



Economics and National Cultures

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Abstract: Max Weber's essay *The Protestant Ethic and the Spirit of Capitalism* (1920-1) has provoked a huge amount of research and discussion about the relations between cultures, religions, and economic life. Though with different specific conclusions, this essay has influenced the ideas on the economic life of the Spanish thinker Ramiro de Maeztu (1875-1936; see Enrique Fernández Barros 1974 and José Alsina Calvés 2011). Apart from his normative intentions, de Maeztu relates a positive "reverential" way and a wicked "sensual" way of using money to the different races of America: the race that speaks English and the race that speaks Spanish or Portuguese, respectively. These races, de Maeztu argues, have different idiosyncrasies, *ethoi*, or cultures that influence their attitudes toward economic behavior.

In this paper, I will first show how John Stuart Mill ([1844] 2006 and 1882), Carl Menger (1960), John Neville Keynes ([1891] 1955), and Dani Rodrik (2015) argue that economics has to take into account the specificities of different cultures. I will also mention contemporary economists adhering to "cultural economics".

Finally, I will describe the cyclical evolution of the economy of Latin America, specifically of Argentina, which has a relation with the ideas of de Maeztu. The conclusion will be that the characteristics of Latin America's culture and their impact on the economy call for economic theories and practices that complement and sometimes modify the standard theories and practices.

1. Introduction

This paper aims to show the influence of culture on economic events. Section 2 will describe some sociological theories that support this influence and will state that standard neoclassical economic theories do not take culture into account. Section 3 will show how some old economic thinkers as Mill, Menger, and Neville Keynes leave room for the consideration of culture in economics, and will also introduce some contemporary economists holding this thesis. Section 4 will present some ideas of Ramiro de Maeztu about the differences between the culture and economic performance of the Anglo-Saxon countries and Iberoamerican countries. Section 5 introduces the notion of folk economics or economics of common sense and puts the Argentina case as an example of it and of de Maeztu thesis. Section 6 briefly concludes.

¹ This paper has been presented at the [5th International Conference "Economics and Philosophy" - Sciencesconf.org](https://www.sciencesconf.org), "Culture and Economics", Warsaw, (ONLINE MEETINGS), 23-25 June 2021. I am grateful for the comments received after the presentation.

2. The social, cultural, and personality systems

The Russian emigrated to the US and Professor at Harvard University Pitirim Sorokin (1889-1968), among other rich contributions to the field of sociology, has proposed a doctrine that has been called “Integralism”. He suggests that there is an “integral indivisible sociocultural trinity”: Society, Culture, and Personality. One of Sorokin’s greatest contributions is the idea that society cannot be understood independently of culture and personality. Sorokin develops his study of “integralism” in the work *Social and Cultural Dynamics* (1937-1941). *Society, Culture, and Personality* (1947) represents a synthesis of Sorokin's scientific inquiries.

The three systems – social, cultural, and personal – interact in every social action. The social system is highly dependent on the specific culture of its place and time. Individual persons act following social norms and roles, and according to their cultural values, beliefs, myths, and representations. The sociological tradition represented by Max Weber, Sorokin, Robert K. Merton, Talcott Parsons, among others, share this conception of the dynamic interaction between the three systems.

Parsons, for example, asserts (1951:6):

A social system is only one of three aspects of the structuring of a completely concrete system of social action. The other two are the personality systems of the individual actors and the cultural system which is built into their action. Each of the three must be considered to be an independent focus of the organization of the elements of the action system in the sense that no one of them is theoretically reducible to terms of one or a combination of the other two. Each is indispensable to the other two in the sense that without personalities and culture there would be no social system and so on around the roster of logical possibilities.

