

The Malign Power of Bad Ideas

Contributed by Martin Hutchinson
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According to economic historian Angus Maddison, Latin America had six among the world's 30 richest economies in 1900. Today the continent's richest country, by purchasing power parity GDP per capita, is Argentina, at No. 55, according to the International Monetary Fund. Yet the continent is not short of natural resources, not overpopulated, and avoided the catastrophic carnage of World Wars I and II. The Mexican author Enrique Krauze's "Redeemers & Ideas and Power in Latin America" suggests strongly that the continent's sad decline was due to the power of bad ideas.

Latin America's economic management during the nineteenth century was mixed, with considerable outbreaks of turbulence, but at the top end it wasn't bad at all. The continent's best leaders, like Mexico's Porfirio Diaz (president, 1876-80, 1884-1911) and Argentina's Domingo Sarmiento (president 1868-74) and Julio Roca (president 1880-86 and 1898-1904), were equivocal about democracy but whole-hearted in their support for free markets and foreign investment to develop their economies.

The economic results were obvious and highly beneficial. Argentina, from the Maddison tables had in 1870 a GDP per capita of \$1,311 in 1990 dollars, 50% above the world average or 63% of the Western European average. By 1900 Argentina's GDP per capita had increased to \$2,756, 213% of the world average and fully 90% of the European average. Little wonder that so many Italians immigrated to Argentina around the turn of the 20th century: Argentina was 54% richer.

Mexico was poorer overall, but showed the same effect. In 1870, Mexico's GDP per capita was only \$674, 23% below the world average, and it had declined by 15% since 1820. By the last year of Diaz's rule in 1910 it was \$1,694, 14% above the world average. Diaz could justifiably claim to have brought the country fully into the industrialized world economy.

The extraordinary progress of Latin America in the nineteenth century was arrested in the twentieth. By 2003, Argentina's GDP per capita had risen from \$2,756 to \$7,666, but that had caused a decline from 113% above the world average to only 18% above it. In terms of Western Europe, Argentina had declined from 90% of Western European living standards to 37%. 54% richer than Italy in 1900, Argentina in 2003 was 60% poorer.

Overall, Mexico's relative decline was less catastrophic, from 18% above the world average in 1910 to only 9% above it in 2003 – reflecting the relatively better government provided by 75 years of "institutionalized revolution" compared to the chaos that was Argentina. Still, Mexico's failure to achieve relative progress is more impressive when you remember that the rest of the world suffered through two world wars and the imposition of Communism over a third of the planet, whereas Mexico enjoyed 90 years of peace and close proximity to the world's richest economy.

The principal cause of the decline was the flood of bad economic ideas inflicted on Latin America by its intellectuals. In the nineteenth century Latin American intellectuals had been relatively benign forces, supporting liberalism or at worst social democracy. In spite of U.S. aggression against Mexico in the 1840s, they also admired the United States, regarding it as an example of the democratic, prosperous free-market country to which they aspired.

This all changed with the Spanish-American War, and the effective U.S. annexation of Cuba and the Philippines. In this respect, William Randolph Hearst and Theodore Roosevelt, propagators of that war, have a lot to answer for. The war brought a pervasive suspicion of U.S. economic and military imperialism; even Diaz in a 1908 interview for Pearson's magazine said "it is useless to deny a distinct feeling of distrust, a fear of territorial absorption, which interferes with a closer union of the American republics." With suspicion of the United States came antipathy to the free market, of which the U.S. was thought the principal exemplar.

Krauze gives chapter and verse of how, in the aftermath of the Spanish-American War, Latin America's intellectuals indulged in wild fantasies of anti-Americanism, and came up with an amazing variety of destructive alternatives to the free market. Uruguay's Jose Enrique Rodo (1871-1917) postulated in his 1900 "Ariel" a radical opposition between Latin-American and Anglo-Saxon cultures. Mexico's Jose Vasconcelos (1882-1959), proposed both socialism and fascism as means of liberating Mexico from the capitalist, pro-American "porfirismo" of Diaz, running for president in 1929 on a radical socialist platform. Finally, Peru's Jose Carlos Mariategui (1894-1930) proposed that Marxism was not sufficiently indigenous for Latin Americans; instead they should return to the Inca economics of communal property. While some subsequent Latin American intellectuals like Manuel Vargas Llosa have renounced Marxism and chosen to support the free market, there are still plenty like Gabriel Garcia Marquez who rejoice in their economic Castroism.

