Latin America's Magical Liberalism

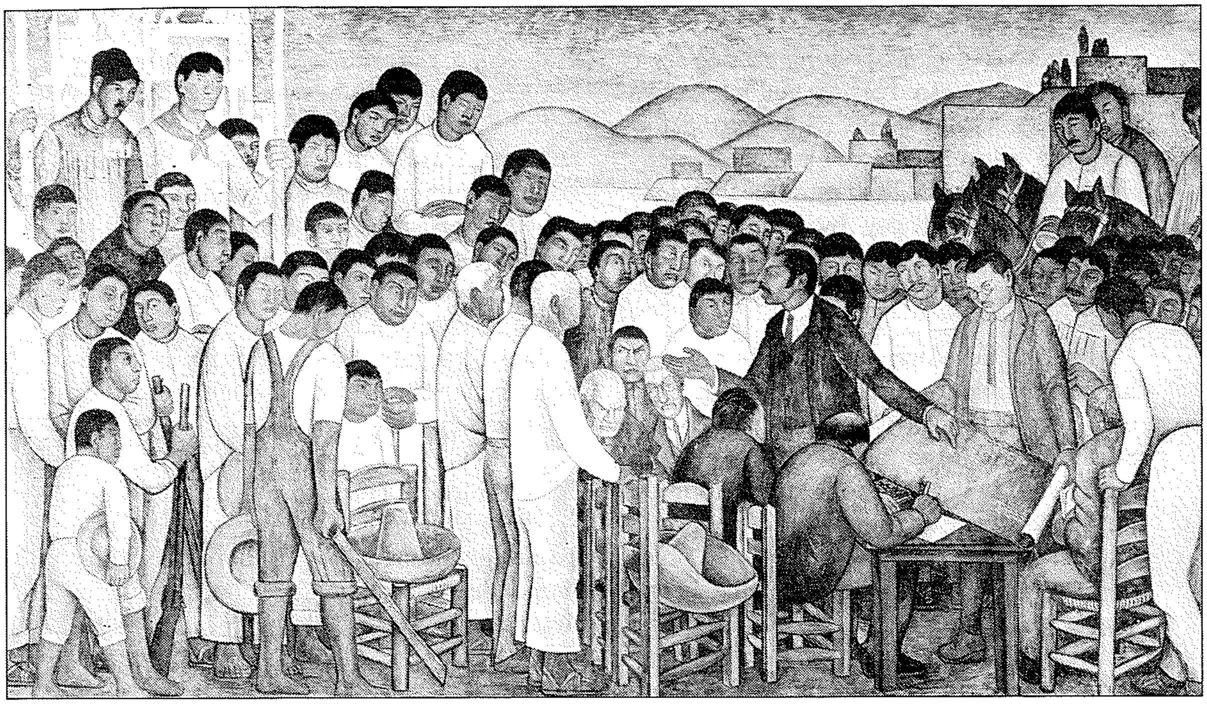
Despite being born under the banner of liberalism, the nations of Latin America, from Mexico to Argentina, have been plagued by authoritarian rulers, corruption, and economies dominated by privilege. If this is liberalism, it would have been unrecognizable to John Locke, Adam Smith, or James Madison. Today, as a resurgent faith in constitutional democracy and free markets sweeps the world, many Latin American leaders and intellectuals are trying to make their nations liberal in fact as well as in name. Tina Rosenberg argues that success is anything but assured.

by Tina Rosenberg

In March 1990, at Lima's luxurious and well-guarded El Pueblo resort, novelist Mario Vargas Llosa played host to a conference of conservative intellectuals and politicians from Peru and around the world. The meeting, dubbed the "World Encounter for Liberty," was part of Vargas Llosa's campaign for Peru's presidency, which he undertook with the quixotic mission of bringing European-style liberalism to his unfortunate country.

Vargas Llosa could persuade few of his friends abroad to travel to Peru. Octavio Paz sent a videotaped speech; Lech Walesa sent only regrets. The most celebrated participant was the French writer Jean-François Revel. About 500 Peruvian businessmen, Vargas Llosa's supporters, spent the weekend listening to panelists celebrate the fall of Leninism. It was a Woodstock for the Right—until the Chileans began to speak.

An admirer of the economic reforms General Augusto Pinochet had brought about in neighboring Chile during the late 1980s, Vargas Llosa had invited a delegation of Chilean businessmen, including José Piñera, who had held ministerial posts for mining and labor under Pinochet and had reformed Chile's social-security system. Eager to duplicate Chile's economic boom, the Peruvians received Piñera warmly when he came forward to speak. The first part of his talk—proud words about the triumph of capitalism in his native country—was greeted with frequent applause. But the clapping stopped when he began to talk about how it could happen in Peru. "Be good citizens," he told the Peruvians. "Pay your taxes. Accept the reality that tariffs must drop. Wake up to the fact that the state must no longer protect you." The Peruvians sat in stony silence as Piñera finished and returned to his seat.



Dividing the Land *(1924) by Diego Rivera.*

Piñera's reception tells much about why Vargas Llosa's ideas ended up lost in the labyrinths that mark his novels, and why his campaign ended in failure and betrayal. It shows both how far Latin America has come toward realizing the liberal ideal and how far it has yet to go.

Certainly, there have been hopeful signs. Starting in the mid-1980s, Latin American and Caribbean governments, one after another, began to abandon protectionism and other statist economic policies that had been widespread—and ruinous—for decades. Programs that cut state spending, decontrolled prices, privatized state holdings, and redirected economic production away from import substitution and toward competitive exports are now the rule more than the exception throughout Latin America. Even politicians who campaigned against economic liberalization have ended up sponsoring it. During Peru's 1990 presidential race, Alberto Fujimori blasted Vargas Llosa's advocacy of "shock therapy," and Carlos Menem in Argentina ran as a traditional Peronist populist. Once in office, though, both men proceeded to govern from the right, with Fujimori adopting a plan—which became known as "Fuji-shock"—even more austere than the one proposed by Vargas Llosa. Gasoline prices rose 3,000 percent, food prices by 500 percent. Last fall, Menem capped monetary reforms, tax-rate reductions, and the privatization of several state companies with a sweeping program of deregulation.