Weber ([1922] 1978: 24-45) distinguished four types of motives guiding social actions: instrumentally rational, value-rational, affective, and traditional. According to Weber, an action is instrumentally rational when it seeks the adequate distribution of means to obtain the actor’s ends. It is value-rational when it is determined by a conscious belief in the intrinsic value of some form of behavior. Affective actions are guided by the actor’s affects and feelings. They are traditional when they are determined by adopted habits. Weber believed that, though a particular type of action may prevail in some specific kind of rationality, almost all human action stems from several of these types. Instrumental rationality is about means given ends and the other three motivations define ends, and we need means and ends to have action. For the value-rational, affective, and traditionally guided actions, the very action is an end, independently of its consequences. One usually quoted example is voting: an individual vote does not affect the global result of the elections.

“Standard” (neoclassical) economics only considers a form of the first type of motive of human actions proposed by Weber – maximizing instrumental rationality – or reduces all the other types to the former. For example, von Mises argues in *Epistemological Problems of Economics* ([1933] 1960) referring to Weber classification of motives for social action, that all these motives are comprised in the instrumental rationality motive and can be maximized. Mises is changing Weber’s underlying concept of the maximizing principle, which is empirical, transforming it into a “metaphysical” principle ([1933] 1960: 83-85), in the sense that it does not bring any relevant information: all actions are maximizer and no action break this characteristic. This conception leads to either an incomplete or unuseful analysis. As Elena

Aleksandrova et alii (2020: 4992) argue referring to Sorokin's Integralism, this is "a necessary direction in socio-economic research of modern society".

3. Economic "dissenters"

However, some relevant economists have been opened to other motives of economic actions different from instrumental rationality. In my book 2020, I have considered the cases of Mill, Menger, Neville Keynes, and Rodrik.²

Mill develops his ideas on the nature of 'Political Economy' in his essay 'On the Definition of Political Economy; and on the Method of Investigation Proper to It',³ and in book VI 'On the Logic of Moral Sciences' (particularly, Chapter IX, 3) of his 1843 *System of Logic* (8th edition from 1872).⁴ He states:

What is now commonly understood by the term 'Political Economy' is not the science of speculative politics, but a branch of that science. It does not treat of the whole of man's nature as modified by the social state, nor of the whole conduct of man in society. It is concerned with him solely as a being who desires to possess wealth, and who is capable of judging of the comparative efficacy of means for obtaining that end ([1844] 2006: 321).

The last part of Mill's last sentence anticipates the prevailing current definition of economics: the allocation of scarce means to satisfy given ends (Robbins 1935: Chapter 2). This definition fits with the notion of economics explained in the previous Section. However, Mill is also aware that this description of political economy involves a simplifying abstraction:

All these operations, though many of them are really the result of a plurality of motives, are considered by Political Economy as flowing solely from the desire of wealth [...] Not that any political economist was ever so absurd as to suppose that mankind are really thus constituted ([1844] 2006: 322).

Consequently, he emphasizes the need to consider additional motives for these 'operations' to reach a correct explanation and prediction:

So far as it is known, or may be presumed, that the conduct of mankind in the pursuit of wealth is under the collateral influence of any other of the properties of our nature than the desire of obtaining the greatest quantity of wealth with the least labor and self-denial, the conclusions of Political Economy will so far fail of being applicable to the explanation or prediction of real events, until they are modified by a correct allowance for the degree of influence exercised by the other causes ([1844] 2006: 323, see also 326-327).

According to Mill, this is the work of 'practical men' who argue inductively, 'a posteriori', while theorists reason mostly deductively, 'a priori'. He emphasizes the need to combine the two

² I draw some material from this book.

³ Essay V of his *Essays on Some Unsettled Questions of Political Economy* (London: Parker, 1844), published in the *London and Westminster Review* in 1836, and a second edition reprinted in 1874 with minor changes.

⁴ I used the 1844 version of the Essay published in the Volume 4 of the *Collected Works of John Stuart Mill*, University of Toronto Press, 1967 (reprinted by Liberty Fund, 2006), and the 1882 publication by Harper & Brothers of the 8th edition of the *System of Logic* (Longmans, 1872) which is the most frequently consulted because it is the last version corrected by Mill. I took the information about the previous publication of the Essay from the introduction to it on p. 309.

disciplines, science and art, 'for the guidance of mankind' (333), and complains about their separation (334):

One of the peculiarities of modern times, the separation of theory from practice – of the studies of the closet from outward business of the world – has given a wrong bias to the ideas and feelings both of the student and of the man of business.