Latin cultures take their intellectuals more seriously than do Anglo-Saxons. The dreary French Stalinist Jean-Paul Sartre, a Monty Python sketch in Britain, is still taken seriously in France. The first effect of this came in Mexico. When Diaz, contrary to his previous indications, ran for re-election in 1910, he was opposed by the wealthy liberal intellectual Francisco Madero. Diaz, who retained huge rural support from his economic successes, particularly among the "mestizos" of mixed blood, won the election June 26, 1910 by an electoral vote of 196 to 187, after which Madero claimed fraud and on November 20 entered into armed rebellion against the re-elected Diaz, being joined in March 1911 by hard-left guerilla forces under Pancho Villa and Emilio Zapata. Owing to his age, Diaz, a highly successful general in his youth, could not command the armed forces personally, so after a succession of minor but widespread rebel victories he resigned on May 25, 1911.

Madero, like the Russian Alexander Kerensky six years later in similar circumstances, proved ineffectual and was assassinated in February 1913, after which the country descended into civil war. Out of that war came the

“Institutional Revolution Party,” built on socialism and anti-Americanism, which made Mexico a one-party state from 1929 to 2000. Diaz’s free-market, pro-foreign investment policies were abandoned.

Mexico had sunk by 1940 from 16% above the global average GDP to 6% below it. It then recovered during World War II and thereafter, its relative GDP peaking at 48% above global average GDP in 1981, before the contradictions of PRI rule caused its decline to 10% above the world average in 2003, the last year of Maddison data.

In Argentina, the change came later, with largely free-market governments (albeit some of them military) until 1943. Thus Argentina, at 113% above of the global average GDP per capita in 1913, had prospered from two world wars to reach 136% above it in 1950, and had indeed crept up in 1900-1950 from 90% to 99% of Western European living standards. Only in the latter half of the century did Argentina’s relative wealth decline, falling fairly steadily to only 18% above world average GDP by 2003.

In country after country, the leftward move of Latin American intellectuals after 1898 was followed by a leftward move in government policies. In some countries, notably Chile (initially forcibly) and Colombia (wholly democratically) there has been something of a reaction, and we can hope that those countries’ improvements in prosperity will provide a beacon for others. Nevertheless, the commodities boom since 2003 has reinforced bad policy in several countries, notably in Argentina but also in Brazil, where the Workers Party now seems entrenched. Only in Venezuela is there some hope that spectacularly bad economic management could lead to a reaction in the near future. But in Venezuela since 1970, economic results have been even worse than elsewhere, with per capita GDP declining in absolute terms by 8% from 1950 to 2003, from 253% above the world average to a mere 7% above it. Since Venezuela still has among the world’s largest oil reserves in the Orinoco tar sands, this is a truly staggering performance.

Could it happen to us? Yes, it could, very easily. The United States saw a relatively brief period of huge economic underperformance under Presidents Hoover and Roosevelt in 1929-38, while Britain saw a rather longer one in 1945-79 after the depredations of the Attlee Labour government. Both these downturns were caused by bad economic ideas, imposed on a bipartisan basis. Japan since 1990 is something of a counterexample, with bad ideas not prominent although much recent underperformance has been due to excessive Keynesian deficit spending.

The mechanism is however obvious. A strong intellectual current, such as the fervor in 2005-09 over Global Warming, can result in a series of bad policy choices that get implemented by a government caught up in the fervor, with a degree of bipartisan support. Once implemented, those choices are very difficult to reverse. As in Mexico after Diaz the intellectuals and the entire political system are implicated in the bad ideas and foolish policies – thus Diaz has been universally reviled since his departure, in spite of his economic successes. Intellectual change can take decades, is often fiercely resisted by the intellectuals, and in the meantime secular decline can set in. If the 21st Century turns out markedly less prosperous than the second half of the 20th, this will be the reason.

The solution is to ignore intellectuals. As Keynes said “Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back.” The Anglo-Saxon tradition of distrusting theoretical constructs is nowhere more valuable than here.

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Martin Hutchinson is the author of "Great Conservatives" (Academica Press, 2005)—details can be found on the Web site www.greatconservatives.com—and co-author with Professor Kevin Dowd of “Alchemists of Loss” (Wiley – 2010). Both now available on Amazon.com, “Great Conservatives” only in a Kindle edition, “Alchemists of Loss” in both Kindle and print editions.