Other Latin American leaders made similar adjustments. Jamaica's Michael Manley and Venezuela's Carlos Andrés Peréz were populists during their first administrations but turned right after being reelected. In Mexico, the *caudillos* (strong men) of the ruling Institutional Revolutionary Party (PRI) once made themselves national heroes by expropriating Mexico's privately owned resources; President Lázaro Cárdenas's 1938 decree nationalizing foreign oil companies was considered by many Mexicans the high point of the Mexican Revolution. Today, by contrast, PRI's President Carlos Salinas wins applause by selling nationalized companies back to private owners.

Political developments in Latin America have also looked promising. While in 1976 only four nations—Colombia, Venezuela, Surinam, and Costa Rica—enjoyed elected, civilian governments, today only four do not. Haiti and Cuba are classic right- and left-wing dictatorships; Peru's elected president Fujimori, backed by the military, staged his own *autogolpe* (self-coup) last April and has since held dictatorial powers; Mexico's PRI remains in control by engineering elections, although it has begun to make good on its promise to clean up the electoral process.

Despite these exceptions, most of Latin America gives the appearance of moving in the right direction. The armed forces no longer seek to control their governments, and governments no longer seek to control their economies. On the surface at least, Latin America appears to be caught up in the larger global movement toward the "end of history," the triumph of liberal democracy, rule of law, and free-market principles celebrated by such optimists as Francis Fukuyama.

But appearances are deceptive. While dictatorship and statist economic programs have largely vanished from Latin America with this most recent embrace of the liberal ideal, they have been supplanted by forms of government and economic policies that remain far from the realities of a true liberal order. Unfortunately, the discrepancy between appearances and substance is nothing new in this part of the world. Just as many Latin American writers have become known for a style of literature called magical realism, a style blending realism and surreal fantasy, so Latin America's dominant political and economic traditions could be described as magical liberalism—a highly fanciful semblance of the spare, elegant system imagined by a John Locke or a James Madison.

It may seem odd to say that liberalism is largely illusory for nations that have long claimed to be liberal constitutional democracies. After all, most Latin American states came to independence under the banner of liberalism. The debates that took place in the capitals of the new countries in the early 19th century resembled those that took place 50 years before in Philadelphia and Boston. The issues were federalism, checks on executive power, and the rights of citizens; and many Latin American constitutions were almost word-for-word translations of the U.S. Constitution.

But the French Revolution and French thinkers—notably Jean-Jacques Rousseau—had a far more decisive effect on Latin American liberalism than did Anglo-American ideas and experiences. The religion, language, and culture of the French were also far more familiar to Latin Americans. Just as important, Latin American revolutions succeeded in large part because of Napoleon's usurpation of the Spanish crown. The flag of the United Provinces of Central America, before that short-lived nation's dissolution in 1838, featured the red cap of the French Revolution, and

***Tina Rosenberg**, a former MacArthur Fellow, has written on Latin America for the* New Republic, Foreign Policy, *the* Atlantic, *and* Rolling Stone. *She is the author of* Children of Cain: Violence and the Violent in Latin America *(1991), and is now at work on a book about how Eastern Europeans are facing their past.*

Mexico's liberal reforms of the 1850s were carried out under the influence of the French.

From Rousseau and the French model, Latin American liberals inherited a strong statist orientation. While Locke and the Anglo-American tradition emphasized tolerance, civil society, individual rights, and limits on central power, Rousseau (particularly as interpreted by Latin American intellectuals) tended to emphasize the subordination of all social interests to central authority and even, if necessary, to a powerful, visionary leader.

Accompanying this centralizing, authoritarian tendency was an equally powerful corporatist impulse. Perpetuating some of the feudal habits of the former Hapsburg Spanish governors, the new Latin nations gave certain groups—the military, the Catholic Church, and wealthy landowners—special responsibilities and rights, from education to a "moderating" role in government.

As a political philosophy, Latin American liberalism has weathered most ideological challenges from the Right and the Left. In our century, it has survived the neo-fascist governments of Juan Perón in Argentina and Getúlio Vargas in Brazil (whose ideological vogue ended with the defeat of European fascism in World War II) and, more recently, a string of military dictatorships that often preserved the window dressing of liberal constitutionalism while effectively crushing democracy and free enterprise. There has also been the challenge of communism. But though communists took power in Nicaragua and Cuba, and though they created influential parties in most Latin American nations, Marxism-Leninism never posed a serious, hemisphere-wide challenge to the liberal ideal. Today, communists rule in only one nation, and there only by dint of Fidel Castro's will and charisma.

Curiously—one might even say magically—the liberal ideal in Latin America seems to endure precisely because of its lack of substance. The fact that liberalism's guiding principles, as encoded in law, have been only feebly enforced has allowed almost any travesty of liberalism to govern in its name. To be sure, liberalism admits a wide range of economic and political arrangements. Liberal nations have different electoral systems and vary in the degree to which their governments feel motivated to restrict citizens' rights. Economic liberalism encompasses both John Maynard Keynes and Milton Friedman; there is room under liberalism for Britain's laissez-faire, Sweden's social democracy, Japan's government-directed industrial policy, and Germany's welfare state.

Yet for all its latitude, liberalism is not broad enough to encompass many of the economic and political arrangements that have obtained throughout most of Latin America's modern history, from the earliest days of independence to the present. Even parties that have called themselves liberal have often represented anything but liberal principles. The Somozas, the dynasty that long dominated Nicaragua, called themselves and their supporters the Nationalist Liberal Party. Argentina's liberals supported the military coup of 1976 and defended the juntas' terrifying record of repression. Colombia's Liberal Party comes closer to reflecting liberal ideals, yet for most of its history it has been a party of the wealthy, resistant to widespread political participation and the uniform application of law.