In addition, for Mill, art has to do not only with the application of theory and the practice of economic affairs but also with the definition of ends. For him, we have to take into account a three-step process when analyzing human affairs. He affirms in the *System of Logic* (1882: 653; VI, XXI, 2):

The relation in which rules of art stand to doctrines of science may be thus characterized. The art proposes to itself an end to be attained, defines the end, and hands it over to the science. The science receives it, considers it as a phenomenon or effect to be studied, and having investigated its causes and conditions, sends it back to art with a theorem of the combination of circumstances by which it could be produced. Art then examines this combination of circumstances, and according as any of them are or are not in human power, pronounces the end attainable or not.

That is, there are two kinds of arts: the art of definition of ends (which concerns morality) and the art of performing the actions directed to these ends, enlightened by science. He states (1882: 657):

Every art is thus a joint result of laws of nature disclosed by science, and of the general principles of what has been called Teleology, or the Doctrine of Ends; which borrowing the language of the German metaphysicians, may also be termed, not improperly, the principles of Practical Reason (...) There is, then, a *Philosophia prima* peculiar to Art, as there is one which belongs to Science. There are not only first principles of Knowledge, but first principles of Conduct. There must be some standard by which to determine the goodness or badness, absolute or comparative, of ends, of objects of desire.

In conclusion, though for Mill the science of Political Economy is only an abstract science whose subject-matter fits the economy in the restricted sense, there are three branches of knowledge dealing with economic matters:

- The Teleological art of defining the ends of economic actions, a normative discipline;
- Political Economy, an abstract science that uses the a priori method and considers only economic motives: 'the desire of obtaining the greatest quantity of wealth with the least labor and self-denial' ([1844] 2006: 323).
- The art of economic practice, that considers all motives influencing actual economic phenomena.

Mill is evidently leaving room to the influence of the systems of culture and personality. He states:

No one who attempts to lay down propositions for the guidance of mankind, however perfect his scientific acquirements, can dispense with a practical knowledge of the actual modes in which the affairs of the world are carried on, and an extensive personal experience of the actual ideas, feelings, and intellectual and moral tendencies of his own country and of his own age (Mill [1844] 2006: 333).

Concerning Carl Menger, he classifies economic sciences in this way ([1883] 1985: 97):

- The historical sciences of economy, including economic history and statistics.

- The theoretical sciences of economy, with the exact and the empirical-realistic orientations, including the economic morphology. They respectively deal with the economy in the restricted sense and in the broad sense, as defined in the previous chapter.
- The practical sciences of economy, including economic policy and the science of finance.

According to him, practical sciences of the economy need to take into account the particular conditions and institutions of each country and age ([1883] 1985: 123-125).

This characteristic of practical sciences of the economy fits with his vision about the economic realm in the second edition of his *Principles of Political Economy*. He there distinguishes two orientations of the economy: a 'technical-economic' ('die technisch-ökonomische Disposition' 1923: 73) and an 'economizing' ('die spandere' 1923: 74; 'die ökonomisierende' 1923: 76). The first orientation aims at providing the goods that we need, and the second, when insufficiency of means prevails, aims at doing so by 'economizing' in the best possible way. We cannot identify, Menger states, the concept of 'economy' ('Wirtschaft') with the concept of 'economical' ('Wirtschaftlichkeit', 1923: 61). Thus, he affirms, it is not paradoxical to speak of an 'economic economy' ('einer wirtschaftlichen (ökonomischen) [...] Wirtschaft') and of a 'non-economic economy' ('unwirtschaftlichen (unökonomischen) Wirtschaft', 1923: 61).

A non-economic economy leaves room for other economic motives than instrumental maximizing rationality.

