



Social capitalism: a look at macroeconomic results from Ecuador, Peru and Colombia

Capitalismo social: un vistazo a resultados macroeconómicos de Ecuador, Perú y Colombia

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Abstract

Adam Smith, affirmed that individual egoism is the one that leads to generate wealth and the economic growth of nations. With a rising capitalism as a result of the colonization of the Americas, the formation of an entrepreneurial class avid for money, which accumulates and reinvests surplus, gives way to the industrialization and wealth of the people. But this is not equitable, it is a product of what Karl Marx would call "exploitation of man by man". This research aimed to investigate the evolution of the capitalist system, the role of the state and its level of intervention, to improve the living conditions of its population, comparing indicators of Colombia, Ecuador and Peru. This study is a documentary work that considered macroeconomic data, along with the opinion of experts in the subject. The results showed that, in the last years, the countries with less state intervention had a better performance in their economy. It is concluded that current capitalism considers the social aspect, motivates to innovate, to undertake, to look for new sources of income; A protective state is not synonymous with well-being in the population, it needs private initiatives that generate employment with social commitment. Countries with less interventionism have managed to have better economic results with the consequent benefits for their population.

Resumen

Adam Smith afirmaba que el egoísmo individual es el que lleva a generar riqueza y al crecimiento económico de las naciones. Con un capitalismo naciente a raíz de la colonización de las Américas, la formación de una clase empresarial ávida de dinero, que acumula y reinvierte excedentes, da paso a la industrialización y riqueza de los pueblos. Pero ésta no es equitativa sino es producto de lo que Karl Marx llamaría "explotación del hombre por el hombre". Esta investigación tiene como objetivo indagar sobre la evolución del sistema capitalista, el rol del Estado y su nivel de intervención para mejorar las condiciones de vida de su población, comparando indicadores de Colombia, Ecuador y Perú. El presente estudio es un trabajo documental que consideró datos macroeconómicos, junto con la opinión de expertos en el tema. Los resultados mostraron que contrariamente, en los últimos años, los países con menor intervención estatal tuvieron un mejor comportamiento en su economía. Se concluye que el capitalismo actual considera el aspecto social, motiva a innovar, a emprender, a buscar nuevas fuentes de ingreso, coligiéndose que un Estado protector no es sinónimo de bienestar en la población, pues necesita de iniciativas privadas con compromiso social que generen empleo. Países con menor intervencionismo han logrado tener mejores resultados económicos con los consecuentes beneficios para su población.

Palabras clave | keywords

Capitalism, social capitalism, equity, interventionism, poverty, wealth.

Capitalismo, capitalismo social, equidad, intervencionismo, pobreza, riqueza.

Introduction

The great economic problem is translated into deciding what to produce, how to produce and for whom to produce. For this there are two basic actors: the State and the economic agents, that is, the people or companies. These maintain a close relationship, of dependence, because the growth of the one (agents) allows the growth of the State, both being generators of wealth through entrepreneurship, the company and thus of employment.

The State is a political entity with autonomy, founded permanently in its own territory, legally organized, with a government that ultimately decides, and that pursues the full realization of the good of individuals, social groups and entities in general that are immersed in it (Benalcázar, 2011). Thus, the State has the obligation to meet the needs of the population and for this purpose it has resources that must be allocated in a correct way, using, for example, the Public Administration, which is identified with the executive power, within the constitutional framework of the principle of division of powers (García de Entrerría & Fernández, 2008).

It is up to the State to implement the means to achieve this goal, through an efficient public administration, that allocates scarce resources to meet the institutional and population requirements that achieve sustainability. The lack of action of the Public Administration is not limited to the delivery of resources or budgetary issues only, because “one could think that there are problems of location and efficiency to allocate social services to the marginalized and vulnerable groups of the country and the city” (ECLAC, 2010, p.11). On the opposite side is the private initiative, whose main engine is to offer a good or service in exchange for utilities that guarantee profitability, sustainability, and reinvestment.

Throughout history, the way in which the human being has met their needs has gone through various forms of production, what is known as “Production Modes” Thus, after its beginnings in primitivism, slavery, feudalism; we arrive at two ways that still remain: capitalism and socialism. The basic difference is ownership over the means of production; that is, who owns it.

