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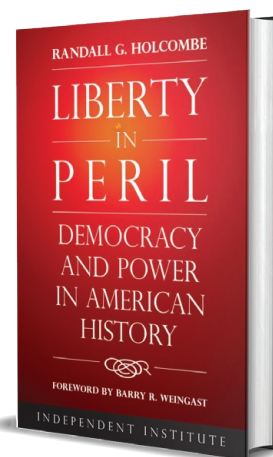
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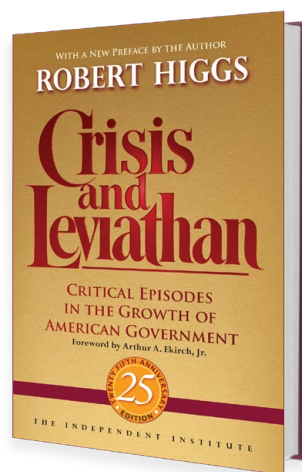
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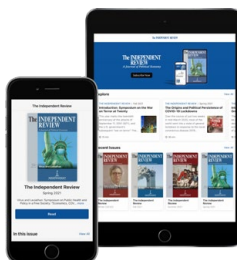
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The Individualist Legacy in Latin America

— ◆ —

ALVARO VARGAS LLOSA

It is often said that the root of Latin America's underdevelopment lies in its statist tradition.¹ That tradition goes as far back as the pre-Columbian states, under which masses of laborers toiled for the benefit of the ruling classes; it includes three centuries of corporatist and mercantilist Ibero-Catholic rule; and it has been compounded in modern times by the elitist independent republics. Through a combination of institutional arrangements set in place at various times by the governing cliques and cultural values transmitted from generation to generation, Latin America's tradition weighs so heavily against ideas of limited government, the rule of law, and personal responsibility that it would seem that an almost determinist view is justified in regarding liberty as beyond the region's reach.

Yet from the days when Indians in parts of Central America and Mexico used cacao seeds as money to the present-day informal economy, the instinct of the Latin American people is no different from that of the rest of the human species. Nothing suggests that the native cultures, either in their precolonial or in their mestizo forms, could not have responded creatively and successfully to the incentives of liberty had they been allowed to operate under less-oppressive conditions.

An individualist spirit has sought to manifest itself in Latin America in all historical periods. This legacy goes as far back as the family units that worked their own land and exchanged goods in ancient times, moving from them to the Jesuits of the School

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1. The term *Latin America* is an invention of nineteenth-century French sociologists. It has become widely accepted, except in Spain, where the terms *Spanish America* and *Ibero America* are usually preferred.

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of Salamanca who discovered the monetary causes of inflation and the subjective nature of value at the very time when Spain colonized Latin America in the sixteenth century, and from them to the informal (black-market) economy that represents a contemporary and inventive response by the people to the state's illegitimacy. In-between these episodes stand landmarks such as the mid-sixteenth-century rebellion of Gonzalo Pizarro, the 1812 liberal Constitution of Cádiz, Spain, the ideas that inspired the Latin American independence struggle, the brilliant Argentinean three-quarter century that flowed from Juan Bautista Alberdi's vision, and a few post-World War II intellectuals who went against the current.

Trade and Property in Ancient Times

Despite the limits on communication imposed by the absence of pack animals and by the fact that the wheel had not yet been discovered in the area, trade occurred in all three of the great pre-Columbian civilizations—the Incas, the Aztecs, and the Mayas (who used the wheel only in toys). The powerful bureaucracies established in ancient Latin America used the tradition of commerce for their own purposes and to a large extent curtailed mercantile private initiative precisely because they appreciated its significance.

Trade played an important part in making possible the loose confederate organization of the Maya culture that flourished in the Yucatán Peninsula and the surrounding areas, with no permanent political center, but rather a system of city-states, Tikal being the best known, among which hegemonic influence shifted. In fact, long before the classic period of Maya civilization, taken to have started in the third century A.D., trade was a mainstay at locations such as Chiapa de Corzo, Abaj Takalik, El Baúl, and Chalchuapa (James 2001). Thanks to commerce, the communities of the coast were later fed not by the agricultural lands in their immediate vicinity, but by the interior hinterlands, where they obtained food as well as textiles and other goods. When the Europeans arrived, the Maya city-states had long waned, but the descendants of that civilization were well acquainted with the notion of exchange.