Neville Keynes maintains that the premises of political economy are hypothetical, because a plurality of motives actuate besides the purely economic one and, consequently, it is a science of tendencies ([1890] 1955: 16). To leave room for that plurality of motives he speaks about 'political economy' or 'economic inquiry' 'in the widest sense' ([1890] 1955: 36 and 61). It comprises different 'departments', 'inquiries', or 'subdivisions' ([1890] 1955: 30, 34, 35, 61) with different methods according to the nature of the aspect dealt with. He proposes a threefold distinction between 'positive science', 'normative or regulative science' and 'an art' ([1890] 1955: 34-35), respectively dealing with '*economic uniformities, economic ideals and economic precepts*' ([1890] 1955: 31, 35). Neville Keynes asserted about the art of political economy:

[F]ew practical problems admit of complete solution on economic grounds alone ([1890] 1955: 56) [...] Account must also be taken of ethical, social, and political considerations that lie outside the sphere of political economy regarded as a science [...] If, on the other hand, the art attempts a complete solution of practical problems, it must of necessity be to a large extent non-economic in its character, and its scope becomes vague and ill-defined ([1890] 1955: 57).

We may add, cultural considerations. Other quotations from him stress the context-dependence of adequate economic policy and the specific method for it:

It is even possible that what is excellent for a given nation at a given time may be actively mischievous and injurious for another nation, or for the same nation at a different period of its economic history. It follows, similarly, that the value of the economic institutions of the past cannot adequately be judged by reference to existing conditions alone ([1890] 1955: 64-65). [...] Even where the forces in operation are the same, the relative strength that should be assigned to each may vary indefinitely ([1890] 1955: 300).

This is why 'concrete economic doctrines', as he terms the art of political economy, are 'contingent and indeterminate', though still part of science ([1890] 1955: 145).

More contemporarily, Dani Rodrik (2015) insists on the context-dependence of models. He asserts (2015: 45):

unlike a rock or a planet, humans have agency; they choose what they do. Their actions produce a near infinite variety of possibilities. At best, we can talk in terms of tendencies, context-specific regularities, and likely consequences [...] Economics deals with the real world and is much messier than that [mathematics].

For Rodrik, the essential work of the economist is to choose appropriate models or develop new models adapted to specific circumstances (2015: *passim*), capturing ‘the most relevant aspect of reality in a given context’ (2015: 11). The reason for this is the complexity and contingency of social life (2015: 67, 116): ‘there are few immutable truths in economics’ (2015: 148).

The common characteristic that I have underlined of these economists of different traditions and ages is that they are open to a plurality of motivations for economic events, including culture.

More specifically, in recent years has appeared a new current called “Cultural Economics” that, as defined by Bruno Frey and Andre Briviba (2021: 7), “studies the impact of culture on the inputs, behavior, processes, and outcomes of economic activity”. They include under this umbrella the contributions of Amartya Sen on developing countries, of Akerlof and Kranton on identity, of Acemoglu and Robinson, on the impact of institutions in development. They also propose some explanations about the neglect of considering culture by standard economics.

Now, I will describe the thought of Ramiro de Maeztu who proposes that the dissimilar economic development of Anglo-Saxon and Iberoamerican countries is explained by the dissimilar economic mentalities of the different races of America: the race that speaks English and the race that speaks Spanish or Portuguese, respectively. These races, de Maeztu argues, have different idiosyncrasies, *ethoi*, or cultures that influence their attitudes toward economic behavior.

3. Ramiro de Maeztu and the diverse economic cultures of American races

Ramiro de Maeztu was born in 1874 in Vitoria, Spain, son of a Cuban father of a vasque family, and an English mother, Juana Whitney. He received a qualified education in Spain and Paris, works in the family sugar factory in Cuba (1891-1894), and once returned to Spain he developed a journalist career. He was hired by the Newspaper *La Prensa* of Buenos Aires as a correspondent in London in 1905. He visited the United States in 1925. In 1928 he was appointed as Spanish Ambassador in Argentina. He came back to Spain and went on working as a journalist and was involved in political and intellectual Spanish life until he died in 1936. He was murdered by Republican soldiers in the Spanish Civil War. His active and heterogeneous life provides him an ample vision of different cultures. In his book *Ensayos* [Essays] (1948), the 4th part is called “Economic Topics: the Reverential Aura of Money”. The First essay of this part is titled “The Spirit of Iberoamerican Economy”. This piece corresponds to a lecture he delivered at the Ibero-American Union in Madrid in 1926, and that was initially published in *Revista de las Españas* 4, Madrid, 1926. A larger version was published in the Newspaper *ABC*, Madrid, 17 September 1933 with the title “El sentido reverencial del dinero”.