With the technification comes manufacturing and with it the production in greater scale that marks the beginning of capitalism. Then there is the hiring of workers who perform work with instruments similar to their own in exchange for a salary. The productive process is in charge of a worker, which years later would be analyzed by Adam Smith, who sees

in the specialization the means to increase productivity. In this way the functions are divided and each worker has a specific task in the productive process, this came to be known as a technical division of labor. Production depends on the performance of workers and to some extent the capitalist depends on them. . In the desire to obtain greater profits, industrialization grows and in this way production significantly increases. The worker is replaced by machines, owned by the capitalist, who has total control of the productive process where the worker participates only in a part of it, the capitalist investor receiving the total product with a high surplus value.

Marx analyzed surplus value as a result of the “exploitation of man by man”, a product of the small pay that the worker receives, enough to be able to survive. While Adam Smith in the eighteenth century proclaimed free market and state non-intervention, Karl Marx argued that the state should have control, promoting the class struggle, where workers would ultimately be imposed; who would take over their leadership and thus, capitalism would cease to exist.

A high stage of socialism leads to communism, but it is known that socialism and communism were adopted by few countries and have had an ephemeral duration. Therefore, the prediction of Karl Marx did not occur, since the system that lasts in most of the world is capitalist. Nowadays a free market system is imposed, as a generator of wealth and well-being of the people.

This research sees as its concern that the different economic systems have not succeeded in eradicating poverty, which is the ideal of governments so that the population lives a dignified life. In both capitalism and socialism there is dissatisfaction with the needs of the population.

These two fundamentally different ways of organizing an economy have on the one hand as an actor the State, with a government that takes most of the economic decisions. At the other extreme, decisions are made in markets, where individuals or companies voluntarily agree to exchange goods and services, almost always by paying money (Samuelson & Nordhaus, 2010). At one pole, there are countries that defend the free market and neoliberalism for the wellbeing it entails, turning its economic policy around it. . On the other hand there are countries that apply principles of socialist models where centralism and statism is growing. Given this, De la Torre (2013) indicated:

Its democratic credentials are based on its commitment to social justice and on economic and social policies that put an end to neoliberalism.

The State plays a central role in the control of natural resources, in the distribution of income, and in the protection of the poorest and most vulnerable (p.125).

In the free market economy there is private ownership over the means of production and diversity of labor, which depends on a market for the exchange of goods and services. In this regard, Marta Harnecker (1972) criticizes capitalism as a system of exploitation that tends to fail. Nevertheless until today the system persists and it is strengthened, unlike the socialism that has minimum world-wide prominence.

Capitalism alone leads to exploitation, to increase inequalities and imbalance, to increase poverty. Bedini (2013) stated that “poverty is to be hungry, it is the absence of a roof under which to take shelter, is to be sick and not be able to be attended by a doctor, is not able to go to school, is not having work, to have fear of the future and to live the day to day “.

For his part, German sociologist and political analyst Heinz Dieterich (2004), would write:

None of the three scourges of mankind -misery, war, and domination- is casual or random. All are inevitable results of the institutionality that sustains the civilization of capital: the national market economy, the class state and formal plutocratic democracy. This institutionality is not conducive to the human being acting ethically, critically and aesthetically, but systematically fosters the anti-values of selfishness, power and exploitation. It is the double structural deficiency of bourgeois society-being anti-ethical and, dysfunctional for the needs of the majority-that renders it obsolete and condemned to be replaced by socialism of the twenty-first century and its new institutionality: participatory democracy, democratically planned economy of equivalence, the non-class state and, consequently, the rational-ethical-aesthetic citizen (p.3).

Dieterich's contributions were the basis for new proposals in some South American countries, including Ecuador, Bolivia and Venezuela, to implement policies of greater state control over the means of production and distribution of income, breaking with neoliberalism and dependence on the international organisms accused of impoverishing the nations, product of the imbalances of the capitalist system.

Capitalism continues to create gaps between rich and poor; who has greater opportunities, is enriched; while the poorest are still in poverty. In Latin America inequities are quite visible. Socialism, then, could be said

to be the system that gives equal opportunities to all; however the experience with countries of this trend, says that it is not the case. Centralism is not enough to provide a better quality of life for the inhabitants of the country. The control of the state limits the free market and with it the innate potential in humans of self-improvement and the opportunity that they can have to engage in entrepreneurship.

In this regard, Mohamed Yunus (cited in Hawkins, 2015) said that:

The true essence of an entrepreneur is not to earn money but to solve problems. Problems and the search for solutions drive the human spirit. As entrepreneurs, we see problems, think of solutions, act, learn, make mistakes and try again.

It is an opportunity to generate an economic activity that represents a source of subsistence and that requires the governmental support to be able to maintain itself. Along the same lines, Kantis (2004) stated that: "In Latin American countries a real transformation is taking place in business development policies, which includes the promotion of new entrepreneurship and the promotion of a new mentality that values entrepreneurial activity "(P.4). Entrepreneurship favors the work, the obtaining of an income, it dynamizes the economy, that is why it becomes vital within a country.

