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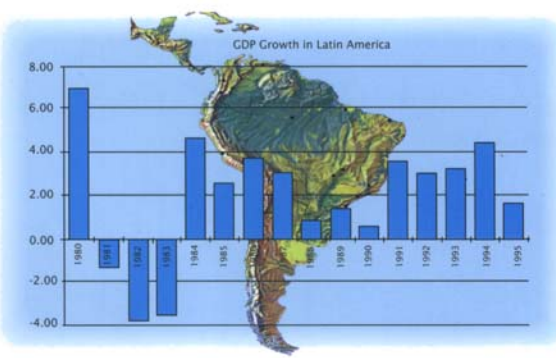
The Elusive Miracle
Latin America in the 1990s

Hernando Gómez Buendía



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FOREWORD

Since the beginning of the 1990s, there has been a lot of enthusiasm over the anticipated Latin American 'miracle'. In this study, Professor Hernando Gómez Buendía explores the background, facts and achievements of the development experience in the region during the 1990s. He discusses in depth the opportunities offered by the new policies, but also points out the possible pitfalls.

The new policy framework – globalization, economic liberalization, reduction of the role of the state etc. – was expected to bring new economic and social vigour to the South American continent. And indeed, as aptly pointed out by Gómez Buendía, there have been signs of progress. The majority of the countries has achieved satisfactory growth and reasonable macroeconomic balance in the 1990s; in 1994 the average rate of inflation was at the lowest level of three decades – 16%. On the political front, there has been a remarkable move towards democracy, and military regimes in Latin America are past history. In addition to economic and political reforms affecting development in Latin America, Gómez Buendía brings up a third major factor – the numerous efforts at economic integration in the Western hemisphere.

But, as Gómez Buendía emphasizes, the miracle remains 'elusive' as certain weaknesses still affect the development process. Latin America's share in the world output and international trade has dropped since the 1950s; the economic crises continue to create havoc; poverty is still widespread; per capita GDP declined 0.6% annually during the decade; and the proposed reforms in government cannot be implemented at once – they take time.

The move to economic liberalism can be explained by a number of reasons. Among them, the spread of neo-liberal technocrats in key policy positions, external pressure to adjust to the 'Washington consensus', the failure of statism and import substitution, and – most important for Gómez Buendía – the debt crisis of the 1980s. Similarly, adoption of the 'Washington consensus' appears to be the single most important ideological influence on economic policy.

The author also contributes to the current debate on democracy and development. According to a rather popular hypothesis, the successful development in countries like Germany, Japan, Spain, Singapore, Korea, Taiwan, Chile or South Africa, was to be attributed, to some extent at least, to the better performance of authoritarian governments in combating the various special interests so common in weak democracies. Stabilization programmes, it is argued, cannot succeed under weak democratic governments. But as noted by Gómez Buendía, there is no way to guarantee that an authoritarian government will be a 'benevolent dictator' able to avoid corruption, biases, catastrophes and crises.

Gómez Buendía outlines three main factors explaining the recent political changes in Latin America. First, the number of people in the society benefiting from liberal economic reforms is sufficient by large to constitute a majority. Second, the end of the cold war changed the political climate between Latin America and the US, the dominant force in the area. And third, there has been a remarkable inflow of international capital to the countries of the region. This also explains the shift of emphasis in the economic policy.

Yet, Gómez Buendía also explores the 'cracks in the mirror', the actual and potential problems of development in Latin America and in its relations with the US. Many of the current slogans and reforms – 're-inventing government', 'participatory democracy', 'decentralization', and so on – are still incomplete or probably utopian. Meanwhile, neither has the end of military rule nor the demise of the cold war put a stop to violence; its nature has simply changed as exemplified by the Chiapas clash for social and land rights in Mexico, or by drug traffic related hostilities. There is also a resurgence of new protectionist attitudes in the US against the 'unfair competition' from low-wage countries. Latin America, described as 'a group of countries that are isolated more by geography than united by mutual history', needs to increase trade within the Western hemisphere, including with the US. These remain serious challenges for the new governments in the area.

Gómez Buendía believes that it will be the strong nation-states which will succeed. Indeed, successful nation-states were the ones to initiate the new wave of globalization in the region. The weaker countries with a less pronounced identity, self-confidence and resources have had more difficulties to adapt to this new process. All this will likely lead to a polarized Latin America.

Hernando Gómez Buendía worked at the UNU/WIDER from August 1994 to the end of April in 1995 as Professor of the Sasakawa Chair on Development Policy.

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Hernando Gómez Buendía
January 1996

I THE BEST OF TIMES

1.1 A new mood

There is a wave of optimism about Latin America. In contrast to the *lost decade* of the bitter 1980s, many observers refer to the 1990s as *the decade of hope* for the 450 million people living in the twenty independent countries south of the Rio Grande where either Spanish, Portuguese or French is the official language.[1] At the December 1994 Summit of the Americas, the first in 27 years, President Clinton welcomed his 33 colleagues to 'the threshold of a new era of freedom from fear, freedom from want, and renewed solidarity from Alaska to Tierra del Fuego' (*Miami Herald* 1994). Having all but ignored the region in his previous surveys of positive 'megatrends', worldwide-published author James Naisbitt now praises it as the model for the third world to imitate but not without due regard to the notion that 'the idea of Latin America as a positive model of anything might raise some eyebrows' (1994:238). The front pages of newspapers such as *La Nación* in Buenos Aires, *O Fohlia* in Sao Paulo, *El Mercurio* in Santiago, *El Tiempo* in Bogota, or *El Comercio* in Lima nowadays regularly display laudatory reports by some multilateral organization or world-selling magazine on the political or economic performance of the countries. The widespread enthusiasm about emerging Latin America is captured rather neatly by the following lead from *The Economist* in contrast to its usual businesslike journalism:

> Once in a while, something big hits Latin America. About 65 million years ago it was an object from outer space that released roughly as much energy as 2 billion atomic bombs the size of the one that blitzed Hiroshima. The heat and dust generated by the impact put paid to the world's dinosaurs. In recent years Latin America has been struck by something similar: not so big, not so destructive and not a meteorite from outer space, but something that has already released enormous quantities of energy and wiped out many of the region's dinosaurs. That something is the creed of democracy and market economics. It promises to have an effect almost as dramatic as that gigantic boulder from the sky (*The Economist* 1993).

Such flamboyance speaks not only about the realities of Latin America, but it also says much about the world's oversimplified and stereotype perception of the region. After all, it was the President of the United States who toasted the Bolivians during his 1982 visit to Brazil, and who on his return to Washington stated, 'Well, I went down to Latin America to find out from them and learn their view. I learned a lot. You'd be

[1] The definition in the text thus excludes from 'Latin' America the following areas occasionally included in reference books: Quebec and the Hispanic communities of the United States (north of the Rio Grande); Belize, the Caribbean Republics, Guyana and Surinam (non-Latin language), and Puerto Rico and French Guyana (not fully independent).

surprised. They're all individual countries.' (*Washington Post* 1982).[2] Hence, to the average reader of *The Economist*, it may very well be that the blurry continent of military *juntas* and ill-advised economic statism is at long last seeing free elections and free market economics.

Of course, to be neatly encapsulated in one such stereotype, Latin America spans twenty individual countries and five centuries of history in the world-system. Thus, in the seven largest countries, which comprise 82 per cent of the population and 91 per cent of the regional product, military governments in post-colonial times have by far been the exception rather than the rule.[3] Furthermore, in the period between Haiti's *de facto* independence from France in 1801 and 1975, a Latin American government changed hands 1,763 times and 79 per cent of these (1,374 times) were strictly within legal requirements (Emmerich 1990). The state, with regard to the extent of interventionism, has been a relatively weak institution throughout the history of Latin America. The exception is, of course, Cuba after 1959. Free market capitalism, even during the remaining interludes in 'socialism' in Chile in the 1970s and Nicaragua in the 1980s, has always been officially enshrined; and the economic weight of the public sector, as well as the degree and content of governmental activism have varied substantively.

That much said, it remains true that authoritarianism and costly state interventionism have been common enough in most Latin American countries to account for the simplified picture of military dictatorships and excess of economic *dirigisme*. More to the point, many things began to change in Latin America by the late 1980s or early 1990s, and particularly in a direction most likely to win applause from the advanced industrial societies. To borrow the words from that renowned prophet of the coming global era, Mr Francis Fukuyama, 'Latin America is moving this time in the direction of history, i.e., of political democratization and of economic liberalization' (1992:139).

The current wave of optimism about Latin America which is shared by many in the region – and perhaps even fading in the face of crises like 'Venezuela 1994' or 'Mexico 1995' – reflects a combination of changes that extend to i) the political sphere, ii) the economic system, and iii) the geopolitical relationships within the western hemisphere.

A number of isolated reasons have been proposed to account for the above mentioned changes, but a more comprehensive and satisfying explanation appears to stem from the present worldwide process usually known as 'globalization'. In essence, Latin America is reacting and adapting to the currently accelerated trends of internationalization, transnationalization, and supranationalization of markets, of culture, and of security (Gómez 1995). In particular, the region is being affected by two of the farthest-reaching transformations in the current global order; that is, i) the end of

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[2] Interview with President Reagan.

[3] Brazil has 160 million inhabitants; Mexico 90 million; Argentina 34 million; Colombia 34 million; Peru 23 million; Venezuela 22 million; and Chile 14 million.

the cold war, and ii) the momentous but unstable expansion of international financial markets. Thus, optimism about Latin America is based mostly on the belief that democracy, free markets, and hemispheric solidarity are evolving and will facilitate the inclusion of the region into the emerging global order. However, by the same token, optimism should also be qualified according to the extent of the new vulnerabilities that Latin America is facing in its reinsertion in the world-system.

1.2 The creed of democracy

Although it is not easy to define democracy, it is possible to define the essential elements that democracy cannot exist without. First, in the post-cold war era, democracy always implies open, competitive, and universal suffrage to select the incumbents of government, even though this 'popular representation' may be more or less indirect. And second, institutionalized democracy needs opposition to be 'loyal'; that is, to be willing to govern under legal rules rather than through violence. Therefore, democracy at its bare minimum, implies the absence of both military regimes and armed contestants for power. Furthermore, in all advanced open societies, the classic or 'representative' kind of democracy has been complemented by a series of mechanisms aimed at wider participation of citizens in public decision-making, and the increased accountability of government officers; democracies that can be described as the 'participant' and 'organic' type respectively. Thus, electing government, accepting government, and returning government to the people are the three main dimensions of contemporary democracies, and Latin America has made significant strides in each during the past ten years.