From his very youth, Ramiro was captivated by the wealth of Anglo-Saxon countries and surprised by the contrast with the poverty of Iberoamerican countries. During his life, he reflected on this disparity trying to avoid simplistic explanations. De Maeztu has developed a

plethora of economic ideas, fusing them with theological and political ideas. In this article, I will focus on his thoughts about the above-mentioned disparity.⁵

For him, taking seriously the professional vocation was a key to prosperity. In early writings, he assigned this spirit to the Protestant religion. Then, he thought that it is not exclusive of Protestantism, but appears always that religious piety is united with the profession, which is thus considered as a calling, a spiritual task. He wrote (From United States from Within, quoted by Fernández Barros 1974: 56):

Where the word “profession” also meant vocation,” men worked as if on the completion of their task depended the salvation of their souls. Where vocation was one thing and occupation another, men toiled only to earn a living. Those who confused the two concepts prospered. Those who distinguished clearly between the two lagged behind.

This union or disunion of the spiritual with the economic life is at the root of the disparity.

He starts the lecture by indicating that it will consist of a sketchy and quick study of the spirit of the Iberoamerican economy in contrast with the economy of other countries, particularly the United States of America (from now on America). He states that he has reflected during years on this topic, because the son of a Cuban father and an English mother, living in Spain or Cuba with a Spanish mentality, and then in London, the differences have been evident for him.

De Maeztu finds already differences in the independent processes of America and Iberoamerica. While America was colonized by capitalists that do not want that their capital was diminished by taxes – no taxation without representation –, Iberoamerica considered its Independency as a matter of dignity (1948: 323-326). Americans fought for the power of money, while Iberoamerican fought for the money of Power (1948: 326). The American ideals underlying the Americans’ approach are not materialist, but moral: they look at money as a way of honestly prospering and seeking equality in a free environment. Wealth is connected with ethics and the common good (1948: 329-331). In contrast, the Iberoamerican attitude concerning money is that it is to waste it. It is very well expressed by Fernández Barros (1974: 58):

Men, Maeztu believes, have always adopted one of two positions regarding money: on the one hand the sensual or materialistic [Iberoamerica], on the other the reverential or venerative [America]. In the minds of those who support the first point of view (natural or unenlightened men as Maeztu called them), money is not a good in itself, it is not intrinsically valuable; it is merely a means by which material pleasures and goods may be obtained. This is a hedonistic and materialistic position characteristic of those of meagre spiritual resources. It is the attitude of the immature, the pleasure seekers, and those who are incapable of properly understanding and judging values. The other position is that of the one that Maeztu calls the spiritual man, that select type of individual who realizes that spirit governs matter. He is the man whose life style is genuinely true to his personal ideals, whose convictions are deep-rooted and who is well aware that “the conduct of things is not vested in matter but in spirit.

As a result, de Maeztu states (1948: 337, my translation):

The diversity of economic sentiments has brought as a consequence the polarization of the American Continent; one of the two races, the one that speaks English, is the creditor; the other, the one that speaks Spanish or Portuguese, is the debtor.

⁵ For a more comprehensive study of de Maeztu’s economic ideas, see Zaratiegui (2006), Fernández Barros 1974, Alsina Calvés (2011).

The Lecture finally claims for a change of the Iberoamerican mentality to adopt a moral concept of the economy and to consider work as a calling.

These 1926 diagnoses are applicable today to most countries of Iberoamerica. This is an example of how the cultural ethos of societies strongly influences economic conduct and results.