Even more than to the French influence, the weakness of Latin American liberalism can be attributed to social and political conditions that predate the era of independence, bound up with patterns of governance and economics that resulted from the conquest and colonization of this part of the New World by the Spanish and Portuguese. Unlike the English colonizers to the north, the Iberian conquerors were more interested in extracting than in creating wealth. Argentine writer Jacobo Timerman overstates the case only slightly when he declares that the "Spanish were really pirates." Latin America's colonizers came bearing notions of centralized authority and hierarchy that reflected the organizational preferences of the Spanish Hapsburg Crown and the conservative Catholic Church. Great class differences resulting from the conquest of Indian civilizations reinforced a social organization of master and slave as well as elite resistance to the idea of universal rights. Central control exercised by colonial seats such as Lima and Santiago de Guatemala inhibited development of a civil society. Corruption further undermined a universal application of law.

The corrosiveness of this colonial legacy can be demonstrated by what happened in those few countries that were less burdened by it: Chile, Uruguay, and Costa Rica. The territories that were to become these nations had the good fortune to be poor and isolated at the time of the Spanish conquest—and to lack the great Indian civilizations that the Spanish could enslave to work on the plantations and in the mines. Chile was the only Spanish colony that operated at a loss every year. Costa Rica, despite its name, had no minerals, was the farthest of all Central American countries from the Spanish seat of government in Guatemala, and had a tiny indigenous population. These relatively poor territories enjoyed the development of family farms, urban traders, and a capitalist bourgeoisie. Uruguay was colonized as a poor, tiny chunk of Argentina; the British split it from the larger country to make it a buffer between Argentina and Brazil. Essentially a city-state—today half its people live in Montevideo—Uruguay avoided Argentina's gradual decline principally because of José Batlle y Ordonez, who was president from 1903 to 1907, and again from 1911 to 1915. Batlle's social-welfare policies created a strong middle class and contributed to decades of political harmony. The country maintained only a token army.

In the early 1970s, both Chile and Uruguay saw their long democratic histories interrupted by brutal military coups. But these dictatorships were aberrations imposed on societies whose respect for law and civil society went far beyond the Latin norm. Their democracies now restored, they and Costa Rica have court systems that are fair and efficient, relatively uncorrupt bureaucracies (although this is less so in Costa Rica), and governments that protect, rather than violate, the rights of individuals.

History's bequest to the rest of Latin America was far less kind. Most Latins can vote in elections every few years, but they must contend every day with societies whose basis is power, not law. The doors of bureaucracy close in the face of the poor; judges never rule against the wealthy and powerful; new entrepreneurs find it almost impossible to navigate huge bureaucracies and compete in a world of crony-dominated commerce. Even today, most Latin countries that have the formal attributes of

"Building the present, women create the future," declares a Chilean trade union poster. Such unions are a vital part of Chile's exceptionally rich civil society.

democracies and free-market economies operate, just below the surface, like the *anciens régimes* of premodern Europe.

Yet history is not an all-powerful master, and Latin America has not been untouched by events in other parts of the world. Liberalism is now not only the most important political ideal but seemingly the only one—at least among the secular alternatives. As political scientists Larry Diamond, Juan Linz, and Seymour Martin Lipset note in *Democracy in Developing Countries, Vol. IV, Latin America* (1989), liberalism and Islamic fundamentalism are the only political ideologies considered legitimate by those who live under them.

But other, more decisive factors lie behind Latin America's move toward genuine liberalization. One is a new seriousness about human rights. Largely because of the international human-rights movement (for whose invigoration former U.S. president Jimmy Carter deserves much credit), it is now generally conceded that human and political rights are fundamental requirements for all societies, not just developed, Western countries. Every member of the Organization of American States (OAS) has signed the American Declaration of the Rights and Duties of Man, which parallels the 1948 United Nations Universal Declaration of Human Rights. If this seems unremarkable, one need only recall that 20 years ago many political scientists considered democracy incompatible with the cultures of Spain and Portugal.

There is also a new and forceful consensus behind democratic reform and free elections among the regional organizations. Ten years ago it would have been unrealistic, to say the least, to expect the OAS to intervene in favor of democracy, because most of its members were dictatorships. Today, the OAS has a corporate interest in promoting democracy, and the OAS and its related institutions have shown a new interest in going beyond democratic rhetoric. Two examples are the OAS's observer mission to Nicaragua's 1990 elections, and the landmark 1988 decision of the Inter-American Court of Human Rights to hold the Honduran government responsible for "a systematic policy of disappearance" in the case of 120 people who "disappeared" between 1981 and 1984. The next year, the court ordered the government to pay compensation to the families of two victims.

Another reason for optimism is the changing religious climate of Latin America. Michael Novak, a scholar of religion and philosophy at the American Enterprise Institute in Washington, D.C., points out that Rousseau's hostility to the Catholic Church has long been matched by the Latin American Catholic Church's traditional hostility to liberal ideas. For centuries, priests saw their mission as serving Latin America's elites. Believing that what the poor needed was more charity from the rich, Catholic clerics counseled the dispossessed to accept their lot. Like their Spanish forebears, Latin America's Catholic clergy believed there was nothing wrong with inherited wealth but found the ideas of work and initiative vaguely distasteful. In addition, the Catholic tradition in Latin America was an undemocratic and intolerant one—priests in Colombia used to warn parishioners either to vote Conservative or suffer the pains of hell.

Much has changed. World War II largely cured the Catholic Church of its preference for authoritarian government, and in many countries throughout Latin America, priests have played an important role in protecting the rights of minorities and the oppressed. Shortly after Salvador Allende was overthrown in Chile, Cardinal Raúl Silva Henríquez announced that General Pinochet's victims could "sleep under my bed, if they want to." The Chilean Catholic Church became the home of the Vicariat of Solidarity, which during the Pinochet regime was probably the most important local human-rights organization in the world. (One exception to this trend was in Argentina, where the Church is so close to the state that the clergy draw government salaries. During the 1976–1983 "dirty war" in Argentina, all but a handful of priests cooperated with the military and turned a blind eye to repression.)