1.2.1 Electing governments

The achievement has indeed been remarkable. Since September 1994, and for the first time after independence, there are no military governments in Latin America. Some enumeration in this regard may help the reader grasp how similar yet how unique the history of Latin America is to each 'individual country', i.e. a caveat is implied at this point about the unavoidable generalizations throughout the present writing.

Some twenty years ago, there were only five non-military regimes in Latin America, viz., in Colombia, Costa Rica, Dominican Republic, Mexico and Venezuela. A sort of democratic domino was, however, about to unfold:

- The start of civilian governments began rather quietly in 1979 when Ecuadorians voted populist Jaime Roldós to replace General Rodríguez Lara who, after seizing power in 1972, had presided cosily over the oil boom.
- After twelve years of military populism and social mobilization that had led to eventual economic collapse, the democratic wave gained momentum in Peru with the inauguration of Fernando Belaúnde Terry on 28 July 1980 to replace General Francisco Morales Bermúdez.
- The tragic death of Panama's General Torrijos in 1981 was followed by a string of civilian presidents under the effective control of General Manuel Francisco

Noriega until his capture by US Marines in 1989; the Marines saw to it that no *hombre fuerte* could emerge after Noriega.

- Also in 1981, and also under American inspiration, the Honduran army accepted the popular election of liberal Roberto Sauzo Córdova.
- Next came Bolivia, where the turmoil of eight governments in four years finally convinced the army to recognize the civilian-elected president, Siles Suazo in 1982.
- Likewise, the Malvinas/Falkland fiasco forced the *Junta* of Argentina to call elections in October 1983 when radical Raúl Alfonsín was voted president.
- Amidst the civil war that had broken out in 1981, Salvadorans, however, picked José Napoleón Duarte in popular elections held in 1984.
- Defeated at a self-organized referendum, Uruguay's *Junta de Oficiales Generales* was replaced by Julio María Sanguinetti on election day, 25 November 1984.
- Brazil – having accomplished the '1968-74 economic miracle' and then subsequently sinking the country into 'one of the gravest financial and economic situations of its history' – ended twenty-one years of military government as President José Sarney was sworn to office in 1985 (Martins 1986:90).
- Then, after 75,000 deaths and a million refugees in the civil war escalation of 1980-84, Guatemala was next, as Christian Democrat Vinicio Cerezo substituted General Mejía Víctores in January 1986.
- In February 1989, General Andrés Rodríguez of Paraguay staged a bloodless coup against his mentor, General Alfredo Stroessner, who had been in office since 1954. Three months later, Rodríguez himself was elected by popular vote as president.
- For want of an economic crisis, the return to democracy in Chile took mounting international pressures, General Pinochet's electoral miscalculations and a highly disciplined opposition to win the plebiscite of 1988, and to make Patricio Aylwin president in 1990.
- Finally, with United States troops all but landed in Port-au-Prince, General Raoul Cedras yielded to constitutional President Jean Bertrand Aristide in September 1994.

Non-military yet non-elected governments belong to a different category. The only country in this group is Cuba. A 'socialist democracy', Cuba has its peculiar brand of elections, a 'foundational' memory of a popular insurrection against a shockingly corrupt regime, and its social achievements – or what remains of them – to claim an effective measure of political legitimacy (Oppenheimer 1992). In Nicaragua, the *Sandinistas* held claim to similar titles between 1979 and 1990; from the time their guerrillas ended 28 years of almost uninterrupted dictatorship to the time when their candidate Daniel Ortega lost in open elections to Mrs Violeta Chamorro.

The legality of post-military governments has not always been above suspicion. Popularly elected President Endara in Panama compromised his constitutional standing for being instated by an invading army in December 1989, but the 1994 election of President Pérez Balladares was free of any similar shadows. Likewise, after the self-serving coup of 1992, the constitutional standing of Peru's Alberto Fujimori was hotly contested at home and abroad. Most of the criticism, however, was silenced by his landslide electoral victory of 1995. In Guatemala there were legal arguments concerning the designation as president of the then Attorney General Ramiro de León Carpio in 1993, but fully constitutional elections are being held during 1995. In Haiti the entire US-UN monitored 'transition' from Cedras to Aristide, the successor, has implied some bending of the written law.

Similarly, one could also argue about the transparency of elections in Mexico, Paraguay or, for that matter, almost anywhere south of the Rio Grande. But the simple fact remains; the ruling political parties in sixteen Latin American countries have lost presidential elections at least once during the past two decades. The exceptions are Cuba where no competitive elections have been held; Paraguay and Haiti which have had only one election each, and Mexico where the genuine electoral majority of PRI, helped by mass fraud resulted in the July 1988 victory of Salinas over leftist FDN and rightist PAN.

Further, the new or restored democracies of Latin America – as if to corroborate political optimism – have already endured tests which they would have been unlikely to survive a few years before. Amidst much military unrest in Argentina, President Alfonsín's tenure was actually cut short, not by the classic *Junta*, but by another elected civilian, Mr Carlos Saúl Menem. Civic pressure finally forced the military to officially admit guilt and apologize for the 'dirty deeds' of 1976-83. Popular power in Haiti, even though armoured by overseas military forces, did eventually prevail. Perhaps the only ousted dictator in world history to retain the post of Commander-in-Chief, General Augusto Pinochet occasionally uses his veto power to influence investigations and punishment of past activities by fellow officers, budget for the armed forces, or cases of corruption among his relatives. However, skilful civilian presidents have managed to walk the tight rope. In Venezuela, the most obvious failure of the promising 1990s, President Carlos Andrés Pérez, having survived a number of rumoured and at least two actual military coup attempts, was impeached on grounds of corruption, and in a manner of questionable constitutionality. Alberto Fujimori closed the Congress and suspended the Peruvian Constitution with the support of the armed forces. Seven months later he allowed the election of a new Congress and submitted a Constitution to popular referendum in 1994 which was ratified by his triumph at the polls in 1995. Jorge Serrano of Guatemala tried to imitate Fujimori in June 1993, but the move was not supported by the army, and Serrano had to leave the country. Even Paraguay's generals have remained silent and President Sánchez de Lozada has maintained the military at arms length, despite repeated states of siege and Bolivians' passion for hearsay after 189 putsches in the 173 years since independence.

1.2.2 Accepting governments

In addition to civilian governments, there is a second, very remarkable innovation in the current Latin American political landscape. Violence as the means of conquering state power seems to have been discarded. Thus, as armies return to their barracks, political guerrillas disappear or lose their popular support and military backing. Guerrillas, of course, remain active in Peru, Colombia and Guatemala, and there is the worrisome new addition of the *Zapatistas* in Mexico as well. But these post-cold war guerrillas are socially rather than politically oriented and they aim for specific and localized reforms rather than the overthrow of a government to launch a full-fledged socialist revolution

The uprising in Chiapas is of special concern, precisely because it is the only armed movement to emerge in Latin America since the end of the cold war. Typical cold war explanations, such as the infiltration of communists from neighbouring Guatemala, have been suggested but social deprivation and centuries of racial hatred in Southern Mexico are too pronounced to support the conspiracy theory and the insurgents themselves have stopped short of the demand for the surrender of state power (e.g. Reding 1994).

The case of Peru's Shining Path is less clear, as it professes to be a political radical ideology, embracing enough ideology to match or to surpass Maoism. But the roots of *Sendero* are deeper in the five hundred years of Inca socio-cultural exclusion from Peruvian history than in the one hundred years of international Marxist literature (Degregori 1986).

The Colombian situation is of particular complexity. After their emergence in 1964, the socialist guerrillas split into seven independent movements and a sundry of dissidences. Movimiento 19 de Abril (M-19), the most explicit and serious aspirant to seize power, has become an unarmed political party, and the remaining three guerrilla groups – FARC, ELN and EPL – are deteriorating steadily from socialist ideals to social banditry (Sánchez and Peñaranda 1991).

The situation in Guatemala with regard to the ideological diversity of its guerrillas is somewhat similar to that in Colombia. Similarly, instead of socialist ideologies, the main issue here again is the existence of social and cultural apartheid against the several 'Indian nations' that populated the land before the *Conquistadores* (Amaro 1992).

In a longer-term perspective, however, the political effectiveness of socialist guerrilla movements in Latin America has proven to be much too limited. Managing to take power only in Cuba and Nicaragua, their success depended on three exceptional conditions: reluctance to publicize their left-wing ideology; fighting regimes as blatantly illegitimate as those of Batista in Cuba and the Somoza family in Nicaragua; and marshalling international support across the hemisphere. The militarily strong FMLN in El Salvador insured a series of important political and social reforms in the peace agreements of 1993. In Colombia, the M-19 may arguably have contributed to the more open constitution of 1991. Once a formidable force, socialist guerrillas have long since disappeared from Venezuela, Brazil, Uruguay, and Bolivia; they never developed in Chile, Paraguay, Panama, Costa Rica, Haiti, and Dominican Republic; and they have had only marginal showings in Argentina, Ecuador and Honduras. Since the capture of their leader Abimael Guzmán in 1992, the military in Peru have turned the tide in their war against *Sendero*. The Colombian guerrillas have lost most of their support among peasants and urban population; negotiations since 1982 have led to a succession of peace agreements with eight armed groups. The guerrillas in Guatemala were seriously weakened in the bloody counter-offensive of the early 1980s and hopefully, peace talks will succeed there as well.

In brief, political guerrillas throughout Latin America are either disappearing or finding themselves in the process of negotiating peace. This certainly is a sound reason for optimism in a continent haunted by so much bloodshed over political issues.[4]

1.2.3 Returning governments to people

Caught between re-democratization and the emerging creed of markets, it was only natural that the Latin America states experience a deep-reaching transformation in the structure and relationship with civil society. Advancing from a 'representative' form of democracy to 'participant' and to 'organic' forms, most political systems in the region are currently changing in four principal directions:

i) redefinition of the role and size of the public sector;

ii) consequent redesign of the administrative set-up of governments;

iii) wider scope of participation by citizens in public affairs; and

iv) redistribution of functions and resources between central and local levels of government.