4. The economics of “common sense” or “folk economics” and the economy of Iberoamerica

It is evident, both for the content and for the consequences, that the Iberoamerican approach to economic matters is wrong. For the Iberoamerican prevailing mentality, capitalists are not heroes, but bloodsuckers. The best you can do in life is to spend and to be debtors. The State is considered paternalist, and we all ask for all we need from Him. This mentality is embodied in the frequent populist governments of the different countries. It is an example of “folk economics”, “the intuitive economics of untrained people”, as defined by Paul Rubin (2003: 157).

There are some common ideas of folk or “common sense” economics. For example, Boyer & Petersen (2018: 8-10) identify these: International trade is zero-sum, has negative effects; Immigrants “steal” Jobs; Immigrants abuse the welfare system; Necessary social welfare programs are abused by scroungers; Markets have a negative social impact (“emporiophobia”); The profit motive is detrimental to the general welfare; Labor is the source of value; Price-regulation has the intended effects.⁶ Not all these ideas are Iberoamerican.

I know better my country’s folk economics ideas and I will concentrate on it. However, it is applicable to periods of the rest of the Iberoamerican countries. In Argentina, we use the term “grieta” – the crack – to refer to a fracture between rational economic arguments and “irrational” attitudes of impoverished, ignorant people who, unable to afford their basic living expenses, vote populist, often corrupt politicians who give unrealistic promises only to eventually deepen poverty. This “crack” does not help improve people’s well-being.

Argentina holds the shameful world record for the largest number of financial crises over the last 100 years (Atkinson and Morelli 2011). The economic history of Argentina is a history of systematic failures of economic policies. Although an economy is a highly complex reality and it is very difficult to identify the causes of crises, many argue that the crises that I have lived through in my country were to a large extent the result of implementing theoretical positive economics recipes without taking into account the specific characteristics of our people’s idiosyncrasies and history or doing so only as a second step, or directly applying the Argentinean populist folk economic ideas.

Let me tell you a bit more about my Argentinian experience. I finished my undergraduate studies at the end of 1978 and soon after I started working in the finance area. During the 1975- 1990 period, the annual inflation rate exceeded 100%. For example, in 1979, my first year in the workforce as an economist, the inflation rate stood at 139.7%. This led to hyperinflation, with inflation peaking at 200% in July 1989 and reaching an annual rate of 3079%. These high and consistent inflation rates often eroded the real value of the local currency, triggering abrupt devaluations, significant distortions in relative prices and salaries, and changes in the balance of trade and external capital flows. Asset protection was a hard task. People in the financial sector watched the market closely and made changes in the composition of portfolios almost daily.

During this period, I worked with two colleagues managing family funds. We used to start the day at the coffee shop reading the economic newspaper and trying to guess and infer the

⁶ I thank Rodrigo Laera for the reference of this article.

reactions of the financial market to the latest economic, social and political breaking news. One of my fellow workers used to walk the city to visit other colleagues and gather information and opinions. We made financial decisions on a day-to-day basis.

We finally acquired an almost instinctive knowledge of the best actions to carry out each day. This knowledge consisted in a combination of data analysis, estimates of price distortions (to buy cheap assets and sell expensive ones), people's response to the crisis, inside information about future policy measures, political and international news (for example, nothing less than a war against Great Britain... once "Las Malvinas" – Falkland islands – had been temporarily recovered...) and so on.

We only experienced one financial loss. The circumstances were as followed: Forecasts for the presidential election of October 30th, 1983 predicted that Peronists ('Partido Justicialista') would win by a small margin. Peronists have always upheld demagogic populist policies. Thus, we expected the exchange rate to depreciate and, consequently, we bought US dollars in the futures market at a high price, anticipating that its price would rise significantly by the end of the month, enabling us to sell the dollars at a higher price and make a profit. However, an unpredictable incident changed the outcome of the election. Herminio Iglesias was the Peronist candidate for governor of the Buenos Aires Province. At the closing act of the Peronist campaign, his followers approached him with a coffin with the inscription "UCR" (representing their main opposition), which he set on fire. Given the small expected difference between the two parties, this brutal episode led undecided voters to shift their preference toward the opposition party. As a result, the UCR won the election and Ricardo Alfonsín was elected President. This outcome brought tranquility to people and, consequently, the dollar remained unchanged instead of making some money on the currency exchange, and we had to pay for the difference. However, this was only an early market reaction. The UCR party could not tame the economy, which exhibited a rather erratic course, culminating in the above-mentioned hyperinflation. Simultaneously, we went on taking advantage of these disparate economic phenomena and winning money for our clients with our financial deals.