A commercial tradition was strong also in Mexico. Before Tenochtitlán established itself as the undisputed capital of what is known as the Aztec Empire, that city-state coexisted with Tlatelolco, an entirely mercantile center. Through trade, Tlatelolco developed a class of merchants and entrepreneurs (Garraty and Gay 1972). Tenochtitlán was naturally jealous of those merchants, who traded in valuable commodities (James 2001). Despite political centralization, trade continued to be a feature of daily life once Tenochtitlán had become the imperial nerve center.² The *pochtecas* specialized in long-distance commerce and supervised markets in the Valley of

2. Among the numerous tribes of the Valley of Mexico, the Mexica emerged as the dominant force. Their "Triple Alliance" with the Acolhuaque and the Tepaneca facilitated an expansion beyond the valley. Numerous alliances and subordinated tribes constituted what is known as the "Aztec" Empire, a less pervasive and "imperial" type of organization than that of the Incas (Gibson 1964).

Mexico. The Mexicas of the capital traded with the surrounding areas, exchanging water-intensive products (the city stood on a huge lagoon) for wood and stone. Although the empire was divided between the ruling class and a great mass of laborers, the merchants numbered as many as ten thousand (Wolf 1999). They even had special law courts. Their activities were not spared many of the controls suffered by other types of activities, but they still constituted a culture of exchange in which mutual benefit, not simple predation, was the guiding principle. From that exchange flowed elementary concepts of money, with the use of gold, zinc, and other media.

Trade also occurred at the other end of the region, in the Andes. The Incas went a long way toward eliminating it, precisely because it was a tradition. Important cultures had surfaced in what is known today as Peru long before the Incas. The people of the Tiahuanaco culture, born around A.D. 500 in the mountains of southern Peru, traded intensely with the coast and even with Central America. Before the Inca Empire came into being, when the Inca kingdom was but one among many others, trade continued to be a part of life in the Andes. It was an activity that engaged many women, whose presence in the market was particularly visible. One Inca, Túpac Yupanqui, is remembered for having ordered free passage across the land to those who chose to take part in commerce. Many of the Inca's decisions were announced in the marketplace (Cabello de Balboa 1951).

Because the people had no written language, scant evidence exists of just how intense trade was before the Inca Empire and how much of it survived until Spain conquered South America, but notarial records of early colonial times attest to the Indians' acquaintance with contract and commerce despite the stifling controls put in place by the Inca Empire. Testimonies given by Indians in local Peruvian communities to Spanish inspectors in the sixteenth century clearly speak of trade. The records also show *kurakas* (local chiefs) providing labor to the Spaniards in exchange for a fee, using traditional social customs (Spalding 1973). The *kuraka* received raw cotton from the Spaniards and distributed it to the Indians under his jurisdiction. He then sold the finished cloth to the Spaniards for cash payment. By the mid-sixteenth century, the Indians were already diverting part of their labor for the production of goods for the Spanish market. By the eighteenth century, not only *kurakas* but also the wealthier members of Indian society in general traded their possessions in the Spanish markets for goods they then sold to fellow Indians. An entire class of merchants called *principales* stocked the shops that they set up in their communities with European commodities bought from Spanish merchants.³ Although the incorporation of Indians into the Spanish market owes much to the dislocation of traditional social norms caused by colonial rule, the Indian society's immediate response to the market attests to traditions of trade.

Another element of individualism, apart from commerce, also existed in the ancient Andes. Between the time of the Tiahuanaco culture's decline and the emer-

3. Archivo Nacional del Perú, Sección Histórica, Derecho Indígena, Cuaderno 491.

gence of the Inca Empire, a political eclipse occurred during which the people went back to their small land-based clans, which employed a form of private property. Each *ayllu* consisted of one or more families claiming to descend from some remote god-like ancestor.⁴ The families owned the land, which the chief distributed. The houses in which they lived, as well as the orchards, belonged to them. So did their tools. Although the chief wielded power over the community, he had obligations, including the protection of private property. Differences in wealth inevitably developed between the communities, which led to war (Vargas Llosa 1994). The *kuraka* represented the kindred members of his community, and the community members, in exchange for favors and labor they were not actually obliged to supply, received services such as the settlement of disputes, the enforcement of claims by the weaker members, and the conduct of rituals. Evidence of many disputes between *kurakas* and their local kinsmen indicates how strongly the members of the community felt about authority's invasion of their sphere (Guamán Poma de Ayala [1615] 1987).