One key theme of 'globalism' – the ideology of globalization – is the need to cut down on the role and size of the public sector (Gómez 1995). According to this emerging worldwide ideology, the state should limit itself to three basic activities; namely, i) implementation of a coherent macroeconomic policy; ii) creation of a conductive environment for private initiative, and iii) provision of public goods. Further, the more radical globalists limit public goods to 'first priorities such as defence, diplomacy, and a legal and institutional system that defines and enforces the rules of justice, property and commerce'. Less radical globalists – or the 'neo-mercantilists'– add 'second priority' public goods – or the advisability of government help in providing the social, physical, and informational infrastructure, including areas like education, health, transport networks, public utilities, technology development and dissemination, and environmental protection (World Bank 1988:52-4). Needless to say, as part of the structural adjustment efforts to be reviewed later in this paper, each Latin American country, including Cuba during its special economic period, has launched major privatization programmes, or has otherwise sought to reduce the size and function of the state in full accordance with the globalism ideology.

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4 For instance, during its recent war El Salvador lost 80,000 out of a population of 4.5 million inhabitants; Colombia has endured 45 civil wars during the nineteenth century.

The pursuit for a smaller and more agile state has become apparent in a series of recent administrative reforms in sector after sector and in each Latin American country after another. Of course, specific reforms are very different, and it is appropriate to describe their general spirit as an attempt at 'reinventing government'. The expression, coined by Osborne and Gaebler (1992), stands for a blueprint for reform, according to which the new government should be i) catalytic; ii) community-owned; iii) competitive; iv) results-oriented; v) customer-driven; vi) enterprising; vii) anticipatory; viii) decentralized, and ix) market-oriented. This entrepreneurial attitude is reflected in the current efforts of Latin America to 'strengthen public administration and the state's capacity to analyse, plan, and implement economic and social policies; to improve tax policies, tax administration, and fiscal management; and to establish regulatory controls to counterweight ongoing privatization and deregulation programmes' (Tomassini 1994:52).

In connection with the re-establishment of civilian governments, many Latin American countries have recently adopted new constitutions, and many others have introduced substantive reform to theirs. Ecuador, for example, adopted a new constitution in 1984, Brazil in 1989, Colombia in 1991, and Peru in 1993. Venezuela amended its constitution in 1983, so did Mexico in 1990, Chile in 1991, and Argentina in 1994. Drawing upon the classic anti-totalitarian notion of 'civil society' (e.g. Tocqueville 1966) and on the experiences of Europe's post-fascist 'Latin Constitutionalism', the new and revised constitutions place emphasis on the principle of direct democracy. According to the principle, sovereignty must be effectively given back to the people, and each citizen should be an actor in collective decision-making.

The mechanism for direct democracy is threefold: i) popular elections for instigating new types of government officeholders such mayors, sub-municipal committees, comptrollers, judges, etc.; ii) co-administration of public services by such community-elected bodies as health boards, parents associations, users of public utilities, etc., and iii) popular deliberation and direct voting on issues of content through town meetings, referendums, plebiscites, and legal initiatives of citizens. Even though such innovations have not yet been fully tested or assessed comprehensively in the light of results, they do seem to contribute towards i) the spirit of democracy flooding the region; ii) the strengthening of alternative political parties, new social movements, and civic coalitions (Castañeda 1993) and iii) increasing strength to protest against old and new political corruption to topple the incumbent presidents of Brazil and Venezuela; to change the constitution of Colombia; and to raise havoc among Mexico's 'dinosaurs' and Ecuador's *caciques*.

Decentralization is one of the cornerstones of the worldwide move to re-dimension the state. In Latin America, there is also a fourth dimension of direct democracy in the new or reformed constitutions. Consequently, decentralization is often hailed as the means to improve administrative efficiency, political accountability, and participant democracy simultaneously.

The strategies for the recent decentralization and its progress have not been similar throughout the region. Generally speaking, the federalist systems in Argentina, Brazil, Mexico and Venezuela have transferred more functions to the state while the remaining unitary regimes have decentralized directly from the nation to the municipalities. Small countries like Uruguay and Panama tend to decentralize at a slower pace than their larger neighbours, Argentina and Colombia. Some broad correlation between decentralization and effective re-democratization also seems to exist, with Brazil, for example, leading the trend and Fujimori's Peru trailing far behind. In addition, processes such as those in Chile, Mexico or Costa Rica tend to be framed in rather technical terms which stress efficiency and fiscal considerations, whereas the political aspects, such as increasing legitimacy and rebuilding of social pacts, are emphasized in countries like Colombia, Venezuela and Nicaragua (Amaro 1994).

Despite all the national variations, however, there is a striking similarity in the priority given to decentralization by the countries, whether federalist or unitary; large or small; re-democratizing or long democratic; with either a more technical or more political agenda. In any case, recent years have witnessed a significant acceleration in the process regarding its administrative, financial, and/or political aspects so that i) sub-national governments are rapidly becoming the main providers of social services and infrastructure, such as primary and secondary education, health care, regional and local roads, and public utilities; ii) local tax collection, as well as transfers from central to provincial and to local governments are on the raise and over half of public expenditure is already decentralized in Argentina, Brazil and Colombia;[5] and iii) governors, mayors and other state or local authorities are currently elected by direct popular vote in most countries.

1.3 The creed of markets

Until the 1970s, popular descriptions of Latin American economy underlined tight commercial protectionism, excessive government spending, and widespread poverty as the three features characteristic of the region. Liberal economists disliked the first; orthodox despaired over the second; and leftists strongly protested at the third.

To top it all came the debt shock of the 1980s which triggered the worst episode of stagflation and pauperization in the history of Latin America. The 1980s were truly *lost* – the accumulated decline in average *per capita* income amounted to 8.3 per cent; inflation reached the astronomical heights of 2,750 per cent this year in Brazil; 11,800 per cent for another year in Bolivia, and once in Nicaragua even 14,300 per cent. The real earnings of the blue collar workers and peasants plummeted by as much as 25 per cent (UNDP 1991:65-74).

Policy makers and scholars throughout the region as well as the Washington based financial institutions quickly agreed on the need for drastic changes in economic strategy. The package of reforms introduced since has been greeted with understandable enthusiasm by liberals and orthodox alike (no-one cares about the left anymore). Thus

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[5] Comparative data on national-local expenditure for all of Latin America are not available for recent years; the three cases in the text come respectively from World Bank (1994b); Winkler (1993); and author's computation for Colombia.

explains John Williamson, an economist long associated with the IMF, and who is both a staunch liberal and a staunch orthodox:

> A profound movement of policy reform is under way in Latin America. Few countries have undertaken comprehensive reforms and some have undertaken few reforms at all, but a lot more is happening than Latin America is being credited with in the industrial countries. The substance of the reform amounts to emulating the policies of macroeconomic prudence, outward orientation, and domestic liberalization that have so benefited the developed countries and later the East Asian NICs during the post-war era. Latin America, like Eastern Europe, is now attempting the transition from statist authoritarianism to free-market democracy that Spain and Portugal made successfully in the last two decades (Williamson 1990:83).

In fact, each Latin American country – including Cuba with its limited yet meaningful package of reforms – undertook its own programme of economic liberalization over and above the professed political affiliation of the incumbent government. The typical process consisted of two different, yet overlapping and often confused, stages – stabilization and structural adjustment. Most stabilization programmes were introduced during the first half of the 1980s in response to crises such as runaway inflation and external bankruptcy. The IMF-prescribed measures typically included sharp cuts in public spending, modernization of the tax system, devaluation, and elimination of exchange controls. Structural adjustment programmes are of more recent vintage, constitute fairly different subtypes, and have a longer-term plan to eliminate distortions in relative prices across all markets so that overall efficiency and the rate of economic growth are maximized.

Fischer (1990) identified four main objectives in the new economic strategy, i) sound and stable macroeconomic framework; ii) efficient and smaller government; iii) efficient and expanding private sector; and iv) set of better targeted policies to alleviate poverty. Dornsbusch (1991) argued that a comprehensive structural adjustment programme should include seven elements, i) deregulation; ii) privatization; iii) commercial opening; iv) fiscal-monetary stability; v) financial efficiency; vi) a poverty programme; and vii) modernization of the institutional framework to carry it out. Williamson himself offered a more comprehensive and operational breakdown of reforms which may serve to describe what the typical Latin American government has been doing on the economic front these past years – or at least, to describe what it should be doing in order to fully satisfy the 'Washington consensus', meaning the shared wisdom on Latin America by the US government, the IMF and the World Bank. The ten liberal-orthodox commandments read as follows:

i) Reduction of the fiscal deficit, which is the primary source of macroeconomic dislocation, to no more than 1-2 per cent of GDP. This task was by no means easy, as the US itself has so eloquently proven, and it was more difficult still for Latin America where the aggregate government deficit had jumped from an already high 4 per cent of GDP in 1980 to levels between 7 and 8 per cent of

GDP during 1981-87 (ECLAC 1989). Serious fiscal discipline was introduced and by the end of 1994, 13 out of 18 reporting countries registered a fiscal surplus, or a deficit under 2 per cent of GDP. Serious imbalances remained only in Nicaragua, Venezuela, Honduras, Costa Rica, and Bolivia (ECLAC 1994a:fig 1).

ii) Correction of the priorities in government spending to eliminate undiscriminated subsidies, to target social programmes to the truly poorest sector of the population, and to channel public savings to the provision of infrastructure. According to this writer's knowledge, even though no systematic follow-up of the suggestion has been attempted, all Latin American governments have made announcements in that effect, and several countries have undertaken more than a marginal effort to see it come true. The bloody riots in Caracas were a direct response to a decision by Carlos Andrés Pérez to reduce social subsidies; Bolivia has laid-off and ceased to subsidize 28 thousand tin miners since 1985; military expenditure is being reduced in El Salvador and Nicaragua; better targeting of new social programmes is at least being predicated everywhere (Grosh 1990), and the modernization of infrastructure has apparently become more of a priority in terms of budgeting (World Bank 1994a).