What were the key factors of our good performance? On reflection, we boasted a lot of economic theory, calculation skills, empirical information, experience with previous people's reactions to economic and political measures, inside information, exchange of opinions, all in the back of our minds. We combined all these elements; we discussed things and decided what to do during our coffee meetings, and then we put them into action.

This was relatively simple. Managing the whole economy was more difficult. There are very good economists in Argentina, many of them with Ph.D.'s from American or European universities. I know quite a lot of them, and I am sure they are clever people, highly-educated, academically outstanding professionals. However, they probably needed (and need) more life experience. The economy is a very complex reality, and Argentina's economy is still more complex. "The economic history of Argentina is one of the most studied, owing to the '*Argentine paradox*', its unique condition as a country that achieved advanced development in the early 20th century but experienced a reversal, which inspired an enormous wealth of literature and diverse analysis on the causes of this decline"⁷.

The following abstract of a paper by Alan M. Taylor titled "The Argentina Paradox: Microexplanations and Macropuzzles", advances (2014)⁸:

The economic history of Argentina presents one of the most dramatic examples of divergence in the modern era. What happened and why? This paper reviews the wide range of competing explanations in the literature and argues that, setting aside deeper

⁷ https://en.wikipedia.org/wiki/Economic_history_of_Argentina.

⁸ This article is part of a special collection on "Argentine Exceptionalism".

social and political determinants, the various economic mechanisms in play defy the idea of a monocausal explanation.

Certainly, the economic explanation of the “paradox” is not only not monocausal but, moreover, we cannot set apart political and social determinants, including ethical determinants like generalized corruption or serious deficiencies in the rule of law: “for every law, there is a loophole”, especially in my country. There are also a lot of ingrained habits: for example, automatically raising domestic prices whenever the dollar rate goes up, but never lowering them when the opposite occurs. Argentina has a bi-monetary economic system resting on strong psycho-sociological attitudes. It exhibits endemic distrust in the domestic currency due to its frequent devaluations. This is why my old professor Ricardo Arriazu, who at the end of the seventies fervently defended the floating exchange rate system when he taught monetary economics, today he defends interventions in the foreign currency market to avoid inflationary spirals.

The recessionary effects of multiple devaluations in Argentina, a topic that has been extensively studied by many scholars, beginning with Carlos F. Díaz Alejandro (1965: Chapter 2; 1970: Chapter 7) have also responded to very idiosyncratic economic and social characteristics of the country. *Inter alia*, devaluations produce a re-distribution of income to the agricultural export sectors that have a lower marginal propensity to consume domestic goods. Another cause of the recessionary effects of multiple devaluations is the link between the increase in the foreign exchange rate and price inflation that leads to stabilization policies. All these phenomena are very idiosyncratic.

In addition, Domingo F. Cavallo (1977) has studied the circumstances under which using a restrictive monetary policy to fight inflation has brought about a fall in real output and acceleration of inflation in Argentina, Brazil, Chile, and Uruguay: a “stagflationary” effect. Rudiger Dornbusch and Sebastián Edwards (1991) have explained the catastrophic and economically irrational ‘macroeconomics of populism’ into which Latin American countries often fall. Demagogic and often corrupt politicians regularly take advantage of the cultural shortcomings of people. Martín Lagos and Juan José Llach (2011) mention 38 different hypotheses proposed to explain the causes of the Argentine decline, including sociological, cultural, institutional, historical, political, and also many economic hypotheses – sometimes contradictory: the phenomenon is highly complex. In a subsequent book, Llach and Lagos (2014) review the previous theses and contribute their own, comparing Argentina with Brazil, Chile, Uruguay, and New Zealand. They postulate historical (strong path-dependency) economic, structural, institutional, sociological, ethical, and cultural interacting causes which, albeit also present in the other countries under study, seem to prevail extensively in Argentina.

