South America Is in a Quandary. Just Like the United States.

The knowledge economy is today's road to greater and more inclusive prosperity.

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CAMBRIDGE, Mass. — South America is falling apart. The popular rebellion in Chile — a country often held up as an example of success predicated on good behavior — is only the most extreme instance of a discontent that is either breaking out or simmering in almost every South American nation. The struggle between the right and the left has intensified. But so far nothing that contributes to socially inclusive economic growth has resulted from these protests. What does it all mean? And how do South America's troubles mirror the United States' own?

The triggers of upheaval in the region have often been unremarkable — a rise in fuel prices or bus fares — but they tap into deeper sources of frustration. Millions of working people feel abandoned by the self-serving and corrupt elites that run their countries. Having witnessed spurts of economic growth and opportunity, these disempowered millions see no prospect of advance. They have now discovered that they can find power in social media and on the streets. None of that is unique to South America. It's when we begin to look for causes and solutions that a more challenging narrative emerges.

In recent decades South America has oscillated between two failed strategies of economic development. In a part of the world rich in natural resources, one strategy has used the wealth of the land — agriculture, ranching and mining — to subsidize urban consumption without enhancing the skills and productivity of workers. While this approach has democratized the economy on the demand side, it breaks down when commodity prices fall. And it is incapable of creating a lasting foundation for socially inclusive economic growth because it bets on the easy riches of nature rather than on the products of the human intellect.

Another strategy does whatever the people in power think necessary to please the financial markets, beginning with fiscal discipline, in the hope of provoking a wave of foreign and domestic investment. The wave never arrives, or if it arrives, fails to last. Most recently, Mauricio Macri in Argentina and Jair Bolsonaro in Brazil called on the spirits of capital. But the spirits failed to come.

No country gets rich by following a blueprint recommended by the great powers of the day, who want the latecomers to wait patiently in line, resigned to their lot in the world division of labor. Rebellion against the formulas prescribed by those powers is not always rewarded; obedience is invariably punished. To rise, a country must not only be ready to adopt institutions and policies defying those formulas, it must also equip itself with the practical means by which to sustain its defiance. Yes, fiscal realism is indispensable but not for the reasons invoked by the peddlers of a false orthodoxy: so that nations and their governments are not beholden to the whims and interests of high finance and can dare to be bold in opening development trajectories based on the democratization of opportunities and capabilities.

If these two strategies fail, what works? Mobilize national resources to build the country undeterred by dogmas about what government and private enterprise can do; both can do, especially together, much more than we suppose. Think of this part of what works as a war economy without a war. And innovate in the organization of markets so that more people can access more markets in more ways and acquire the means to become more productive.

Sound radical and far-fetched? Consider the United States in the first half of the 19th century: Alexander Hamilton's plan to build the country from above could not have been so successful if agriculture and finance had failed to be democratized. In those two sectors, and despite the fearsome incubus of African slavery, Americans didn't just regulate markets or attenuate their inequalities by progressive taxation and social spending. They reinvented the market economy and innovated in the institutions and laws that shape the basic distribution of economic advantage.

Today, such an effort, in South America and in the United States, needs a different focus. There is a new vanguard of production, founded on science and technology and marked by permanent innovation. This knowledge economy remains confined, everywhere in the world, to fringes that exclude the vast majority of workers and businesses, with far-reaching consequences for economic slowdown and inequality. Denial of the most advanced practice of production to most people and businesses in even the richest countries has slowed growth. The chasm between the advanced and backward parts of the economy has generated an inequality too severe for progressive taxation and redistributive social spending to correct.
Deepening and disseminating the knowledge economy is today's road to greater and more inclusive prosperity. The United States and South America got off that road. It's just that Americans were much richer than South Americans when they got off. Nevertheless, they share different versions of the same quandary and the same illusions.

A political as well as an economic failure lie behind South America's unhappiness. The national path has to be discovered and developed experimentally. To organize it, South Americans require the right kind of democracy: one that raises the level of popular engagement in political life, resolves political impasse quickly (for example, by early elections) and uses federalism to combine decisive initiative by the central government with a chance for the states to diverge from the main road taken by the country and to try out alternative models of the national future.

That is not the democracy that the South American republics copied from the United States. South America can no longer afford constitutional arrangements that associate, as the United States Constitution does, the fragmentation of power, necessary to freedom, with the slowing down of politics, which inhibits structural change. Such low-energy democracy needs crisis, in the form of war or ruin, to make transformation possible. South Americans shouldn't need a world war or a 1930s-style economic collapse, as Franklin Roosevelt did, to get something done.

The troubles of South America seem all too familiar. To overcome them, however, requires a new direction in the economy, in politics and in thought. Citizens of the United States, take note: This story is also about you.

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