iii) Reformation of the tax system to broaden its base and to moderate the marginal tax rate. As of September 1995, Argentina, Bolivia, Chile, Colombia, Costa Rica, El Salvador, Guatemala, Mexico, Nicaragua, Paraguay and Uruguay had followed this suggestion and introduced significant tax reforms, whereas only Brazil and Ecuador have responded with 'scant action', and Venezuela with 'no action' (IMF 1995).

iv) Elimination of negative interest rates in order to increase private savings, to discourage capital flight, and to insure a better allocation of financial resources. By the Washington group's own account, 'interest rates were already primarily market-oriented in six out of ten countries reviewed – Chile, Argentina, Brazil, Mexico, Colombia, and Costa Rica – at the beginning of the decade (1980s). They have since (i.e. up to 1990) been liberated in three more countries' (Williamson 1990:19).

v) Establishment of rate of exchange at a competitive level, so that it will promote the growth of exports and encourage the economy to grow at its supply-side potential. Obediently, 'nine of the ten countries are ending the decade with substantially more competitive exchange rates than what they had before the debt crisis, the exception being Peru' (Williamson 1990:22). Peru, of course, is no longer the exception. However, it must be said that not all liberals were happy at the idea of flexible exchange rates. Jeffrey Sachs (1989), for one, was not in agreement and Washington's original enthusiasm soon waned at the alternative of a fixed nominal rate of exchange as the means to anchor inflation. This had been the typical arrangement in Central America until the 1960s, and re-pioneered by Argentina since 1991.

vi) Liberalization of trade by suppressing quantitative restrictions on imports, reducing tariffs, cutting exports subsidies, and facilitating access to imported intermediate inputs. Chile had set the precedent for this night-to-day reversal of the traditional import-substitution strategy when its military government in 1975 decided to unilaterally eliminate all quantitative restrictions on imports, and to reduce tariffs to a uniform 10 per cent. With some zigzag movement and varying intensity, trade liberalization has since advanced in all other countries. Consequently, total import tariffs in Latin America by mid-1992 averaged 16 per cent (Rajapatirana 1992), down from a full 56 per cent – the world highest – in 1985 (Ezran *et al.* 1989). Furthermore, this commercial opening has been quite rapid. 'Eight of the nine (analysed) countries introduced trade liberalization reforms that could be described as drastic and sudden.[6] In seven of these eight countries, the liberalization of imports was carried out within a period of just two or three years (1989-90 to 1992-93).[7] Argentina implemented the bulk of its liberalization programme in April 1991. In Chile, the process took five and a half years. Although varying in extent, quantitative restrictions in all cases have been dismantled and tariffs have been lowered significantly' (Agosín and Ffrench-Davis 1993:44-5).

vii) Establishment of legislation favouring foreign direct investment to attract fresh capital and state-of-the-art technologies. This emblematic conversion to the new global era was particularly touchy for a region so severely haunted by memories of dealings gone sour with multinationals. Yet, Cuba, starved for exchange, now welcomes foreign investors; Mexico enacted sweepingly liberal legislation to prepare for NAFTA; Bolivia signed an agreement with the Overseas Private Investment Corporation as a guarantee to investors; and Nicaragua has launched an ambitious campaign to court foreign capitalists. If this much is evident in the four countries where anti-imperialism once fuelled major social revolutions, the remaining sixteen Latin American governments have generally eased their treatment of foreign investment. The only restrictions are limited to a percentage ownership in telecommunications and other similarly sensitive industries as well as controls to curb dangerous short-run twists of financial speculation (Edwards 1994; UNCTAD 1994).

viii) Divest the state of as many enterprises and services as can be managed more efficiently by the private sector. Chile was again an early convert to the privatization crusade when the 257 firms and approximately 3,700 farms seized by Allende's socialist government were returned immediately after the 1973 military coup. All other countries, with a few exceptions, have since been engaged in selling state properties. The exceptions include Cuba (where joint ventures are becoming fashionable); the short-lived nationalization of banks by Peru's Allan García, and the forced take-over of bankrupt financial institutions, ranging from Mexico in 1982 to Costa Rica and Venezuela in 1994. Mexico, however, is setting an example for aggressive privatization. Out of 1,155 firms owned by the state in 1982, only 176 remained by the end of 1993. Following the 'tequila crisis', the sales list has been enlarged to include such classic untouchables as the oil industry. Chile has completed its programme to sell over 500 traditional state enterprises; Argentina has received close to US$ 18 billion

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[6] Costa Rica was the exception.

[7] The exception was Chile.

(or about one-fifth of the country's GDP) from sales of state firms, and even Brazil, from the privatization of mainly mining enterprises, is aiming to sell property worth US$ 20 billion or one-fortieth of GDP (ECLAC 1992; Baer 1994).

ix) Deregulation of economic activities to encourage competition and thus promote overall growth. Liberal-orthodox Williamson complains that, 'In Latin America the economic profession, let alone public opinion, has not gelled (cq) on this issue' (1990:31). But here he seems to underestimate the actual extent of deregulation in the key area of financial markets, naturally suspended in times of turmoil, but still remarkable in such countries as Argentina, Colombia, Chile, El Salvador or Mexico (Welch 1993). Less frequent but no less significant have been the overall deregulations of the labour market as in Chile in 1979 and again in 1990; Colombia in 1989, and the sweeping liberalization of the social security systems in Chile, Colombia, Mexico and Peru (IILS 1993).

x) Entrenchment of property rights as a basic prerequisite for efficient operation of the capitalist system. Interestingly enough, this recommendation was included with reluctance and then dropped summarily from the Washington consensus. The spokesperson for the group explained:

> I suppose that I was provoked into adding property rights to the list by an article (Bethell 1989) that derided me as a 'hydraulic economist' (this was presumably intended to be an abusive term for a macro economist) who was indifferent to such legal institutions as private property, which the author was convinced to be at the core of Latin America's problems. Since I did in fact believe the question to be an important one but had little idea of which countries confront a major security-of-property issue, it seemed that adding the issue to my list would be an efficient way to repair my ignorance. In this I turned out to be mistaken.... property rights are already well entrenched and defended with tenacity (Williamson 1990:32-3).

The above remark is interesting because it should not have taken a team of experts to discover that private property rights are already 'defended with tenacity' in Latin America. And it is equally interesting in the fact that it confirms the witticism of 'hydraulic economics'; that is, Washington's superficiality about Latin America. The issue of property rights is not just whether they are secure or insecure but, even more so, of whether their secured structure is one to bring in line the private and the social rates of return so that economic growth is in effect stimulated (e.g. North and Thomas 1973).

1.4 The creed of solidarity

The ideal of Pan-Americanism has been around since the wars against colonial England and Spain. However, Pan-Americanism from its very birth has been interpreted quite differently north and south of the Rio Grande. As early as 1826, Simón Bolívar convened the unsuccessful Anfictionic Congress in Panama to lay the foundation for a

Latin American union capable of counterbalancing the incipient yet noticeable expansionism of the United States. President James Monroe had already in 1823 outlined the doctrine that was to become the mainstay of US policy with regards to the continent, 'We shall consider any attempt on the part of the European powers to extend their system to any portion of this hemisphere as dangerous to our peace and safety' (Goldwin 1975:194). Through a series of corollaries, specially those drawn by President Theodore Roosevelt in 1901-05, the Monroe Doctrine eventually was interpreted to mean 'America for the Americans' (pun intended) with Latin America as the 'backyard' or, more politely, as the exclusive sphere of influence for the United States.

Latin and Saxon versions of Pan-Americanism have coexisted somehow for two centuries, with the United States normally suspicious of Latin Americanism and each Latin American country torn between the opposed foreign policy principles of *respice similia* (look towards your similars) and *respice polum* (look towards the north). Hence, what seems unique to and highly encouraging about the geopolitics of the 1990s is the simultaneous revival of both brands of Pan-Americanism, which liberal observers north and south of the Rio Grande now consider complementary instead of contradictory.

1.4.1 Latin-Americanism: in search of economic integration

In the initial calls for economic integration of Latin America, both an anti-imperialist flavour and an industrial protectionistic bias were evident. Thus, in one of his original statements, ECLAC's highly influential Raúl Prebisch asserted rather explicitly:

> I do not see any fundamental solution to the problem of economic vulnerability of the Latin American countries and to the high cost of the substitution process other than breaking out of this outmoded system through the gradual and progressive formation of a common market and the consequent diversification of imports and exports (ECLAC 1959:12).

In fact, fairly severe regulations on the multinational firms and emphasis on joint industrial planning were characteristic of the first integration treaties signed in the region; namely, in 1960, the nominal Latin American Free Trade Association among the ten largest economies of the area; also in 1960, the initially very active Central American Common Market (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua); and in 1969, the fairly operative Andean Pact (Bolivia, Colombia, Ecuador, Peru, Venezuela, and Chile) which lasted until 1976.

The Central American and Andean agreements, merely existing throughout the 1970s and early 1980s, have been reactivated during the more liberal philosophy of the 1990s. In addition, a series of bilateral and multilateral arrangements has been recently enacted throughout Latin America, several of which stand to achieve – or are achieving already – major economic significance. Mercosur, signed in 1991, united the markets of Brazil, Argentina, Uruguay and Paraguay, thus covering 46 per cent of the Latin American population, 49 per cent of the region's GDP, and a total world trade value of US$ 102 billion in 1994 (*Latin American Weekly Report* 1995). Other important treaties are the Mexico-Chile Agreement of 1991, the Group of 3 (Mexico, Colombia and Venezuela) from January 1995 onwards, and the Mexican-Central American integration scheduled for 1996. Most of the new agreements, however, simply aim for a free trade area (i.e. trade liberalized among members but each country maintaining its own restrictions against outsiders). On the other hand, the Andean Pact recently became a customs union (i.e. free trade plus common external barriers to outsiders) and only Mercosur, about to become a customs union, strives for a common market (i.e. customs union plus free movement of production factors).

