. You will find some way of making side payments such that the Pareto improvement will occur. That doesn't somehow overcome the distribution issue.

Now it is true that we think we can see many things in the world that are bad and that can be improved upon in a Pareto sense. I'd take the position that they are technologically not available. They are simply not in the feasible set, and we have misdefined what is Pareto and what isn't.

Tibor Machan On this notion of end-state versus procedural justice, the objection that there will always be the possibility of visualizing the end-state of a certain process is an interesting one. I think one has to come to terms with it. It has in fact been advanced against Nozick, for example, by David Norton in his book *Personal Destinies*. But the objection that there will always be debate on the meaning of justice, on what is just and what is not just, I have never understood. There is always a debate about *everything*. I have never heard of anything there is no debate about. There

are nearly 300 versions of Marxism. There are as many versions of classical liberals, and there are utterly too many versions of liberty. I have just not been able to see the point when people say, with liberty we are safe but with justice we are not. It's not true.

Brian Kantor I'm sorry, Walter was right. When you remove rent control, you are harming tenants and favouring landlords who have a windfall gain, so you really have to "buy off" the tenants at that point in time if you hope to succeed politically. I think there is an issue of political art here that Al raised. Just because we haven't done it in the past—and this is in reply to Michael—doesn't mean that there isn't a possibility of innovation. A politician may come up with a scheme for compensation that satisfies the existing interests and promotes economic efficiency. We, as people who involve ourselves in economic policy issues, should think about such schemes. It may help progress a lot.

Ramon Diaz I think the answer to what we need in Latin America is to have cultural change, and that is a very difficult thing to do. Education is the obvious way, if we could control it in the right direction, but that is not easy. Leadership?—we may be lucky. That's a chance.

What I am concerned about at this meeting, particularly in connection with Latin America, is that we have the idea that distribution was important, and not about Africa and not about the Far East. Something about Latin America has caused the view that it is important to distribute there. Let me tell you my frank conviction that it isn't so. Peasants or rural workers will be a lot better off when agriculture is more productive, and the last thing we want to do is to distribute it. Actually, what we do is tax agriculture very often through export taxes and through tariffs imposed on imports, principally. This is what causes a lot of poverty, apart from policies of the more developed countries as well—a common agricultural policy and things like that. But certainly distribution of property and income will not be a solution. We want to grow. We want to achieve secure property rights from all investment and increase productivity. That has been the source of progress in the centre of the West; it will also be in the periphery.