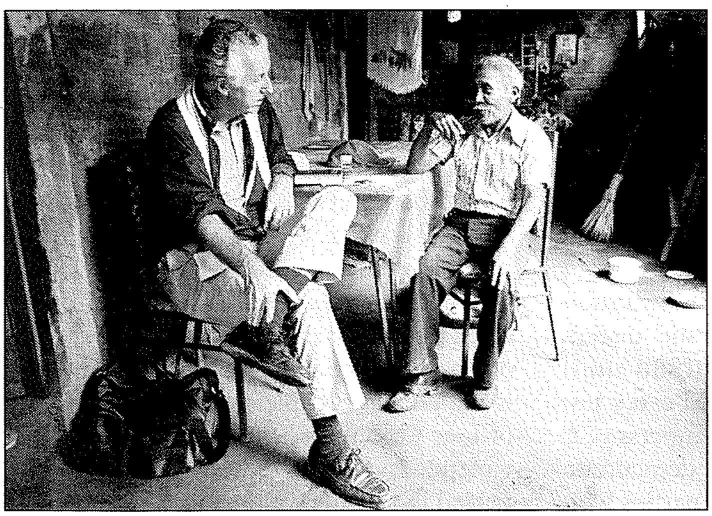
In 1968, the Latin American Bishops' Conference in Medellín, Colombia, echoing and extending the ideas of Pope John XXIII, gave a new interpretation to the role of the Church. Peruvian priest and theologian Gustavo Gutierrez gave the philosophy the name "liberation theology." Liberation theology made the Church more sensitive to the needs of the poor and more focused on improving this world instead of waiting for the next. It also discredited the old solution of "more alms" in favor of organizing the poor for political participation. While some priests who favored liberation theology also endorsed socialism—in a few cases, such as that of the Colombian guerrilla-priest Camillo Torres, they took up arms—today liberation theology is less radical than it was 20 years ago, and many former revolutionaries have turned their focus to more democratic political strategies.

The surprising growth of Protestantism in the region has also had a liberalizing effect. There are now about 40 million Protestants in Latin America, and in many big-city slums the more visible churches are no longer Catholic but Mormon, Adventist, and Pentacostal. These sects differ greatly from the older Protestant churches that were so instrumental in the economic and social transformation of northern Europe and North America. Those churches promoted an ethic of hard work, thrift, and self-reliance—the "worldly asceticism" that Max Weber considered necessary to capitalist achievement. The newer, more charismatic Protestant churches attract Latin converts partly by promising magical change. In that respect, they are closer to traditional Latin Catholicism than to traditional northern Protestantism.

Still, the Protestant churches are a liberalizing force. Economically, they stimulate entrepreneurialism by requiring the born-again to reform their personal behavior; men, for example, are pressed to give up drinking and become more responsible fathers. Politically, these new religious movements have had to fight for space and tolerance, and to the extent they have succeeded—and succeeded in winning tolerance from the Catholic Church—they have helped to democratize their countries.

Changes in the intellectual sphere are also important. The widespread repudiation of Marxism-Leninism in 1989 was decisive, but among intellectuals throughout the world the political pendulum had been swinging toward the right since 1968. Until that year, the energy in Latin American intellectual life, as elsewhere, was found in Marxism, but during the 1970s and '80s, many important Latin American intellectuals began to move towards social democracy and then to Lockean liberalism and the free-market principles of Adam Smith. The rightward journey of Peru's Vargas Llosa was not only pronounced but meticulously documented in his political novels and essays.

The abandonment of Marxism is not only an affair of the parlor. Many left-wing Latin guerrilla groups have given up armed struggle and accepted democratic rule, notably in Colombia and El Salvador. In other countries, left-wing political parties, such as the Chilean Socialist Party, have renounced Leninism and are distancing themselves from Marxist economics. The Chilean socialists' shift to social democracy is due not only to the collapse of Soviet communism but also to Pinochet's exiling of many socialist leaders after his 1973 coup, which gave them the sobering opportunity to experience life in Moscow or East Berlin firsthand. Also crucial is the influence of Eurosocialists such as French president François Mitterand and, particularly, Spain's prime minister, Felipe González,



A Catholic priest chats with one of his parishoners in rural El Salvador. Once a predominantly conservative force in Latin America, the Catholic Church has acquired a more populist orientation during recent decades. However, only a small number of priests embraced the radical agenda of "liberation theology."

men whose modern vision of socialism has a decidedly liberal flavor.

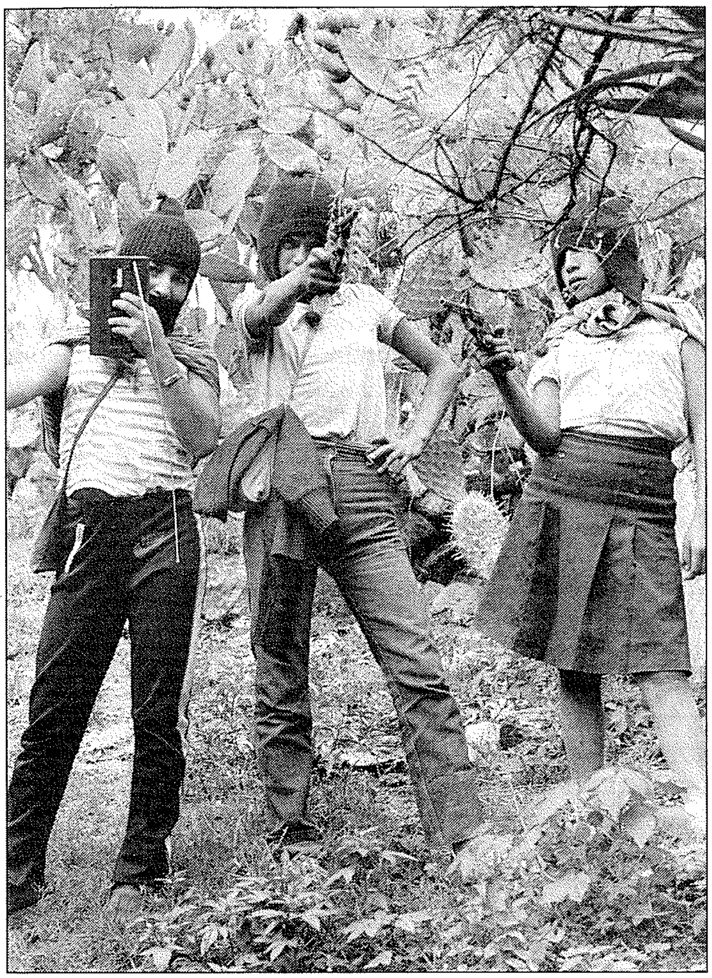
Despite such encouraging developments, it is hard to be sanguine about liberal democracy's future in Latin America. Three recent coups—successful in Haiti and Peru, unsuccessful in Venezuela—are grim reminders that elected government is still fragile in many Latin American nations and that dictatorship picks up momentum as it spreads. After Fujimori suspended Congress in Peru last April, Bolivian president Jaime Paz Zamora threatened similarly to "discipline" his nation's legislature. He was forced to back off, but the warning hung unpleasantly in the air. The risk of military uprisings looms in Brazil, Guatemala, and El Salvador, and if the civilian leaders of Argentina and Uruguay lose their current popularity, those countries will also face serious threats to their democratic institutions.