Assessing the actual impact of integration treaties on international trade is a task full with methodological quandaries, especially as these agreements are only a few years old. However, statistical evidence suggests a long-run trend towards the increased interdependence among Latin American economies, helped by the treaties of integration. Hence, trade among the Mercosur countries had by 1990 already amounted to 15 per cent of their combined imports, and the figures for the Andean Pact and the Central American Common Market stood at around 7 and 10 per cent respectively (Fuentes 1991). More to the point, trade among the eleven largest economies in the region has grown over 25 per cent each year after 1990 (UN 1994:77), and 48 per cent of all manufactures imported are already produced in Latin America, up from a mere 20 per cent in 1965 (Braga *et al.* 1994). Still, the flow of country-to-country trade typically fluctuates considerably in response to short-term variations in the exchange rate, and instability is compounded by the almost total lack of coordination of macroeconomic policies (Schwidrowski 1991). In addition, the level of common external tariffs has proven to be a very contentious issue because high tariffs could tilt the pact toward an enlarged market for import substitution (e.g., Brazil's preference), while low common tariffs would be more in the spirit of unrestricted liberalism and export-led growth. This is Chile's attitude and is the reason for its withdrawal from the Andean Pact and for declining the invitation to join Mercosur.

1.4.2 Latin America and the United States: a new partnership

The anti-imperialistic trend in treaties for the economic integration of Latin America has disappeared in recent years, similarly as has happened with the industrial protectionism bias. As a matter of fact, one pet argument to push for 'mini-lateral' or sub-regional integration nowadays is to introduce each pact as a step towards closer partnership with the United States, the most sough-after commercial union in the western hemisphere.

In 1991, President Bush's announcement of the Enterprise for the Americas Initiative fuelled expectations for a continent-wide economic association which would match the size and, eventually, the benefits of the European Union. With the creation of NAFTA and Mexico's graduation to OECD status, almost all other Latin American countries are queuing for admission. Chile has already been invited to join by 1996 and, by all appearances, Argentina is biding to follow suit. These aspirations were sanctioned at the Summit of the Americas held in December 1994 in the formal commitment to establish a free trade zone from Anchorage to Tierra del Fuego no later than 2005.

There is no mystery about Latin Americans' enthusiasm for guaranteed entrance to the markets of the US. First, the US market alone accounts for almost one-third of all exports from (and imports to) the region, even though national values range from approximately 70 per cent in the case of Mexico to a reduced 5-10 per cent in Paraguay and Uruguay (ECLAC 1990). Second, the United States represents a strategic market for the longer-term growth of Latin America. As long as the region's economic ties with Japan remain undersized (Purcell and Immerman 1993) and its exports to Europe consist mostly of food, raw materials and semi-manufactures, the United States is a large buyer of both labour-intensive and technologically complex products from Latin America (Inotai 1994). Third, and more important, there is considerable need to curb the risk of unilateral interruption of exports since the United States, even after the Uruguay Round, is well known for its tendency to impose restrictions on imports, including those from its southern neighbours. Hence, at the end of the 1980s, steep non-tariff barriers were applied to 19 per cent of all South American exports. At that time, most exports from Central America were protected by the Caribbean Basin Initiative, a system of preferential access launched in the wake of armed conflicts in the area. Countries like pre-NAFTA Mexico, Argentina, Brazil, and Colombia were hardest hit by these restrictions which particularly affected the garments industries, iron and steel, and agricultural raw materials (Fuentes 1991). All in all, therefore, Fritsch's observation that interest to join NAFTA is higher among those Latin American countries which are heavily dependent on the US market and which have a higher degree of commercial openness seems well-founded (Fritsch 1992).

There is, however, another powerful reason to seek closer economic liaison with the United States. As James Galbraith wrote with insight back in 1993:

> In August 1982, Mexico's Finance Minister called Washington with a message: Paul Volcker's interest rates and their consequences have virtually bankrupted his country. He was met, at Donal Regan's Treasury Department, with indifference and incompetence, followed by an humiliating and stingy policy that did not prevent the collapse of the peso and hyperinflation. There followed five years of economic depression, with a drop in Mexico's real wages and living standards that rivalled our Great Depression of the 1930s. To avoid a repeat of this disaster is a paramount goal of Mexican policy, and the chief subtext behind Mexico's push for NAFTA. The Mexicans reasonably believe that they will get better treatment with the agreement, that they will be viewed as 'too big' by any US administration that commits its political prestige to the ratification of NAFTA.... This is, perhaps, the.... most important (advantage) Mexico wants from NAFTA (1993:30-31).

The contrast in American response to the Mexican crisis of 1995, carbon-copied from the events of 1982, may thus be the single most eloquent expression of the new geopolitical situation in the western hemisphere. For the first time in two centuries of close interaction – often too close – a Latin American country has proven to be too big for the United States not to bail out, and solidarity has finally found an anchor in self-interest.

II WHY THE CHANGES?

2.1 Some popular explanations

As outlined in section I, the best of times for Latin America is a combination of no more military regimes or political guerrillas, modernized, participant and decentralized governments, sound macroeconomic management, open free market economies, regional commercial integration, and a cooperative partnership with the United States. Understandably, this scenario has so far received more fame than academic analysis and some of the new protagonists and observers have advanced a variety of reasons for the encouraging change. However, the hypothesis may not necessarily refer to the same countries, the same years, or the same specific trend. Broadly speaking, the main interpretations concentrate either on the process of political re-democratization or on the conversion of Latin America to market economics.

2.1.1 The revival of democracy

Explanations for the demise of military regimes throughout Latin America range from such abstracts as re-democratization in that region being merely one dimension of global 'end of history' process (Fukuyama 1992) to specificities like the negotiating skills of civilian leaders, as demonstrated, say, by Chileans (Constable and Valenzuela 1989) or Uruguayans (Gillespie 1986).

More systematic studies of re-democratization, however, shared three basic conclusions, although no author would necessarily subscribe to them all. First, the military take-overs in the 1960s and 1970s were different from previous waves of militarism in the fact that the president-generals were not simply patrimonialistic predators or temporary caretakers to oversee the restoration of order. Instead, they were committed to far-reaching transformations of their national societies. Second, these governments evolved into a peculiar type of political regime, dubbed early on as the 'bureaucratic authoritarian' model (O'Donell 1973). Third, bureaucratic authoritarianism eventually collapsed because, instead of materializing its social project, it led to a severe financial-economic crisis and/or to the backfiring exclusion of growing sectors and forces from the political arena (e.g. Malloy 1987).

Admittedly, the explanation simplified above has some serious shortcomings. Obviously, it overlooks the long-lasting democracies in Costa Rica, Colombia, or Venezuela, not to mention the stable, if more debatable, 'democracies' of Mexico and Dominican Republic. In retrospect, the bureaucratic-authoritarian model was more characteristic of military regimes in the Southern Cone and, in particular, in Argentina and Brazil than in Bolivia, Ecuador or Peru (excluding Central American dictatorships which the model was not even meant to fit). However, the financial crisis was not confined just to countries with military regimes. Mexico, Venezuela and Costa Rica were apparently as mismanaged and certainly as indebted by the end of the period as the countries ruled by military regimes. On the other hand, the long or short-lived democracies in Latin America have not been exactly successful in incorporating major social forces. As a matter of fact, according to the best established interpretation (Nunn 1967), the unrestlessness of the excluded social groups was precisely the cause for the traditional military coups throughout the region.

Therefore, in comparison to previous waves, it seems safe to characterize Latin America's last surge of militarization-demilitarization as a matter of degree rather than of clear-cut differences. No doubt the military regimes of the 1960-80s often were highly repressive, driven by ideology, and remarkably keen on method and organization, but these descriptions do not apply equally well to all countries, nor are they equally unprecedented in regional history. Once again ignoring the stable democracies, comprehensive overviews of re-democratization during the 1980s typically pointed to militarism as a cyclical feature of Latin America and consequently ended on the pessimistic note that the recently re-emerging democracies were deemed too feeble to survive in the face of unsolved social cleavages.

The grim prospects for civilian governments were mitigated only by such wishful reasons as the 'prestige and importance of the emergent democracy-oriented discourses' (O'Donell 1986:16), or as the existence of a per capita income already beyond an alleged 'economic threshold' for political democracy (Seligson 1987:8). But it should be noted that most of the literature on Latin American re-democratization predates both the current mood of general optimism and events as relevant for democracy as the end of the cold war.

2.1.2 The revival of markets

Even though literature on the conversion of Latin America to market economics is more up-to-date than material dealing with political re-democratization, it lacks in system and in mid-run perspective. Literature consists of insights rather than hypothesis and is meant to be neither comprehensive in terms of countries and trends, nor exclusive in terms of alternative explanations. Hence, most authors present their views as a matter of emphasis, and are more willing to accept a combination of factors rather than single out a 'reason' for the shift to market-oriented economic policies. Some observers tend to stress the role of 'ideas' while others underscore the role of 'structures'.

A lively illustration of the 'ideational' viewpoint is offered by an earlier quotation from John Williamson to the effect that Latin America is presently following the footsteps of the industrial countries and the East Asian 'tigers' by adapting their combination of 'macroeconomic prudence, outward orientation and domestic liberalization'. The current influence of an articulate and internationally supported neoliberal movement on Latin America's recent economic policies is beyond dispute. But it is a far cry from here to combining together macroeconomic orthodoxy, export-led growth and microeconomic liberalism – facts which may or may not go together. It is an even bigger leap to making that combination the unfailing formula for economic success, let alone to assert that it was embraced with equal enthusiasm by all the industrial countries, and by the Asian tigers as well. Equally far-fetched is the assimilation of Latin America to Eastern Europe, and both to Spain and Portugal in their supposedly common transition from 'statist authoritarianism to free-market democracy'. Even if it somehow points to a basically sound explanation, such encyclopaedic confusion in both the realms of theory and history sheds light on the serious ideological vent in liberal-orthodox economic thinking – ideologies are prone to sweeping simplifications.

Closely related to global liberalism, the role of young liberal technocrats in redirecting the economies of Latin America is often focused on. Popular, of course, among technocrat-writers, this view has been convincingly documented in the case of Chile. The 'Chicago boys' during the time of Pinochet and the 'Monks of Cieplan', an influential research centre in the time of Aylwin and Frei, have been highly visible and influential (Silva 1991). Colombia has a decades-old tradition of reserving key policy-making positions for economists with top qualifications which is one reason why populism has not been practised in that country (Urrutia 1991). The reforms in Mexico were introduced by US trained economists under the De la Madrid government, and up-graded by technocrats Salinas and Zedillo when they themselves became presidents (Ten Kate 1992). But, technical know-how, however important, does not imply automatic success, as was illustrated by the superb team of Argentinean technocrats working for President Alfonsín, or by their peers in charge of economic policy under the Brazilian military. More to the point, the availability of technical expertise is a necessity rather than an adequate condition for effective liberal reforms. A willing government may recruit qualified liberal technocrats, while an unwilling government may recruit qualified non-liberals or, as the case may be, unqualified liberals.