The combination of the previous results makes management of economic affairs in my country very difficult. We need a positive current account balance to avoid default. To this end, we need a devaluated domestic currency. Consequently, foreign currency is overvalued, thus affecting the weight of the external debt relative to GDP. Additionally, devaluation of the domestic currency produces inflation, thus sterilizing its effect and generating a recession. Implementing a stabilization plan – a restrictive monetary policy and tax increases to eliminate government deficit – deepens recession and reinforces stagflation. However, it is also necessary to reach fiscal equilibrium to mitigate inflation and to avoid increasing external public debt that injects foreign currency into the economy appreciating the domestic currency. Recession and debt increase lead to default. Real wages continuously decrease, spurring strong social discontent. A populist irresponsible policy is eventually implemented, relaxing the stabilization policy and leading to higher inflation that may end up in hyperinflation.⁹ This is

⁹ See Carlos Alfredo Rodríguez (1994) on fiscal disequilibria and hyperinflation, specifically referring to Argentina’s 1989 hyperinflation.

the 'Argentina dilemma' (in Harvard economist Carmen Reinhart's words): devaluation and stabilization policies are a necessary evil.

Ultimately, the problem is not economic but cultural. Nobody would choose to be worse off and engage in conduct – pressures on increasing salaries and prices – that paradoxically drives the economy to increased general impoverishment. The lesson is that there is an intricate relation between politics, institutions, social psychology, social movements, and economic performance¹⁰. All in all, the problem is essentially not with positive economics. The problem is to find economic theories that can help overcome the dilemma – which cannot be overcome only with economic theory. We also need politicians convinced of the need to maintain unpopular measures, something that seems unfeasible in a democratic regime with an uncultured and individualistic society. However, Argentina's experience with undemocratic regimes, in which, ironically, people have seen some hope of change, has proven equally poor. Consequently, the feeling is one of impotence. We are destined for failure. Fortunately, happiness and intelligence can also emerge from these muddy waters.

However, my intention here is not to play a plaintive Argentine tango. I give these examples to make clear that we need expert plumbers, as Esther Duflo (2017) asks from economists, to practice the art of the economy. The economist plumber has to take into account culture.

Conclusion

The characteristics of Latin America's culture and their impact on the economy call for economic theories and practices that complement and sometimes modify the standard theories and practices. De Maeztu highlights some characteristics of the economic mentality of Iberoamerican countries that I find in my country, i.e., the sensual attitude towards money. We are always spending more than we get and consequently, we are always debtors. Within the country, the best deal is to be a debtor, because inflation liquifies the debt. This fact applies not only to individuals but also to the State, which implicitly applies an inflation tax. This inflation damages especially the poor people. This people's mentality that favors populist self-damaging policies and opposes rational policies has been created by political institutions, specifically, by the Peronist party. It has instilled a culture of laziness and irresponsibility. As Frey and Briviba write as an example of Acemoglu and Robinson theory about the impact of political institutions on development, "at the beginning of the 20th century, Argentina was among the wealthiest countries in the world, but since then, its political institutions have worsened, preventing economic progress" (2021: 10). We should seriously consider Rubin's conclusion: "Economists would do a better job of persuading others and of teaching if we paid explicit attention to folk economics" (2003: 169). It is important to pay attention to these erroneous ideas because they have disastrous consequences. In a few words: culture matters a lot.

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¹⁰ See for example in the book by Stephan Haggard and Robert Kaufman (1995) about the economic performance of countries living democratic transitions, the close interaction and mutual influence between political affairs, institutions, social events and economic policies, with a lot of references to Argentina, Brazil, Bolivia, Chile, Korea, México, Peru, Philippines, Taiwan, Thailand and Turkey.

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