Anyone who visits a market fair among the Indian communities of the Andes, southern Mexico, or Guatemala will detect a powerful spirit of trade among peoples who in many ways remain remote from the mainstream of Western culture. One has only to see how peasants have parceled out 60 percent of the land collectivized by agrarian reform in Peru to recognize the heritage of ancient times, when the communities used to parcel out the land among the families and individuals who subsequently became its owners. Notable, too, are the arts of pottery and weaving, which Indians practice with as much ingenuity today as in centuries long past and strive to place in the local or international market. So among the Indians who came to be organized in vast empires under the Aztecs and the Incas, and in powerful city-states in the case of the Mayas, the spirit of the individual was not dead. Imperial power did much to coerce that spirit into subservience, but it did not eliminate the continuation of that spirit as an element of the cultural heritage.

Rebellion and Sound Economics in Colonial Times

The conquest of South America was marked by tensions over property and autonomy between the conquerors and the Spanish monarchy that chartered them. The outcome was determined early on, when the independent-minded first wave of conquistadores put up an ultimately unsuccessful fight against the metropolitan power in defense of private property and government by consent. That the conquistadores exploited the native population and burdened the laborers with large tributes does not detract from the point that principles of limited government and private property emerged under significant players' leadership. These players constitute an important precedent. Chief among the rebels was Gonzalo Pizarro, the brother and political heir of Francisco Pizarro.

4. Fray Domingo de Santo Tomás ([1560] 1951) equates *ayllu* with lineage or family.

In the mid-1540s, the Spanish monarchy established direct control over the colonies and enacted laws limiting the conquistadores' estates (Muro Orejón 1945). The ensuing conflict in Peru saw the emergence of an ideologically motivated movement under Gonzalo Pizarro. Major intellectual voices justified their sedition against absolutism with ideas of government by consent and private property. The rebels based a good part of their claims on St. Thomas Aquinas's natural-rights doctrine and on the medieval Spanish legal codes known as *Las Siete Partidas*, which echoed Justinian's codification of Roman jurisprudence. Monarchical absolutism had swept away such notions in the Iberian world, but the moral and intellectual force of such principles remained sufficient to send shivers down the king's spine. Gonzalo Pizarro's men were well aware of the commotion provoked by the local communities that had revolted against taxes and other limitations of their freedoms in Castile before the rise of the unified Spanish monarchy. Moreover, even within the realm of rigid scholastic doctrine, legal and moral voices in Spain sought to place government under the rule of higher principles. The king's reaction to Pizarro's rebellion therefore aimed to prevent further cracks in the edifice of absolutism as much as to retain control of the colonies.

In documents such as *Representación de Huamanga*, the manifesto of the rebellion, as well as in letters to the king, Gonzalo Pizarro and his men stated that defending property and questioning laws that had been passed without consultation was not tantamount to disloyalty (Lohmann Villena 1977). In warning that they would "obey but not comply" with the laws, they sought to avoid opening themselves to the accusation of high treason, but they also resorted to the defense of moral principle against government. The rebels, who met cruel deaths (and inflicted some, too), were the unwitting heirs of a tradition vested in the local villages of Spain that traditionally had resisted the king's authority. In less-obvious ways, they also remind us of the Saracens, who had ruled Iberia with a liberal hand and whose scientific energy and enterprise still infused that part of the world when the unified Christian monarchy that expelled the Moors (Muslims) undertook the conquest of the Americas.

A much more systematic and profound (if equally unheeded by the political authorities) contribution to the individualist spirit in the sixteenth century was the School of Salamanca, a group of Jesuit and Dominican scholastic thinkers now considered forerunners of the Austrian school of economics of the nineteenth and twentieth centuries.⁵ They did not question the divine nature of the Hapsburg monarch; indeed, they provided the theological justification for it. Still, those associated with the School of Salamanca introduced common sense into the theological perspective on worldly matters and debunked many misconceptions regarding the value of goods, the role of money, and taxation. They based their beliefs on natural law as developed by Thomas Aquinas (who was influenced by Aristotelian philosophy) a few centuries earlier (Huerta de Soto 1999).