With this background one could ask: Has capitalism, with the predominant role of the State in economic decisions, been able to improve the living conditions of the population?

Knowing that public policies are oriented to guarantee the wellbeing of society, the importance of this research lies in seeing the macroeconomic result in countries of the region, with similarities in customs, products, exports, but with different levels of intervention by Part of the State. On the one hand Ecuador, more centralized, identified with the "Socialism of the XXI Century"; and on the other Peru and Colombia, with greater openness and liberalism. Referring to Ecuador, in a study on family businesses, it is said that being an economic model oriented by Socialism of the XXI Century, this model differs from other countries in the region, because it creates different conditions and behaviors in the agents (Santamaría & Moreno , 2016).

Materials and methods

This research is documentary, since the macroeconomic results, provided by state agencies of each country, served as a source of analysis. They show a socioeconomic reality resulting from applying a Public Administration with a greater or lesser degree of interventionism. There is no manipulation of variables, because it is non-experimental (Sampieri, 2014). We have worked with four representative indicators: economic growth, poverty, Gini coefficient, Foreign Direct Investment; important variables which facilitate the understanding of the issue. On the one hand growth shows the percentage of production of goods and services in a country, which varied from year to year. It is not a complete indicator, because the wealth could be misallocated, increasing the group of poor people, being these people with limited income to satisfy their basic needs. A country may have high inequity, so it was necessary to revise the Gini Coefficient.

Primary and secondary sources such as texts, journals and interviews were used to gain insight into the indicators for the years 2012, 2013, 2014 and 2015. In the case of the Gini Coefficient, due to lack of data from 2015, 2011 was placed in place. This information was gathered from the studies of the Economic Commission for Latin America (ECLAC). As a complement, the pronouncement of economic experts was obtained during lecture cycles in 2016 at the University of Guayaquil and the *Colegio de Economistas del Guayas*: Alberto Dahik, Mauricio Pozo and Walter Spurrier, which allowed for greater support to the investigation.

The empirical method of observation plays an important role because it perceives the slowness of the economy, the lack of liquidity and the closure of business.

Analysis and results

The review of the literature says that in Latin America there are two trends in the way of conducting the economy and that go hand in hand with politics: free market, applied in most countries and one of planning as in the case of Cuba. However, this free market has a variant: until recently, countries such as Argentina, Ecuador, Bolivia and Venezuela, recently identified as “Socialism of the XXI century”, widened the size of the State, gave a turn to its economic policy, taking distance from capitalism, imperialism and neoliberal policies.

Basically they differ from the classic free market, because it gives a greater intervention of the State as regulator and employer, increasing its

size. In the case of Ecuador, the rules became increasingly restrictive, provoking the reaction of the different Chambers of Production, who alleged that the State was competing with them in some areas, strangling the private sector with the tax burden, labor rigidity, Lack of free trade agreements and other factors that punished entrepreneurship. In fact it was palpable the reduction of private initiative as a generator of employment, falling from 92.4% in 2007 to 90.3% in December 2015 at the national level. Meanwhile, the opposite occurred in the public sector, which increased its share from 7.6% to 9.7% in the same period (INEC, 2016). The situation worsened at the end of 2014, when the country began a phase of economic slowdown, mainly due to the prices of oil in the international market, gradually reducing its price that ranged from \$ 100 dollars per barrel to less than \$ 30, putting at risk the financial stability of Ecuador.

Among the free market oriented countries are Peru and Colombia, which experienced greater economic growth and poverty alleviation and, despite also suffering the consequences of external shocks, have faced them better. They have rapprochement to capitalist, liberal economies, where the signing of trade agreements is part of the flow of goods, services and capital. At the other extreme, countries calling themselves "Socialist of the XXI Century" based their prosperity of several years on high commodity prices, which led them to disproportionately rise public spending. In an analysis of the new economy of the country, prepared by the highest body of the tax administration (Internal Revenue Service (Ecuador), 2015), it is stated:

There is no closer combination between economy and dignity than the constitutional proposal of the National Plan for Good Living. Always social theory, democratic institutional models and consensus have sought to put things in place and define the role of the state, the economy, the role of the citizen and democracy. In this sense, all sorts of combinations have been tried throughout history: the state at the service of freedom and liberalism, the state at the service of individual freedoms and the market, the state and market at the service of the individual and, Partially, of the social; And, now, the State, market and international system at the service of Good Living.

