

## Ethics and Economics

### Liberty for Latin America

**Alvaro Vargas Llosa**

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This book is, in the first place, a wonderful hermeneutic experience. There are many attempts to study, ostensibly without ideological bias, what is going on in Latin America; in other words, to study facts with no political philosophy. Continental hermeneutic philosophy (e.g., Gadamer) showed the impossibility of such an approach. Popper, however, had already established that history makes sense only when our general theories provide us with the meaning of social situations that would be meaningless without this theoretical framework.

Unfortunately, this is a double-sided game. Studying Latin America implies an understanding horizon indeed; nevertheless, this theoretical framework is wrong most of the time. Neoclassical mainstream economics, neo-Marxist dependency theory, and a general constructivistic attitude do not make the best theoretical framework for a proper understanding of the current situation in Latin America.

Vargas Llosa, on the contrary, reads the history of Latin America and its present situation from the standpoint of a classical liberal framework, that is to say, the rule of law, individual rights, and limited government. He uses Austrian economics as well as institutional economics in a necessary and close connection to his legal and political vision. The result is an excellent diagnosis of Latin America and its problems.

The author is aware of certain tensions between culturalist and institutionalist thinkers in relation to this kind of analysis, but he tries, from the beginning, to go beyond the debate by using both visions in a difficult but necessary balance.

Having said so, the author establishes what failed in Latin America clearly. He enumerates five principles of oppression (corporatism, mercantilism, privilege, wealth transfer, and political law), and he demonstrates that those oppression tools were permanent problems throughout the entire history of Latin America. This is one of the key elements of the book. The pre-Columbian governments, the Iberian states (Spain and Portugal), the colonial authorities, and the republican reactions against the colonial system were all completely dominated by these oppression principles—ways of oppression that were exactly opposite to the classical liberal tradition.

This is very relevant, and I do recommend that the reader pay attention to this hermeneutical key. What we call Latin America is the result of institutions and customs that were completely constructivistic in a Hayekian way. Latin America never knew the rule of law, never knew a real free-market economic system. The colonial system inherited the systems of oppression of the Iberian States and the republican reactions inherited the constructivistic way of thinking of a Rousseauian democracy with no kind of individual liberties. Thus, even the property rights that existed in Latin America were forms of monopoly, privilege and, therefore, wealth transfer.

What follows from this—and is one of the most interesting conclusions of this book—is that the Marxist revolutions of the 1960s and 1970s were against a so-called capitalistic system that was never actually applied. Underdevelopment and poverty are the result of centuries of interventionism and privileges, whereas the conditions for development—equality under the law, political and legal stability, absence of monopolies and privileges—were never applied. This approach will be hard to understand for certain economists who think that macroeconomic policies, setting aside the institutional framework and cultural customs, are the main elements for any reform. They are completely wrong. On the contrary, these government policies are just one more stage of the five ways of oppression analyzed throughout the book.

That is the reason why the so-called market reforms of the 1990s were a complete failure. Many people see these reform attempts as the climax of capitalism and neoliberalism. In contrast, they were just another wealth transfer from government to private monopolies, protected by government intervention. No institutional reform was attempted, so the outcome was another sort of government interventionism with a very unique communication problem: It was called capitalism. This will be very hard to understand, both for the Marxists who still dream about the 1970s and the macroeconomists who designed the market reform in a constructivistic fashion. For the purposes of understanding the author, we have to take into account the Austrian approach to the economy. For the Austrians, there is no economic policy; there is institutional framework. Everything else (development, for instance) is an unintended result.

Regarding the institutional framework, the final part of the book constitutes an effort to propose certain reforms that involve “undoing more than doing” (208). To sum up, the author thinks of ways to deregulate and demonopolize by cleansing the law and empowering the justice system. The author is aware of the difficulties but very optimistic about the outcome. As far as I am concerned, I have my doubts regarding this

issue. The author says: citizens “will not face competition from any entity owned”; “will not be taxed simultaneously as producers, savers, investors”; “will not be forced to pay more than it is necessary”; “will not suffer expropriation in order to subsidize”; and so on. The questions that remain are: Will they *understand* these results? Will they accept them? If we take into consideration the culturalistic approach, we have a problem. We may deregulate, we may set a classical liberal constitutional framework for the first time, yes, but even if this miracle is possible, this is the syntax, the semantics of a political system. We need the pragmatic aspect of the social system *to understand* the rules. Given the dominant public opinion in Latin America, I have my doubts. We need more studies and essays about this problem. Argentina is a terrible example.

In regard to other issues, the author’s vision about the Catholic faith is too critical. He could have made a more accurate distinction between the Catholic faith and the colonial customs inherited from Spain and Portugal. He acknowledges the positive role of the Salamanca School of thought, but, at the same time, writes: “The theological foundation of absolutism was derived from Thomistic thought” (21). That claim is, at the least, debatable. Finally, if the author is so concerned about the role of institutions, he should have paid more attention to the development of a very strong educational system completely imposed by the government, as the sixth way of oppression in Latin America, especially in Mexico, Argentina, and Uruguay. In addition, he should have studied a little more the unique case of the Peronist political movement in Argentina. This case is a special tragedy, for the five principles of oppression were fully transformed into a cultural system; thus, any attempt at reform is almost impossible (*almost* because nothing is necessary in human history).

Notwithstanding these minor disagreements, I recommend this book as a unique opportunity to understand what is going on in Latin America. The theoretical framework, especially in chapter 2, when the author summarizes the classical liberal tradition, is superb. Moreover, the book is useful to understand the difficulties of any endeavour to carry out reforms. There are certain culture corruptions that, apparently, have no solution. Latin America seems to be one of them. Such is my personal final conclusion; fortunately, it is not the author’s.

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