Although their teachings did not shape public policy in Spain or therefore in Latin America, where in practice scholasticism meant the theological justification of

5. Carl Watner (1987) refers to their constituting a "libertarian tradition."

colonial oppression, the Salamanca scholars constitute a venerable legacy of sound economic thinking. The first scholars “to grasp the role of commerce and trade in bringing about an interdependent world based upon law and consent” (Novak 1990, 45) remind us that a very different type of choice might have been made and that lack of reasonable ideas is not to blame for the type of colonial legacy by which Latin America in many ways remains shackled.

Long before the Austrians, the School of Salamanca discovered the subjective nature of value, under which no good in the market has an objective value that can be determined by the authorities or by any other outsider. Value, as Diego de Covarrubias y Leyva, Luis Saravia de la Calle, Jerónimo Castillo de Bovadilla, and others stated, has to do with each individual’s “esteem” of a good. The only way to establish the “just price”—that medieval obsession—therefore is to let supply and demand (the interplay of “esteems”) do their work. Prices are not determined by costs, which (including wages) are themselves prices, but by the public in a competitive exchange environment. “Only God” knows what the “just price” is.⁶

Alejandro Chafuén (1986) has aptly described many other contributions made to the capitalist ethos by the School of Salamanca. Francisco de Vitoria, a leading scholar, denounced the slavery of Indians as running contrary to natural law; Domingo de Soto and Tomás de Mercado criticized common ownership; Juan de Mariana justified killing tyrants because they violated law and consent, and he asked for both moderate taxes and a reduction of public spending; Martín de Azpilcueta, Luis de Molina, and Diego de Covarrubias y Leyva understood the monetary causes of inflation, a major topic at a time when the importation of Latin American bullion was affecting prices in Europe; and, finally, Fray Felipe de la Cruz and others, though not going so far as to accept the concept of interest, which was an anathema at the time, justified the discounting of bills of exchange.

The School of Salamanca (not all its figures were actually associated with that university) expresses an old tradition of capitalist thought in the Spanish world that ruled Latin America. It was eclipsed by the spirit of the Counter Reformation, which was so prevalent that these scholastics themselves were part of it. Their valuable economic lessons thus amounted to academic speculation while real policy was reserved for everything they so lucidly attacked.

Liberalism in Republican Times

The independence movement of the late eighteenth and early nineteenth centuries also contained some genuine expressions of liberty.

Free trade was one of them. The Spanish monopoly was an essential target of the Creole revolt. Being able to trade with England, France, Holland, and other places was a major aspiration. Additional forms of government intervention were also severely

6. This quote is by the Spanish Jesuit Juan de Lugo (Huerta de Soto 1999, 105).

questioned. The ideas of Rousseau and other collectivists of the Enlightenment were not the only ones feeding Latin Americans' imagination. The French Physiocrats, with their message of minimal government direction and their belief that progress came from the freedom of individuals to multiply the resources of nature, also had a strong impact, as did the American Founding Fathers, especially for leaders such as Francisco de Miranda. Calls for abolishing taxes and duties were no less powerful than the defense of free trade.

Civic engagement at the local level during the independence struggle was symptomatic of grassroots efforts to decentralize power. These efforts were not like New England town-hall meetings, but the municipalities were focal points of citizen discussion and participation and of efforts at liberation from the centralized colonial structures. Civic associations—including religious groups, especially Masonic clubs—took active roles in creating local networks for the independence struggle. They constituted an embryonic form of civil society that the subsequent kidnapping of the independent republic by military caudillos tragically stifled.

The independence movement was a complex mix of liberal and conservative tendencies. The 1812 Constitution, signed by Spanish politicians and a number of Latin American delegates in the Spanish city of Cádiz under Napoleon's occupation, became a symbol of liberalism for the independence movements. Yet this ideal on the part of some participants coexisted with a conservative distrust of liberalism on the part of many Creoles, for whom French influence in Spanish affairs actually became a reason for breaking ties with the metropolis. Thus, two contradictory forces were present at the very birth of the Latin American republics. The political struggles that ensued and the privileged position enjoyed by the elites who led the independence effort ensured that both sides, liberals and conservatives, became tainted with the same evils: authoritarianism and mercantilism. The effect was to give rise to very limited republican institutions (José Martí called them "theoretical republics") that did not take root among the people—a major cause of the state's illegitimacy, which would spark later revolutions. Still, liberal ideas were a real presence at the start of the independence movement, and some leading figures' liberal beliefs were genuine.