The case of Peru is a sad illustration of how poorly democratic institutions hold up. From 1980 until Fujimori's self-coup, Peru passed every test on the checklist of formal democracy. It held three competitive and fair democratic elections. A broad spectrum of parties won representation in Congress. The courts were relatively independent of executive control. The press presented a wide range of views. The constitution, published in every telephone book in the country, served as a model statement of liberal rights.

Yet despite these trappings, "democratic" Peru was a profoundly illiberal society. There was no rule of law. The poor did not attempt to use the court system, because it did them no good. The vast majority of Peruvians believed that money, not the strongest case, would win a judge's favor. There were no universal norms—the poor, especially highland Indians, got nothing from their government: no roads, no schools, no health clinics—while the rich formed alliances with politicians to write laws to their liking and to ignore those that were not. The security forces were brutal, with the worst record of forced disappearances of any nation in the world, and torture and rape of prisoners was routine. Soldiers were also above the law—not one has ever been convicted of a human-rights violation. Two vicious left-wing guerrilla groups grew in power and influence, even while they killed thousands of civilians. All of these problems are now exacerbated by Fujimori's censorship of the press and his closing of Congress, courts, and all other institutions that check the power of the president and the military. Dictatorship has made matters worse, but the formal institutions of democracy were clearly not enough. Unfortunately, Fujimori had something of a point when he claimed that they were all a sham.

Colombia is another example of a country that has enjoyed regular elections—since 1958—but few of the other essentials of liberal democracy. Its primary problem is the almost complete absence of the rule of law. Colombia has the highest levels of violence in the world for a country not involved in an international war. Judges must go on strike each year to receive their pay; their office buildings are strewn with garbage because there is no money to pay for cleaning them. Judges receive 400,000 new cases each year and are able to process only 70,000 of them. No laboratories exist to examine evidence. Judges must take the bus to investigate crimes, even to pursue well-financed drug traffickers.

The result is widespread lawlessness. One in 1,000 crimes is punished. "We've reached the point where anyone who is judged for a crime feels he's getting arbitrary treatment," says Fernando Navas Talero, assistant attorney general for human rights. As a result, justice has been pri-



Three teen-aged Sendero Luminoso *guerrillas pose in the highlands of Peru. The recent capture of leader Abimael Guzmán Reynoso may bring an end to the Shining Path movement.*

vatized. Criminals are punished not by the state but by groups such as Death To Car Thieves. Debts are squared not in bankruptcy court but by hired killers. It is a vicious circle—the more people exact private revenge, the more crimes are committed, the more the climate of lawlessness flourishes, and the greater the strain on the system of justice.

It is not just the actions—or inaction—of the state that block prospects for liberal democracy. Although the Left in many countries has abandoned advocacy of Leninism and armed struggle, some guerrilla groups remain. In Peru especially, the vicious Shining Path guerrillas consider themselves the world's only remaining guardians of the communist flame. They have forced the government from large portions of the Peruvian countryside and are now taking power in Lima's slums.

But a more widespread obstacle to true democratization is the attitude of elites on the Right. As leftists abandon their advocacy of policies such as expropriation that threaten right-wing elites, those elites now have the opportunity to relax their siege mentality. They no longer need fear the extension of rights and participation to their countries' poor.

But the Right has preferred to view the Left's turn toward democracy not as an opportunity for compromise but as surrender. In Brazil, Mexico, Peru, Colombia, Guatemala, and Honduras, to name a few countries, right-wing death squads—at times with the participation of soldiers or civilian government officials—assassinate the organizers of labor unions, peasant federations, human-rights groups, and other peaceful associations necessary to the creation of civil society. A system with no political space for the Left encourages armed struggle. El Salvador's leftists began to take up arms in the 1970s after decades of electoral fraud, massacres, and repressive measures by the country's landowners shut them out of the political process. In Colombia in 1990, Carlos Pizarro, the leader of the M-19 guerrillas, led his men down from the mountains to lay down their guns and form a political party, with the charismatic Pizarro as its presidential candidate. He gave interviews praising private enterprise and criticizing Fidel Castro. Seven weeks after he abandoned guerrilla war, for all his good-faith efforts, Pizarro was assassinated on a commercial airliner. Despite his legendary audacity, Pizarro had been shot only once before in his 20-year career as a guerrilla—while wearing a suit during peace negotiations in Bogota.

In short, then, a wave of elected civilian governments has not brought full liberal democracy to Latin America. Civilian government is a step in the right direction, but it has done little for countries that historically have lacked a truly liberal political culture. The same holds in the economic sphere: Policies that reduce government control of the economy have not produced true free-market economies. In general, the new policies are good ones and have improved economic health. But in most countries, the legacy of history blocks their economies from freeing market forces, unleashing individual entrepreneurship, and permitting equality of opportunity.

The old protectionist policies had their intellectual underpinning in the theory of the center and the periphery, elaborated in 1950 by Argentine economist Raúl Prebisch, then head of the United Nations Economic Commission for Latin America (ECLA). He argued that prices of goods manufactured by the developed nations at the center of the world economy would always rise faster than those of the raw materials exported by the Third World countries on the periphery. As a result, Latin America would have to export more and more timber or coffee to be able to import autos or fertilizer. For years, the ECLA encouraged Latin countries to escape this vicious cycle by manufacturing products at home to substitute for imports and by resisting foreign ownership of local factories and businesses. Prebisch's assumptions about commodity prices have proved correct. But, contrary to his hopes, local industries did not eventually become competitive, and governments did not gradually lift their tariff walls. Instead, locally made products continued to be shoddier or more expensive than the imported versions (and in some cases both: Brazil's protected computers were years behind foreign computers and cost five times as much). Moreover, foreign capital stayed away, local manufacturers refused to modernize, and local prices and wages remained wildly out of line with world levels.