There is, however, one group of qualified liberal technocrats who do not need to be recruited by any Latin American government – the economists with the IMF, the World Bank, the Inter-American Bank and other institutions shaping and sharing the Washington perspective. Indeed, the pressure from Washington is considered to be one of the key factors in converting Latin American policy makers to economic liberalism. These are the only institutions able to combine a truly regional reach, a shared catalogue of prescriptions (the 'Washington consensus'), and the effective leverage on all countries except Cuba by utter exclusion. The above coincidences between the Washington decalogue and the actual reforms enacted throughout the region speak sufficiently on this point.

None the less, a review of Washington's influence on Latin American economic policy making is in order. First and foremost, it is largely the country's own record of economic performance that dictates the need to invite assistance from Washington. The contrast between debt-ridden Latin America and debt-free Asian NICs during the early 1980s is a vital illustration of this fact (and that, not to withstand the often large responsibility of Washington over the pre-crisis record of Latin America). Second, the conditioning powers of financial institutions are at their peak during intense crisis and tend to decrease as economic conditions improve. Therefore, it would appear that Washington suggestions carried more weight during the stabilization phase than during subsequent stages of structural adjustment and a large influx of private capital to Latin

America during the 1990s would have reduced the need for support from multilateral agencies, and consequently their power. Third, the process of full-fledged liberal reforms was already underway in Chile years before the debt crisis, presumably without crucial influence or pressure from Washington (this exception will be reconsidered later).

Turning to the structuralist perspective, Latin America, according to the most popular hypothesis, introduced market-oriented reforms simply because statism could no longer be sustained; that is, the strategy of import substitution had reached the point of exhaustion. This is a complex, multi-sided and controversial proposition with a number of solid facts in theory and empirical evidence but perhaps also with some weak spots in both aspects.

Protected import substitution was arguably a temporary, even a self-defeating, strategy for sustained economic growth. Two main factors in economic theory support this thesis. First, the domestic market is too limited for economies of scale to operate in full; and second, protectionism necessarily distorts the price system, thus sacrificing long-term efficiency and continued gains in productivity (a fact pointed out by Little *et al.* 1970). Empirical evidence, in turn, tends to confirm that import substitution in Latin America was indeed associated with excessive domestic prices, over-capacity in several industries, discrimination against agriculture and exports, labour market dualism, fiscal deficits, low saving rates, and slower technological innovation (e.g. Cardoso and Helwege 1992).

The question at hand, however, is not about the substantive merits of import substitution in theory or in practice, both of which can emphatically be argued for. It is about the exhaustion of strategy in Latin America and the subsequent shift to an export promotion model. 'Exhaustion' is a relative term and a gradual process, hence unlikely to be the explanation for the drastic and simultaneous change in policy by some twenty, different-sized countries at different stages of advancement along the lines of the old strategy. On the other hand, import substitution and export promotion are not necessarily opposite, and can be reconciled in theory (e.g. Bradford 1990) as well as in practice. For example, Brazil, Mexico, Argentina and Colombia have long had active export promotion policies. More fundamental still, state interventionism can be used to push exports just as it can be used to stop imports (Japan's MITI is an egregious example of the former), so that renouncing import substitution simply did not imply renouncing *dirigisme*.

The debt issue provides a more plausible explanation for Latin America's recent reversal to open free market economics. Briefly stated, a change overnight in the early 1980s from the position of a net capital importer to a mass capital exporter forced Latin America to steep increases in foreign earnings and sharp reductions in public spending. The first led to export promotion, i.e. 'openness' in the new economic policy while the second requirement was conductive to diminishing the size of the state, i.e. the 'free market' dimension of reforms.

Interestingly, the debt crisis basically hit the Latin American countries almost simultaneously, and had everywhere a deleterious impact on the balance of payments and public finances. In response, almost all countries managed significant increases in exports during the second half of the 1980s, almost all managed to cut state-funded activities and all professed to the creed – or at least to the rhetoric – of openness and free markets.

In some countries, as in Brazil, the debt weighted more than in others, as for example, in Colombia. Some countries, like Peru, failed to adjust during the decade and incurred the overcost. Venezuela was unique in the fact that oil-price declines of the 1980s, rather than indebtedness, finally imposed the delayed and incomplete adjustment of the 1990s. As already discussed, commercial and fiscal reforms were not always introduced or were not equally drastic in all countries. And to repeat, Chile had already been on the path of liberalism since the 1970s. Thus, the common denominator was the shortage of foreign exchange and severe fiscal deficit, both debt-induced, followed by open-liberal reforms. Such commonalty strongly suggests that the latter was triggered by the former.

2.1.3 Democracy-cum-markets

The typically partial explanations on emerging Latin America are underlined by the fairly common belief that democracy and markets *exclude* each other, and that liberal economics and political democracy are not compatible, i.e. that democracies tend to resist market-oriented reforms instead of encouraging them so that a 'cruel choice exists between development and democracy' (Kohli 1986:156).

The preceding dilemma is believed to originate from political theory and to be corroborated by economic history, to wit: only an authoritarian regime is in a position to isolate itself from particularistic demands in order to insure the impersonal workings of the market; and rapid economic success has followed authoritarianism in countries ranging from Germany, Japan or Spain, to Singapore, Korea, Taiwan, Chile or South Africa. Without resorting to such high-sounding generalizations, according to a more mundane version of the authoritarian argument, stabilization and adjustment are just too unpopular for an elected government to swallow (Malloy 1991).

With regard to a softer variety of the pro-authoritarian argument, it has been aptly replied that results from non-adjustment would be even less popular. Daily life with inflation amounting to three digits is so disruptive and insecure that eventually voters treasure stability above all (Kojman 1994). This is fully borne out by the preference of the Bolivians for familiar orthodox over familiar populists in every election since 1985. It is evident in the victory of orthodox Fernando Cardoso over populist Lull da Silva in Brazil, and in the surprising popularity of orthodox presidents elected as populist candidates and who were re-elected on their success at stabilizing the economy as in the case of Peru's Fujimori and Argentina's Menem.

There is no shortage of answers to the high-sounding variety of pro-authoritarianism. On the one hand, democracies can often exhibit remarkable economic achievements and are inherently endowed with features conductive to economic growth, particularly with regards to information and self-correction, incentives, legitimacy, and stability (Maravall 1994). Dictatorships, on the other hand, have meant undisputed economic disaster in countries ranging from Zaire, Uganda and Zambia to Burma and the Philippines and, of course, to Haiti, Nicaragua, Peru, Argentina or Brazil (not to mention the catastrophe of Stalinism in Eastern Europe).

Furthermore, there is a striking naiveté about the authoritarian argument in its assumption of an isolated and impartial dictator. Granted, the classical theory of political liberalism conceives the state as a mediating, hence impartial, actor among individuals and social groups. Such neutrality, however, results precisely from the absence of insulation, i.e. from the fact that all parties are represented in and consent to the political 'contract' underlying the state. Consequently, impartial and impersonal government can only result by widening its representation to all citizens and sectors of society. Only by a most extraordinary coincidence could an isolated dictator, i.e. totally unrepresentative, turn out to be impartial or impersonal in his decisions.

The last point hardly deserves mentioning except for the fact that neoliberal economists regularly ignore or minimize the class supports and the distributional impacts of reforms advocated by them. Like ideologues of any conviction, neoliberals are quick to denounce the undue beneficiaries of the prevailing economic policies, but refuse to see themselves as champions of the equally 'selfish' interests of emerging social groups. Hence, neoliberal literature has cogently argued how interventionism feeds a parasitic society of 'rent-seekers' (e.g. Krueger 1974). Literature has long (e.g. Diaz-Alejandro 1970) recorded evidence of the grave distortions caused by protectionism and import substitution in Latin America favouring industrial monopolists, unionized workers, and bureaucrats, but to the disadvantage of exporters, agriculturists and consumers. And it has rightly pointed to economic populism as demagoguery in countries where the majority – consisting of the poor – stands to lose nothing from radical experiments (e.g. Sachs 1989a). Yet, when it comes to market reforms, neoliberals typically ignore their immediate impact on income distribution, and engage in abstract considerations of long-run general equilibrium according to which all citizens will eventually benefit from improved efficiency.

Largely unadvertised by liberal-orthodox economists, there are still sizeable and/or powerful social groups in Latin America standing to make windfall profits and lasting gains from their countries' conversion to open free market economics. Although not explicitly mentioned by Washington economists, it is, however, easy to identify the group of concrete and immediate beneficiaries from each of the ten reforms suggested by the 'consensus', namely:

i) Taxpayers, particularly those in high-income brackets, are more likely to gain from fiscal discipline and tax reform, especially since indirect rather than direct taxation is increased;

ii) The poorest sectors of the population might finally receive subsidies from governments if social programmes are indeed targeted and if overall social spending is not actually reduced – two conditions that have so far for the most part failed to materialize in Latin America (e.g. Lustig 1995);

iii) Constructors and providers of infrastructure may likewise enjoy a larger share of public expenditures if government priorities are re-established to reflect the advice from Washington;

iv) Families or firms with higher propensity to save and financial intermediaries stand to gain from higher real interest rates and from deregulation in this market;

v) The circumstances of investors and workers in export activities, traditional or otherwise, improve with flexible exchange rates;

vi) Importers and consumers, specially the most affluent, are likely to benefit most from cheaper imports due to trade liberalization and from a fixed exchange rate;

vii) Multinationals and owners of foreign capital should find the new rules concerning foreign investment to their advantage;

viii) Buyers of the newly privatized firms are likely to strike good deals;

ix) Deregulation tends to be of special advantage to those better endowed to compete in an open market, while

x) Entrenchment of property rights is more useful, of course, for those in possession of valuable properties.