Amid the chaos and the furor of Latin America's nineteenth century, one story speaks to us of a significant degree of civilization: Argentina's relatively limited government under its 1853 Constitution, which laid the foundation for some seven decades of economic expansion.

The name of Juan Bautista Alberdi, a leading member (together with Domingo Faustino Sarmiento) of the remarkable Argentine "generation of 1837," has been lost amid the names of the more colorful, larger-than-life despots of his time (including that legendary tyrant José Manuel Rosas, who ruled from Buenos Aires until 1852). Alberdi's book *Bases y puntos de partida para la organización de la República Argentina*, published in 1852 (1996), served as a guideline for the Constitution of 1853. It reflected to a large extent his belief, influenced by the American Revolution and the U.S. Constitution, that government's essential role was the protection of life and property, that federalism was the best possible compromise between central and local government, and that free trade was the engine of

progress. An obsession with populating the country and encouraging European immigration was salient alongside his admiration of Adam Smith, David Hume, the French Physiocrats, and the *Federalist Papers* (his weakness for Bentham and others tainted his liberal persuasion with utilitarianism). Under leaders able to give some practical meaning to these constitutional principles (unlike what was happening elsewhere in the continent), Argentina managed to narrow the scope of its government's powers and to remove obstacles to both capitalist endeavor and voluntary association. The degree of free enterprise included, for example, provision for commercial banks to issue their own notes in the 1880s, something unthinkable today (Benegas Lynch 1986).

Because of institutional reforms and no doubt also a cultural predisposition on the part of many European immigrants, the country experienced the second highest rate of economic growth and enjoyed the greatest rate of foreign investment per capita in the world during the latter part of the nineteenth century. From 1892 to 1913, the wages and income in real terms for rural and industrial workers were higher than in Switzerland, Germany, and France. In 1910, the volume of Argentina's exports exceeded those of Canada and Australia (Benegas Lynch 1990). By the 1920s, its economy was well ahead of many western European economies, and a solid middle class constituted the backbone of society; in 1928, its GDP per capita was the twelfth greatest in the world (Grondona 1999) (still less than half that of the United States, however). Its cultural offerings were no less admired than its economic progress.

Later events, with the rise of populism, led Argentina along a very different path, however, indicating that despite the important inroads that capitalism made in that country, the phenomenon did not cut deep enough, especially in the pampas and the countryside, to become part of a permanent culture.⁷ To be sure, authoritarianism never really ceased to exist and political participation was restricted under the 1853 Constitution, but the visionary "generation of 1837" has to be credited with infusing the political atmosphere and with shaping events in a manner that might have evolved into something more sustained and widespread.

Today's Individualist Survivors

For proof that Latin Americans are the same as others in their instinctive pursuit of self-interest through enterprise and exchange, no contemporary phenomenon speaks more eloquently than the informal ("underground") economy. It should be called the "survival economy" because it refers to the millions of people all over the world who carve out an existence for themselves outside of the law simply because doing business legally—everything from obtaining licenses and incorporating a small firm to complying with local and central government regulations—is expensive and time-consuming

7. Mariano Grondona (1999) argues that his country, Argentina, is the only one in the world to have underdeveloped itself—that is, to have attained a situation of development and then to have descended into underdevelopment.

or impossible. The legal system offers no guarantees to those who are not close to the political machinery that decides the fate of any type of enterprise.

It is estimated that the informal economy amounts to \$9 trillion worldwide, nearly as large as the U.S. economy.⁸ Although all nations have an informal economy, in rich countries it represents an average of 14 percent of all the goods and services provided, whereas in underdeveloped countries it represents at least twice that much (in sub-Saharan African countries the figure is 54 percent).⁹ Because informality means lack of predictable property rights and enforcement mechanisms, insecurity and risk are very high in the informal economy. Without access to formal credit, insurance, and other institutions, productivity is low. The informal economy is a labor-intensive world in which the costs of illegality—from very high interest rates on informal credit and insurance to the absence of enforceable tort law—hold down productivity and growth. In most underdeveloped countries, the proportion of workers involved in providing informal goods and services is large. The operation of this economy, however, means quite simply the survival of the poor.