In the opinion of the experts - all economists of recognized trajectory and identified above - Ecuador has lost competitiveness in comparison to countries like Peru and Colombia, since they develop a different economic

policy, with less intervention of the State. The signing of free trade agreements, market opening, clear tax rules and incentives to free enterprise are reflected in indicators such as country risk, which provides indebtedness in better conditions and substantial foreign investment. In this context, emphasis was placed on the high indebtedness of Ecuador, since not everything has been accounted for, and it is imperative to make the figures transparent. There is much liquidity and fiscal hole of not recorded floating debt. In Ecuador in the first half of 2016, 2,600 companies had already closed. The macroeconomic figures presented below allow the comparison of Colombia, Ecuador and Peru.

Chart 1. Rate of GDP Growth 2012-2015 in percentages

Years	Colombia	Ecuador	Perú
2012	4.0	5.2	6.3
2013	4.3	4.6	5.02
2014	4.6	3.8	2.35
2015	3.1	0.3	3.26

Source: Own elaboration based on data from the World Bank

The Growth Rate shows with clear clarity the deterioration of production in Ecuador, which falls between 2012 and 2015 by 4.9%. In the case of Peru and Colombia is similar: there is a decrease in the economy, however, they are around 3% above Ecuador.

Chart 2. Poverty rate in percentages

Years	Colombia	Ecuador	Perú
2012	34.2	35.40	27.8
2013	30.7	33.60	23.9
2014	28.5	22.49	25.3
2015	27.8	29.28	21.5

Source: Own elaboration based on data from ECLAC

In general terms it can be said that in all three countries the percentage of poverty is high, slightly more than a third of the population

in Colombia and Ecuador in 2012 and just over a quarter in Peru. The 2015 closes with figures of 27.8%, 29.28% and 21.5% in the same order. Linked to this indicator is the Gini coefficient, whose value goes from 0 to 1, where it is desirable that the result approaches zero, as synonymous with equity.

Chart 3. Gini coefficient

Years	Colombia	Ecuador	Perú
2011	0.54	0.47	0.45
2012	0.53	0.48	0.44
2013	0.53	0.48	0.44
2014	0.53	0.47	0.43

Source: Own elaboration based on data from ECLAC

Peru is the country with a better distribution of income, greater equity and more distributive justice. On the contrary, it can be said from these figures that Colombia is less equitable.

Chart 4. Direct Foreign Investment in millions of dollars

Years	Colombia	Ecuador	Perú
2012	15529	585	12240
2013	16772	703	10172
2014	16325	773	7885
2015	12108	1060	6861

Source: Own elaboration based on data from ECLAC

Chart 4 shows a strong result: money arrives in Colombia and Peru in more quantity than Ecuador, which according to the experts is linked to the lack of confidence of the investors.

Discussion and conclusions

One of the indicators of most common use is the one that measures the economic growth of the countries. Chart 1 shows that of the three countries Peru is the one with the highest growth in the period and al-

though it has fallen from 6.3% in 2012 to 3.26% in 2015, it is above the 2.5% accepted for a nation. It is followed by Colombia, which declines from 4% to 3.1% in the same study period and in the end Ecuador, which from 5.2% in 2012 reaches 0.3% in 2015.

A country that does not grow lacks the resources to serve its population, reduces the sources of employment and does not fully cover their needs. From Chart 2, it can be deduced that the country that has managed to significantly reduce poverty is Peru, reaching 21.5% in 2015, after having 27.8% in 2012. It is followed by Ecuador, which falls from 35.4% in 2012 to 29.28% in 2015 and finally Colombia, which has a poverty reduction of 34.2% to 27.8%. Although the latter has the highest percentage in 2015, it is the one that has reduced most points in the period 2012-2015: 6.4%, followed by Peru 6.3% and Ecuador 6.1%. Public finances and, in general, the Public Administration should seek to eradicate poverty. The best years with unprecedented oil prices were recorded between the period 2011 to 2013; even so, it was not enough for Ecuador to reduce it substantially. More than a third of the population was in this group in the years 2012 and 2013.

Latin America is one of the most unequal regions on the planet; wealth is concentrated in few hands, this being one of the causes that contribute to generate poverty. To measure how badly distributed the income is, the Gini index is used. It is observed that Peru, a country with a system of traditional capitalism is the one that has the best results, since its percentage is lower, having fallen from 0.45 in 2011 to 0.43 in 2014. Ecuador after a rise in 2012, managed to return to 0.47 in 2014. The case of Colombia also shows a decrease of 0.54 to 0.53; however, this indicator reflects that it is more inequitable than the other two analyzed countries.