Populism, the other part of the statist economic strategy, was just as widespread in Latin America, although it is by no means a disease limited to the region. Subsidies of goods and services, from a loaf of bread to a university education, were touted as ways to compensate the poor for miserable wages and the disproportionate power of the rich. But they were also designed to buy off politically influential groups. Their high cost fueled inflation, and they distorted economic and social decisions—luring people to already overcrowded cities, for example. But governments found themselves unable to cut subsidies without provoking civic unrest, or at the very least, political disaffection. In February 1989, riots broke out in Venezuela when subsidized bus fares went up.

In the early 1980s, the wages of statist policies came due. The debt crisis and world-wide recession crippled Latin economies. Blamed for recession and inflation, the old policies provided no antidotes to the recession's effects. Clearly it was time to try something new.

Pressure from international lending institutions encouraged the move rightward. Governments that had borrowed heavily during the 1970s, when the banks were flush with oil dollars, now found themselves with bills they could not pay without fresh loans. And the World Bank, the International Monetary Fund, and the Inter-American Development Bank conditioned new loans on budget cuts and privatization.

The banks' insistence upon liberalization was new. It resulted partly from pressure from the Reagan administration (the United States contributes the largest share of the World Bank's funds, and a U.S. citizen is guaranteed the bank's presidency) and partly from the new, conservative economic thinking that young lending-institution employees absorbed at U.S. universities. The influence of the new thinking came from within national governments as well. While 30 years ago economics was not considered a profession in Latin America—bankers were simply bankers—today the finance ministers of most large Latin countries, including Pedro Aspe in Mexico and Alejandro Foxley in Chile, hold degrees in economics from U.S. universities.

Latin American leaders learned what would happen if they refused to change. There was the calamitous example of Peru's President Alan García, who took office in 1985 announcing he would pay the banks no more than 10 percent of Peru's export earnings on the country's $13.7 billion debt. The IMF placed Peru on its blacklist, making it ineligible for new loans—the only Latin country so distinguished. The result was the worst economic decline experienced by any country in modern history: two-million-percent inflation during García's five years in office.

Latin American leaders also learned from those who were early to change. In the mid-1980s, both Augusto Pinochet in Chile and Felipe González in Spain—one a right-wing military dictator, the other a nominal socialist—instituted liberalizing reforms and produced economic booms. With the fall of Leninism came a further discrediting of statist policies. Fujimori, Menem, Peréz, Manley, and even the Sandinistas decided that following the dictates of the banks was the prudent, if painful, course.

Surprisingly enough, the Reagan administration had little direct influence on Latin American policymakers. Despite the claims of administration officials that their conservative thinking helped sway the Latins, their relations with most Latin advocates of the traditional policies were so poor that advice from Washington was almost enough to guarantee that its recipients would run in the opposite direction. Latin American leaders complained that Reagan administration officials made their prescriptions with little regard for the political realities of Latin America. The one exception was El Salvador, whose embrace of liberalizing reforms in the 1980s took place because the country had practically become the 51st state: By the late 1980s, for the first time in the history of U.S. foreign aid, the United States was putting more into a foreign government's treasury than the recipient country itself.

Contrary to what some Reagan administration officials thought, the swing rightward in Latin American economic policies did not necessarily represent a political shift—not among policymakers, and certainly not among ordinary Latin Americans. "No one privatized because of a firm commitment to the ideology," said Moises Naim, an executive director of the World Bank who administered Venezuela's austerity program of 1989. "They did it for pragmatic reasons. People were tired of not being able to make a telephone call."

Many of the Latin American leaders

who became reformers, such as Menem, Fujimori, and Perez, were left-wing ideologues until after taking office. They campaigned on a platform of firm opposition to reforms, then, once elected, decided reforms were the only course and proceeded to smuggle them past the electorate early in the honeymoon period of their administrations. Indeed, of all the Latin reformers, only Fernando Collor de Mello in Brazil, a conservative who narrowly defeated Workers Party candidate Luis Ignacio Lula da Silva in 1989, campaigned on a platform of liberal reforms—and then backtracked once he reached office.

Instituted with so little public support, the reforms have proven difficult to sustain. While many ordinary Latin Americans knew that there was something seriously wrong with their countries' economies and endorsed the general goals of low inflation and economic growth, the only part of the reforms that they initially experienced was the tremendous social cost: the layoffs and price hikes. Many Latins believe—with good reason—that the reforms' benefits will go to society's elites, while the poor bear the costs.

Even the economic miracle of Chile proves their point. From 1979 to 1989, according to the Pinochet government's own statistics, the proportion of national wealth owned by the top 20 percent of the population rose from 51 to 60 percent. In 1988, the buying power of a worker making the minimum wage was 25 percent less than it was in 1970, when socialist Salvador Allende became president.

And what about more recent converts to liberalization? Venezuela's 1989 reforms—which included the freeing of currency exchange and interest rates, increases in electricity, water, transportation, and other tariffs, the elimination of subsidies to producers of flour and other basic goods, and the sale of state enterprises—brought the country 9.2-percent growth in 1991, the highest growth rate of any country in the world. Yet ordinary Venezuelans were so disgusted with sacrifice at the bottom and corruption at the top that an attempted military coup this past February enjoyed widespread public support. Many believe it is only a matter of time before the soldiers try again.

In many countries, government officials tried to make reform palatable by promising medium-term growth, jobs, and prosperity in exchange for immediate sacrifice, echoing Vargas Llosa's campaign slogan that with his reforms, Peru would become "a country of proprietors." This is typical political hyperbole. While reforms now flounder, ordinary Latin Americans feel defrauded—as well they should. The reforms were oversold. They have proved to be no more and no less than macroeconomic adjustments, a rationalization of economic policies rather than a ticket to prosperity.