Housing, transport, manufacturing, retail commerce, and other activities to which informal producers devote their time represent approximately 60 percent of all hours worked in Peru (Gherzi 1997). Informal employment accounts for more than 50 percent of the working population in Mexico and for 40 percent of wage earners in Argentina (Ricci 2002), and it involves more Brazilians than the combined number of people in the public sector and in formal industry in that country (Neves 1999).

The informal economy has created not only a parallel economy but also a sort of parallel culture. By the 1980s and 1990s, it had become fashionable to state that the informal economy is not simply a spectacle of land grabs, bloody conflicts among shantytown neighbors, messy street vending, unsafe and pollution-prone public transport vehicles, and disloyal tax evasion, but rather proof of an entrepreneurial spirit among the poor that represents the promise of vibrant development. Latin America elites discovered with amazement (or was it horror?) that the poor, just like the rest, actually like to own property, produce goods and services privately, exchange them by contract rather than by command, and enjoy the fruits of their labor. Every politician and commentator praised the inventiveness, entrepreneurial spirit, productive potential, survival instincts, organizational skills, and cultural achievements of the “informals,” as they began to call the poor. These politicians and analysts were unaware that the underground economy had been noticed in other parts of the poor world much earlier and that it had been lauded as the social cushion preventing revolution in other regions. As early as 1971, anthropologist Keith Hart had delivered an address in which he spoke of the informal economy in some African nations as “a means of salvation” that allows people “denied success by the formal opportunity structure” to “increase their incomes” (Hart 1973, 67). Even earlier, both Latin American and U.S. researchers had conducted studies in Latin American urban squat-

8. For a survey of the underground economies of 110 countries, see Schneider 2002.

9. These figures come from an address given by Professor Friedrich Schneider cited in Thatcher 2002, 418.

ter settlements, with results that allowed scholars in the mid-1970s to identify customary rules and norms arising out of informal arrangements and providing a certain security, justice, and organization to urban dwellers.¹⁰

The informal economy is hardly a new development: the rise of the West in centuries past took place in exactly the same way, with millions of people producing and exchanging goods and services under spontaneous rules of the game that developed according to expanding needs and in circumvention of the authorities who laid down the onerous, burdensome, and elitist laws. In Latin America, too, the tradition is old. Most of the trade conducted under colonial rule was illegal, and urban squatting existed as early as the sixteenth century. When, centuries later, the Portuguese monarch fled to Brazil after the invasion of Portugal by Napoleon's army, thus paving the way for a peaceful independence, one of the most important measures of economic liberalism was to authorize the open sale of any commodity in the streets and door to door (Viotti da Costa 1975, 51).

In Latin America, despite ritual gestures in favor of the informal economy, such as distributing property titles or deeds that signify "ownership," but not real, fungible property in practice, the legal sector continues to exclude the "other" by imposing barrier after barrier to entry. Still, the embryonic capitalism that one can identify in the informal economy—a spirit of enterprise, contract, and exchange—attests that Latin America's corporatist, mercantilist, and authoritarian legacy has not wiped out the potential for a free society and therefore for real development. Yes, the perpetuation of impediments to free enterprise has ingrained a culture of disregard for the law that at first sight suggests major difficulties for the rise of fully developed free-market capitalism under the rule of law. Nevertheless, the unprejudiced observer cannot help but see the resilience of individualism under perpetual institutional oppression.

In fact, the informal economy attests precisely to an individualist legacy that has coexisted, in diminished but real form, with the dominant culture through the centuries. The individualist legacy is dual. One dimension is academic and intellectual, extending all the way from the School of Salamanca at the time when Latin America was an Iberian colony, to the handful of Latin American intellectuals who set out as early as the 1970s to debunk contemporary myths, among them Carlos Rangel in Venezuela and the pioneers of the Francisco Marroquín University in Guatemala, who have since inspired a growing group of writers and academic centers. The other dimension is practical, with ancient roots, traceable even under the suffocating states of the pre-Columbian world, in the customary behavior of native inhabitants who sought to obtain the elements of subsistence from nature and from social cooperation of various kinds. This legacy continues to stare in the face anyone who goes to Latin America. It is the daily struggle of ordinary men and women who survive by means of clandestine property and enterprise.

10. One case study was conducted in some barrios of Caracas, Venezuela, and published in Karst, Schwartz, and Schwartz 1973.

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