Social capitalism looks at the humanization of the system, that the entrepreneur is not predator towards nature, that private activity is developed with respect to the community in general. In this sense, the Constitution of the Republic of Ecuador has made a great advance. In its article 283 mentions that the economic system is social and solidary, recognizing the human being as an end, with a balanced system between State and market; which corresponds to the widening of the state and the decline of private activity. On the other hand, Article 284 of the same legal body mentions "to encourage national production, productivity, systemic competitiveness ..." (Constitution of the Republic of Ecuador, 2008) Which are exactly the topics where Ecuador has lost ground, since it fell to 91st

place of 138 countries, according to the Global Competitiveness Report 2016-2017 (World Economic Forum, 2016).

Among the causes they mention are corruption, low labor flexibility, new taxes, legal insecurity, lack of trade agreements, high production costs. This loss of competitiveness translates into lower revenues, lower tax revenues and fewer jobs. It was found that the Tulcán trade was threatened with its closure, given the departure of Ecuadorians who preferred to buy in Colombia. There is no interest of foreign investors in bringing their capital to the country, as shown in Chart 4. Both nationals and foreigners call for clear rules, control of public spending, control of corruption, shield the dollarization system, improve the country's competitiveness with free trade agreements and more transparency in national accounts, at a time when the form of Calculation of debt versus GDP was changed.

It is important to see that Colombia and Peru, countries that aim for the free market, with greater trade liberalization and foreign capital, have higher economic growth rates than Ecuador, which has advanced legislation regarding Human Rights and nature.

A country that grows provides wellbeing for its population, which can be affected by the loss of the purchasing power of the currency when prices of goods and services increases, a phenomenon known as inflation, where the poor are the most disadvantaged. As Ecuador's economy is dollarized, rates are one-digit, different situation from when it had its own currency, where it was more than 50% in some periods. Countries with their own currency are Colombia and Peru, which despite being prone to monetary inflation due to excess liquidity in the market or inorganic money emission, have had a discipline that leads them to rates in 2015 of 6.77% and 4.4% respectively. Ecuador closed 2015 with 3.38%, compared to 3.67% in 2014 (INEC, 2016). Inflation is linked to economic growth, as a country in recession tends to have low inflation rates because the demand for goods and services decreases.

A review has been made of the evolution of economic systems, until reaching capitalism and its variant, which the authors consider as "social capitalism", where the human being should be prioritized over capital. Countries such as Ecuador are aligned with the vision of XXI Century Socialism, with an increasing state intervention, redistributive policies and distance from neoliberalism, making a difference with the traditional free market that operates in Peru and Colombia.

The results show that countries with high state intervention in economic decisions have not been able to overcome the problem of poverty; On the contrary the lack of foresight and overconfidence, inflated public spending, which in the face of declining prices in oil, are sustained with expensive debt. This intervention limits private activity and thus economic growth. In this way there will be greater interest in entering foreign capital into the country.

The problems in the countries were reviewed to meet the needs of the population; It was found that both countries with a capitalist, neoliberal orientation and those applying restrictive capitalism and a limited free market have failed to combat the inequality and poverty of their peoples. However, it is observed that with greater liberalization of the economy, the possibilities of generating production, employment, wealth, increase. Therefore, the State must participate only in what is necessary, regulating and facilitating the means to give productive activity in the most efficient manner, with clear rules for the investor, with moderate tax rates, with no greater restrictions on trade, with labor flexibility, but without this endangering the rights of workers. In this way there will be greater interest in entering foreign capital into the country.

Socialism limits private initiative, entrepreneurship, and the innate desire in humans to excel. Capitalism, for its part, prioritizes capital; therefore both systems are imperfect: the one limiting freedoms, the other creating inequalities, further widening the gap between rich and poor. Governments should consider a social market economy that does not compete with private enterprise. Countries like Ecuador and Venezuela are inclined towards statism and centralism, harming the economic development and the good life of the population. The growth of Ecuador's debt with prohibitive interest rates stands at 10.75% compromises the future of the population, since it requires sacrificing work and social spending to pay creditors; thus reviving the neoliberal past.

Laws must protect small and medium producers, giving them legal security, financing and guarantees. Stimulating savings at the public and private levels is imperative, being aware that freedom of enterprise prevails over state socialism that is inefficient and poorly managed.

The present paper recommends for future research to extend the study period and include other indicators to have a better knowledge of the solutions that can be given to achieve the wellbeing of the society,

more in countries like Ecuador where long-term planning is implemented in the Framework of the National Plan for Good Living.

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