Give or take a few, the neoliberal economic package thus has an overall tilt towards an improvement in society. Further, within each major stratum, neoliberalism reflects the interests of the subgroups more closely linked to the international economic circuit – the capitalists investing in multinational corporations or in the global flows of goods, information and finance; educated cadres of the middle class in high-tech activities linked to global networks; consumers of imported goods; and workers or agriculturists supplying overseas demand rather than domestic needs.

Together the above groups constitute a 'social' bloc or a coalition powerful enough to successfully push for and defend a package of neoliberal reforms. Even though relevant evidence apparently has not been compiled, it would seem that the relative size and strength of this social coalition *vis-à-vis* the 'traditional' bloc of industrialists, unions and bureaucrats goes a long way in explaining the different advance of economic liberalization among Latin American countries. Thus, on the surface, the traditional bloc is already much weaker in Chile, Argentina and Uruguay than in Brazil or Venezuela; the two blocs are roughly equal in Colombia and Ecuador, whereas Mexico is calling on PRI authoritarianism (like Peru on Fujimori's) to break the tie in favour of the pro-liberalization bloc.

2.2 A comprehensive hypothesis

A composite of the reasons for Latin America's recent embrace of the creeds of democracy, market and hemispheric solidarity can now be drawn. The broad outline to emerge is in accordance with the view of Latin American history as initiated from outside but lived from within, i.e. major changes in the world-system create the conditions for and set in motion similar processes of economic, social and political recomposition throughout the countries of the region. Each process, however, is appropriated by domestic actors and therefore moulded differently according to the prevailing situation in each nation.

There are, in fact, two reasons to assume that trends shared by all or by most of the Latin American countries are essentially due to pressures, either beneficial or harmful, from the world-system, and almost invariably originating in the United States. First, Latin America has been and still remains too marginal in the world-system to be an autonomous epicentre of history. In particular, as the famed Porfirio Díaz was reportedly fond of complaining, 'Poor Mexico! So far from God and so close to the United States'. Canada's Prime Minister Pierre Trudeau preferred a marginally milder version, 'Living close to the US is like sharing your bed with an elephant'. And second, the twenty countries of Latin America are simply too diverse in relations, knowledge and mutual concern to search for explanations for the generalized trends at the intraregional level. This is true in spite of a common language, a common cultural heritage, a growing commercial interdependence, and the many bilateral frontiers.

Yet, there are two equally good reasons for national diversity and for relative autonomy. As Mr Reagan put it, Latin America consists of twenty 'individual countries' that have large, complex societies modern enough to contradict at least half of the picture conventionally rendered by the standard imperialism *dependencia* or world-system type of explanations.

Two recent developments in the global order must be singled out in the attempt to explain the current transformation in the political, economic and geopolitical standing of Latin America: the end of the cold war, and the changing direction of international capital flows. The first fact looms specially large in the new relationship between Latin America and the United States, as well as in the reasserting of electoral democracy and the achievement of domestic political peace; in turn, the debt related outflow of capital during the 1980s and the reverse mass inflow of foreign funds during the 1990s are important factors in explaining the shift in economic policy and also, albeit less directly, the modernization of governments and the move towards commercial integration of the region.

The impacts of both post-cold war geopolitics and global flows of capital are mediated and transformed by the given 'correlation' of social forces existing within each national society so that transits to the new creeds of democracy, market and solidarity display different paths, different paces and different contents in each of the twenty countries of Latin America.

2.2.1 Explaining democracy

The preceding sketch appears to hold reasonably well in relation to recent political changes in Latin America. To begin with, the creed of democracy was, of course, not born in the region; nor is it a recent discovery for Latin America. Overshadowed perhaps by a more potent interest in military regimes, the simple fact remains that:

> .... we are not dealing with exotic countries which have adopted European models alien to them. These are countries which belong in their own right – at least in terms of their elites' origins and culture – within a European cultural area. Countries which were among the first within this cultural area to set up modern political regimes and which, since their independence in the early nineteenth century, have adopted national sovereignty as their legitimising principle and the representative republic as their form of government (Guerra 1994:1).

Hence, dictatorships have been considered illegitimate all along by the majority of Latin Americans, and, at most, are considered by some as necessary intermissions to restore order or to reset the course of the nation. Besides, authoritarianism in Latin America has almost entirely been lacking anti-democratic ideologies to match the socio-political reach of Europe's Fascism, Nazism, and Stalinism.

In addition to running against the firmly established creed of democracy, military regimes in Latin America are the exception, not the rule. It appears that there is indeed a cyclical pattern to politics in many (but not in all) countries of the region, with a relatively long period of democracy followed by a relatively short phase of militarism. Against a structural background of widespread poverty and sharp inequalities, each phase seemingly feeds on the failure of its predecessor to solve social deprivation or to negotiate political confrontation. Civilian and military regimes function as long as they can manage some measure of economic growth, but democracy still has the advantage of being able to better accommodate and negotiate social pressures, hence the longer duration of this phase.

By a similar token, the military phase would not develop at all in countries where democracy has been responsible for bringing about a more sustained economic growth[8] and, secondly, where a wide encompassing pact exists to negotiate political unrest, either among the elites,[9] or inclusive of grassroots organizations.[10]

The acute intensification of social polarity and political confrontation under a civilian government would thus provide 'sufficient grounds' for a successful military coup in Latin America. Sheer economic failure and backfiring exclusion of social forces would likewise be sufficient for the downfall of military regimes, including the most recent episodes of bureaucratic authoritarianism and its dismissal.

The obvious question to emerge in the present context is whether the militaristic phase will eventually be repeated. As stated before, observers at the end of the 1980s

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[8] Colombia, Costa Rica, Mexico and Venezuela could be considered good examples.
[9] As in the case of Colombia and Venezuela.
[10] As in Costa Rica and Mexico.

were pessimistic and did not envisage much economic growth or social improvement. *Contrario sensu*, a neoliberal could reason that the recent turn to optimism reflects the generalized recognition that reforms have already insured sustained economic growth, and even perhaps the deactivation of social inequality and of political unrest below the threshold of endangering civilian stability. But one such 'neoliberal' hypothesis about the elimination of sufficient grounds for military coups would seem rather roundabout; it would certainly be open to question and would not exclude, at any rate, a more obvious explanation in terms of sufficient grounds, so to speak.

Simply stated, military coups in Latin America may develop from domestic socio-economic confrontations, but they cannot succeed or survive in a global order where cold war no longer exists. These days, the menace of communism within the national scene is too flimsy to motivate even the classic coalition of landowners, monopolists and generals into staging a successful right-wing coup. The illusion of socialism, on the other hand, is at present too weak to stir the classic counter-coalition of colonels, sociologists, and students into an effective populist coup. At the international level, generals and colonels can leave their barracks but will hardly be able to achieve a government seat without official recognition from the United States (or a helping hand from the USSR, as the argument would run); nor are *de facto* regimes likely to last long without some degree of American (Soviet) support. Yet, unchallenged by the Soviet Union, and ignoring economic 'nationalizations' or related aspects, there are no further reasons of national security for the US to inspire, encourage or even tolerate military dictatorships in Latin America (neither does the USSR worry about anything any more).

The recent deactivation of political guerrillas may reasonably be interpreted as a mirror image of the above process. There were, of course, striking realities of poverty, inequality, and corruption throughout Latin America to nourish political radicalism during the 'heroic' 1960s and 1970s but these did not disappear in the 1980s to the extent to justify the appalling silence of the 1990s of the Latin American left – on the contrary, poverty, if anything, increased. Unable to distinguish Russia from Latin America, and Stalinism from socialism, many self-proclaimed leftist intellectuals became ardent neoliberals overnight, or just quietly abandoned their celebrated 'option for the poor'. Despite the highly publicized attempt after the cold war to articulate an agenda for the Latin American socialist left, nothing is worth the blood guerrillas continue to shed, nor to make any real difference between socialism and old 'social liberalism' (Castañeda 1993). As a matter of fact, the left-wing blueprint compiled by Castañeda consists of such classics as perfecting electoral democracy, ensuring respect for human rights, and taming the free market with social institutions borrowed from Japan or Europe. All in all, the silence and confusion of the socialists in Latin America today speak of a final irony – it is as if they wanted to confirm the notion of the far-right according to which leftist radicalism was not inspired by prevailing injustices but by a Russian plot to thwart the national security of these countries (rather visibly in this case, an euphemism for the national security of the United States).

But then, the mute Latin American left, silenced by the fall of the Russian Empire, does not automatically prove correct the right wingers' theory of a conspiracy.

At least two other realities stand to contradict such a simplistic explanation: the obvious existence of inter-country variations when it comes to guerrillas, and the self-fulfilling ingredient in that conspirational theory.

The self-fulfilling component in the Soviet conspiracy theory was abundantly clear in Central America, where the Cuban-American and the Republican right in the United States polarized and escalated the conflicts well beyond any measure of actual Russian-Cuban support for *Sandinismo* or FMLN. This was especially true in Nicaragua, where the only actual conspiracy and threat to 'national security' were those to come from the US-staged *Contra* attacks against a very popular regime (Palomares 1993).

As for the variety of national situations, it is apparent in the different sensitivity of guerrillas to the end of the cold war. In general, the link between socialists and Russia (or Stalinism) proved too strong for the guerrillas to be able to retain a clear commitment to the socialist revolution once the USSR had collapsed (and bearing in mind that China after 1978 had gone the way of its own 'socialist market'). This ideological fading – i.e. the inability to keep their political orientation separate from their social orientation – is enough to make any present-day guerrilla in Latin America act much like an army desperately searching for a cause. The growing confusion of Mexico's *Subcomandante* Marcos is but one publicized illustration of the general trend.

Once again, however, the impact of global trends was not the same for all countries. Armed conflicts in El Salvador and Nicaragua were more intensely linked to the East-West divide than those in Chiapas, Peru, Guatemala, and FARC-ELN-EPL in Colombia. Thus, while ending war in Central America was essentially a global epilogue to ending the cold war (Karl 1992), the more resilient conflicts apparently require effective social reform at the national level, or to be more precise, at the local level. In Southern Mexico, Guatemala, and Peru, guerrillas thrive mostly on localized conflicts associated with specific Indian and land tenure issues. In Colombia, the long lasting turmoil of opening agricultural frontier has much to do with the continued guerrilla activities.