The best illustration is Bolivia, which went from 8,000-percent inflation in 1985 to a mere 16 percent in 1991. Bolivia accomplished this by cutting government spending, devaluing the currency, freeing interest rates, liberalizing tariffs, and removing subsidies: in other words, by following the liberal model being promoted throughout the world by such "shock therapy" gurus as Harvard's Jeffrey Sachs. Yet Bolivia remains the poorest country in South America, and living standards for the great majority have not improved. The reforms have produced per-capita growth of one percent or less a year and very little foreign investment. If Bolivia is an example of success, what is a failure?

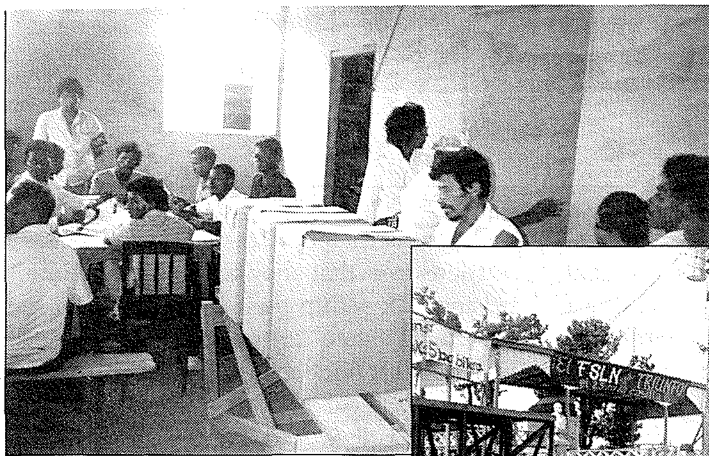
In many ways, Latin America's new austerity policies are the economic equivalent of its regular elections. On paper there may be little difference between the economic rules of the game in Peru and in the countries of Western Europe and North America: All respect private property, equality of economic opportunity, and other liberal economic principles. But in reality Peru and other Latin nations are as illiberal economically as they are politically. Most Latin American economies are characterized by two overwhelming—and profoundly illiberal—characteristics: a justice system that prevents the uniform application of economic rules, and success that comes with whom you know, not what you do.

Peruvian businessman and politician Hernando de Soto characterizes the economic system of much of Latin America not as capitalism but as mercantilism. Mercantilism is the product of the same legacies that shaped the continent's political system. In most countries (again, the former colonies of Costa Rica, Chile, and Uruguay being the exceptions), the labor force has consisted of landless and uneducated peasants who worked in mines and on plantations under miserable conditions. The colonial seats absorbed most economic activity and controlled the little that took place in the countryside. (And how this pattern persists: Lima during the late 1980s gobbled up 98 percent of all new investment in Peru!) The private sector in Latin America has always functioned more like a public sector; the state created and coopted businessmen, granting them privileges to keep them dependent. The same powerful families who ran government also ran, or were closely linked to those who ran, large business empires. They controlled government boards that marketed commodities abroad, and they managed state-owned enterprises whose inefficiency went unchecked. And the lack of a working justice system that would treat all comers fairly allowed corruption to thrive.

One manifestation of mercantilism is excessive—indeed, absurdly excessive—government regulation. As de Soto convincingly argues in *The Other Path* (1989), regulations in most Latin countries are so burdensome that they are ignored. Enterprising folk set up their businesses outside the "legal" state not because they wish to be criminals but because going through the necessary legal channels would cost so much in bribes and wasted time that it would be folly even to try.

But overregulation is not the only problem. In Peru, for example, a small businessman with a good idea has virtually no chance of getting the capital he needs to get started. His established competitors will obtain an unfair advantage by bribing government inspectors, who will wink at irregularities and violations of building-code or safety standards. The established entrepreneurs will have a monopoly on government contracts, an important source of business. The newcomer cannot turn to a working justice system with a predictable, universally applied set of business and labor laws. Indeed, our entrepreneur may soon give up on working hard or efficiently. He may go into the unregulated "informal" sector, or he may try to make money the old-fashioned way: by cultivating close ties to people in power.

De Soto is quite correct to point out the destructiveness of government overregulation. Where he is wrong—and where his gospel has been wrongly preached in the United States—is in believing that the government should therefore have as small a role as possible. (He has said, for example, that he does not even believe in a minimum wage.) The problem he describes has little to do with the size of government. A big government smothers initiative through overregulation; a too-small one allows it to be devoured by predators while the state stands by, unwilling or unable to enforce rules that check abuses by the high and mighty. A successful liberal, capitalist economy needs neither a particularly large nor



The 1990 election in Nicaragua, one of the most closely observed elections in modern history, surprised the world with its results: the defeat of the Sandinista presidential candidate Daniel Ortega.

a particularly small state. It needs a strong state whose legitimacy rests on its ability to deliver basic services such as justice, education, and health care. In short, it needs a state in which all people can believe.

Reducing government interference in the economy will not turn mercantilist nations into liberal states. It could, instead, open the way to more corruption, financial scandal, and exploitation of those who need protection that only the state can provide, whether it is from food stands selling contaminated ceviche or plantation owners who do not pay minimum wage. Reduced interference could simply facilitate mercantilism, which in turn would feed opposition to liberal reforms.

Chile's relative success at producing growth, and the failure of nominally democratic societies such as pre-coup Peru, Bolivia, Argentina, and Venezuela to match it, has given rise to an argument heard increasingly in Latin America—and in Eastern Europe and the former Soviet Union—that dictatorship is good for the economy. Some elites in Peru welcomed Fujimori's April self-coup, saying that Peru's economy would improve now that Peru had a "Chinochet."*

*In Peru Fujimori is dubbed "el Chino" because of his Asian ancestry: hence "Chinochet."

Among its many flaws, this argument ignores the strong likelihood that Chile's prosperity came *despite* Pinochet's dictatorship. Dozens of right-wing military dictators in Latin America have tried Pinochet-style policies—in the words of Uruguayan writer Eduardo Galeano, imprisoning people so prices could go free—and most met with economic catastrophe. Less than a decade before Pinochet's success, the military junta in Argentina failed with similar reforms. The free-market "Brazilian Miracle" that began in 1969 and put Brazil's rate of growth among the world's highest collapsed by 1973.

Indeed, Pinochet himself failed once. In 1975, his University of Chicago-trained economists finally convinced him to allow them to begin a process of privatizing reforms. After a slow start, Chile enjoyed a wild, five-year economic boom. Loans were easily available and the peso, fixed at 39 to the dollar, was vastly overvalued; even working-class Chileans bought cars, televisions, and imported Scotch; Santiago's streets, said one Chilean, looked like the duty-free zone at the Hong Kong airport. Chile's powerful economic groups, held by a small number of owners in interlocking networks, bought up the newly privatized industries, accumulating huge dollar debts to finance their purchases.

With the 1981 world recession the foreign loans dried up, and with them vanished the boom. The government devalued the peso by 75 percent in the last six months of the year, effectively quadrupling the debts of those who had borrowed dollars. The next year the gross domestic product fell 14 percent and unemployment reached 30 percent. On January, 14, 1983, the government announced that two important banks and a savings-and-loan had gone bankrupt. Before the crisis was over, the government would take control of 70 percent of the country's financial sector.

In 1985, Hernan Buchi, a young, Columbia University-educated economist, became finance minister and began to privatize again. This time it worked. Circumstances played a part. The earlier privatizations fell victim to a world recession, rising oil prices, and a fall in the price of copper, Chile's main export. The second time around, commodity prices were more favorable and the World Bank contributed a $750 million loan. But what Chilean economists consider just as important is that the second attempt was accomplished with more government regulation. New laws prohibited the huge concentrations of wealth that the first sell-offs had produced. Buyers' accounts were carefully inspected. Some protective tariffs were reintroduced. Workers were given the opportunity to buy shares in the privatized businesses. The state regulated capital markets, and it kept exchange and interest rates realistic. Rather than allow the private sector to assume huge dollar debts, as it had before, the government worked to reduce Chile's debt through debt-for-equity swaps. In short, liberalization worked the second time not because the nation had a strong dictator at its helm but because it had strong civic and political traditions: a sense of fair play among its wealthy, an efficient and largely uncorrupt judiciary, and respect for government and its laws.

Far from being helpful, dictatorships have several qualities that interfere with successful liberalizing reform. One is that dictators are notoriously insulated from real information about how well policies work. They hear what they want to hear and do not welcome the free press and panoply of pressure groups that tell the government how it is doing. Dictatorships also lack a method to ensure that bad policies are changed. Democracies have one: voting. The ballot may be an imperfect method, but it is better than anything dictatorship has yet produced.

Indeed, it was largely the economic failure of military governments that forced them to hold elections in the late 1970s and early 1980s in many countries, Argentina and Uruguay included. This is one reason an unprecedented wave of democratization in Latin America has come simultaneous with the worst economic decline since the Great Depression. When elected civilians took over, they were handed the bill for the unrestrained borrowing and ruined infrastructure of the dictatorships. This could explain why many in Latin America think of hard times when they think of democracy—a most unfortunate association.

People will voluntarily make the sacrifices needed for liberalizing reforms only if they believe in their government and its legitimacy. In Chile, for example, the democratic government of Patricio Aylwin has enjoyed greater labor peace than did Pinochet's authoritarian regime, because the principal unions want Aylwin to succeed and feel that strikes or wage demands might hurt the Chilean economy. There are few dictatorships that have enjoyed genuine public support of this type. Juan Perón's quasi-dictatorial regime in Argentina, for example, benefited from the fervent—indeed, worshipful—backing of Argentina's workers. But Perón was idolized precisely because he told workers they had sacrificed too much. His protectionist policies helped ruin an economy that before World War II had been the fifth richest in the world.

Under elected government, of course, popular groups have the power to threaten reforms, and public demonstrations can panic governments into resorting to populism. The risk is especially great in the first throes of reform. But even in countries with powerful unions, this has not happened. In Argentina, Menem managed to splinter his country's powerful, corrupt unions, and Bolivia's leaders found that the country's vocal unions, sick of hyperinflation, in the end accepted reforms.

In Brazil, union opposition to liberal reforms was less significant in blocking them than was resistance from business. A few weeks after President Collor declared an end to subsidies in 1991, for example, he turned around and granted his country's sugar producers an $11-billion package of subsidies and price supports. This exception then produced a general clamor for more exceptions, and subsidies crept back into Collor's economic plan.

Indeed, in most Latin American countries, the principal obstacle to reform has come not from society's poor but from its privileged. Many Latin businessmen—from Brazil's food processors to Peru's tire manufacturers—owe their fortunes to protectionist policies. Not surprisingly, they strongly resist changes that expose them to international competition. Their factories are not efficient enough to compete; they may not even know how to behave in a modern business culture. (One New York investment banker who handles Latin America said he is occasionally offered bribes by Peruvian businessmen to misrepresent their firms' economic health.) In the most backward nations, such as El Salvador, some land and factory owners shoot labor leaders, refuse to pay taxes, and resist any encroachment on the other near-absolute privileges they enjoy. They behave more like feudal lords or the *caudillos* of yore than bourgeois citizens.

If Latin American countries want to emulate Chile's success with liberal economics, it is not Pinochet's dictatorship they should emulate but Chile's civil society, social consensus, rule of law, well-run public institutions, and strong, legitimate state. Capitalists may clamor for authoritarian pro-business policies, but capitalism's long-term interests are served by policies that are almost exactly the reverse. Instead of permitting landowners and businessmen to threaten grassroots organizations, governments should promote unions, peasant federations, and neighborhood associations; such organizations build civil society, deepen democracy, and give the dispossessed a stake in the system. Governments must encourage social pacts that wrest concessions from all sides in business and social conflicts in return for social peace. Governments must collect taxes, fight corruption, keep health clinics stocked with medicines and teachers in the schools, and, most important, build fair and efficient courts. This is already a daunting task for Latin American governments; any economic program that throws more hurdles in the way is doomed to fail.

Successful, modern capitalism will not simply emerge a gleaming new edifice when old regulations are chipped away. An economically and politically liberal state demands not fewer rules but new rules—rules that apply to all, sustained not through violence but through the shared conviction that it is law, not power, that governs the new world.