The 'reinvention of government' was not original to Latin America. Caught between huge military spending and slackening productivity, Presidents Reagan and Bush, under supply side considerations, consented to the tax revolt, and at the same time sought to improve the efficiency of public management, reduce welfare costs, and transfer as much responsibilities as possible from the central to the local levels of government (Osborne and Gaebler 1993). The worldwide race for productivity intensified with the 'discovery' of Japan and Germany after the Soviet Union had disintegrated. Macroeconomic disturbances became even more transnational in reach and more countries joined the move towards reinventing government.

Latin America was no exception to that global trend. Prompted in particular by the swelling bite of debt servicing in fiscal revenues during the early 1980s, and ushered by the Washington circle, most countries in the region undertook programmes of institutional reform with emphasis on privatization, strengthening of civil society, and transferring responsibilities to the local levels as a means to 'decentralize the deficit itself' (Imai 1992:448). But the contents and pace of institutional reforms reflect large national variations according to the relative influence of each social bloc, the balance of power between a typically pro-reform president and a typically lukewarm congress (Bresser *et al.* 1993), the prevailing party system (Haggard and Kaufman 1994) and, naturally, the pre-existing situation in regards to government organization and decentralization (Amaro 1994).

2.2.2 *Explaining markets*

The same global trends adapted to the peculiarities of each country seem to underlie Latin America's recent conversion to market economics. As already stated, the debt crisis of the 1980s seems to be the single most important structural force behind the conversion to economic liberalism, just as the related Washington impact appears to be the single most important 'ideological' influence on economic thinking.

Of course, debt and the subsequent suggestions from Washington were not the only factors behind the conversion to the creed of markets. Had it been the case, the shift to commercial openness and internal neoliberalism would had been unique to the highly indebted countries instead of being the worldwide trend it obviously was. Pressure from an increasingly keen international competition has loomed large in the worldwide move towards export-led growth and dismantling of costly state activism (Gómez 1995). In the particular case of Latin America, strong external pressure took the specific form of indebtedness. Thus, economic liberalism in Latin America would constitute more of a passive copy-type strategy rather than an active purposive option and, of course, such a characteristic would significantly influence the future.

In order not to misrepresent the case for debt as the key determinant of the emerging economic creed, the hypothesis needs four major qualifications:

i) First, the argument cannot be generalized without recognizing that it was not *only* the indebted countries and certainly not *all* indebted countries in the world that turned to the liberal path. In addition, since both the debt crisis and liberal reform are issues of dimension and of degree, there is no clear cut basis to establish either kind of conditionality. With these restrictions, the debt hypothesis is basically true for Latin America in the 1980s, with Chile and Venezuela as deviations. With an active purposive strategy, Chile is a unique case of neoliberalism in Latin America with fully fledged counter-revolution to erase the previous deeds of 'socialism' under President Allende. Nicaragua is undergoing a negotiated return to pure capitalism. As it turns out, Chile is also the showcase example of neoliberalism in Latin America. On the other hand, oil rich Venezuela, having accumulated too much statist surplus, had a much longer road to neoliberalism, and the conversion has been utterly insufficient and especially painful.

ii) The debt hypothesis could entail a fallacy *post hoc ergo propter hoc;* that is, reforms evolving after the crisis do not necessarily imply that they were motivated by the crisis. The causal link is, however, abundantly clear, at least in as far as the first stage of economic reform was concerned. Debt repayment induced serious pressures on the foreign trade account and government finances, hence imposing the need for typically drastic stabilization efforts. The structural adjustment phase is less clearly related to the debt issue and yet, this relationship is dependent on three complementary specifications:

- at a minimum, adjustment cannot proceed without the preamble of stabilization, hence adjustment followed indirectly from the debt crisis;
- at a maximum, it can be argued that each specific reform in the adjustment phase copes in the longer-term perspective only with either the balance of payments or the fiscal issue;
- and somewhere between the minimum and maximum, it is also likely that the stabilization effort paved the way for the long overdue structural pressures to liberalize the economy, and provided the political momentum to a generation of card-carrying liberal technocrats, backed by the social coalition identified above.

iii) The debt hypothesis does not imply that reform or any of its dimensions are limited in their effects to solve either the debt, the balance of payments, or the fiscal situation, plainly because the cause of 'x' has little to do with the effects of 'x'. In fact, new economic policies are likely to have a wide and long lasting range of consequences – both intended and unintended – on the economic and social structures inherited from import substitution.

iv) Finally, the debt-Washington hypothesis does not imply whether market economic theory or its particular applications in Latin America are sound or unsound. Economists, after all, have been known to be right for the wrong reasons and to be also wrong for the right reasons.

The debt squeeze and the advice from Washington were thus the clearest common denominators of the neoliberal reforms but the mix and relative strength of the social bloc (inclusive of liberal technocrats) favouring each specific innovation was, of course, different in each country. Moreover, as already suggested, the influence of external factors such as Washington could have been stronger during the crisis and stabilization phase than under structural adjustment. Conversely, domestic coalitions might have gained significance during this second period, thereby accounting for the wide variety in national adjustment programmes (Taylor 1988).

At this point, however, mention should be made of financial capital, the additional global trend having a decisive impact on the recent economic policy and performance in Latin America. Since 1990, mass amounts of financial capital have poured into emerging markets, coinciding happily with domestic liberal reforms but largely reflecting developments within the industrial world. This trend (see Section III) meant, of course, a reverse of the debt-crisis situation, and must be carefully weighted in assessing the actual results and prospects of neoliberal reforms in Latin America.

2.2.3 *Explaining solidarity*

In explaining the present wave of bilateral and sub-regional integrationism throughout Latin America, a number of factors have been pointed out, viz.:

i) the affinity among democratic governments and the convergence of neoliberal economic models since the late 1980s (Rosenthal 1993);

ii) the 'demonstration effect' of the European Union (Hettne 1994);

iii) the trend-setting change in policy by the United States, long the champion of non-discrimination, when it signed special trade agreements in 1985 with Israel and Canada (Braga *et al.* 1994) and, of course,

iv) the fashionable ideologies of globalism and liberalism (Naisbitt 1994).

Without discarding the validity of such explanations, they are only complements to the basic fact that each individual country in Latin America had already taken radical steps towards liberalizing its foreign trade. Whether or not formal integration treaties were in place, producers in each nation were faced with worldwide competition in their local markets. The Latin breed of Pan-Americanism was thus made inexpensive, so to put it, by earlier individual moves to market economics.

Latin Americans' long standing interest in a guaranteed access to American markets has been recently encouraged by the increased economic significance of the region for the United States. Thus, the share of Latin America in new overseas investments by American residents rose from 3 per cent in 1982-85 to 9 per cent in 1991-93 (UNCTC 1988; US Bureau of Economic Analysis 1994). In addition, the net yield of direct investment by the US in Latin America developed from a yearly loss of US$ 48 million during the 'lost decade' to a profit of US$ 32 million a year since 1991. The value of royalties and licence fee payments from the region climbed from US$ 40 million to US$ 190 million a year during the same interval.[11] A debtor to other industrial countries, United States was also a creditor to Latin America and collected US$ 206 billion in interest payments between 1982 and 1993. More important perhaps, Latin America has been the fastest expanding market for American goods during the 1990s, absorbing a full 48 per cent of US additional exports between 1992-93, and now ranks as its fourth largest buyer (UNCTAD 1994; *Christian Science Monitor* 1994). Hence, at the end of 1994, the United States had a trade surplus of US$ 8.5 billion with Latin America in comparison with the US$ 17 billion deficit which had accumulated during the Latin American recession of 1982-91. These figures are of particular relevance to the US *vis-à-vis* the mounting economic pressure from Europe and Japan. The total estimated income from Latin America in 1992-93 amounted to more than twice the American trade deficit with Germany and to one-sixth of its skyrocketed commercial deficit with Japan (Petras and Cavaluzzi 1995).

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[11] Unless otherwise noted, the data in this paragraph are derived from Petras and Cavaluzzi (1995).

In addition to Latin America's increasing economic significance for the US, an era of renewed solidarity between the two Americas is being built on the solid foundation of global geopolitics in the post-cold war period. The Monroe Doctrine, the building block of American policy on Latin America, can be filed away in the foreseeable future since the Soviet Union no longer exists in the role of extra-continental aggressor. Germany and Japan, the most likely candidates for world-power status, lack both political and military interest in the western hemisphere and a subversive ideology to transplant overseas. As the Monroe Doctrine was never intended against European friends, the United States literally chose to ignore Britain's seizure of the Malvinas/Falkland in 1833 and the French intervention in Rio de la Plata in 1838. It looked the other way in 1864 when French troops enthroned Archduke Maximilian of Austria as the Emperor of Mexico and when the British repossessed the Malvinas/Falkland in 1989.

As for enemies within the western hemisphere, Castro's Cuba – cut off from Soviet oil and weapons; crippled by a vastly overdone embargo; and having renounced all dreams of exporting the revolution and all wishes of engaging in new military or political adventures in either America or Africa – is no longer a threat to anyone. Furthermore, the social conflicts in Central America, which once were escalated on behalf of the East-West ideological confrontation, have now faded to domestic competitions between unarmed political parties, albeit with some remnants of *Contra* activity in Nicaragua and organized crime in El Salvador.

In the renewed environment of *Pax Americana*, further piqued by Europe's move towards a powerful regional union and by an eventual Asian bloc around Japan, the United States has all the more reason to refrain from assuming an adversarial position with its neighbours to the south and needs to adapt the benign role of a senior partner in their rekindled quest for political democracy and economic enlightenment.

In fact, the most recent military intervention in the western hemisphere was greeted by most as an epoch-making change in American policy towards Latin America. This time, no-one could claim that operation 'Uphold Democracy' had a hidden agenda. The Marines in Haiti had been authorized by the Security Council of the United Nations (Resolution 940) and were there only to defend human rights and to re-install an elected president who was also openly critical of the American ways. For once, it was a genuine commitment to principle, without a trace of Theodore Roosevelt's unashamed imperialism, and remote even from the hybrid brand of idealism that President Kennedy had so neatly put forth in the case of Dominican Republic. 'There are three possibilities', he said at the time, 'in descending order of preference: a decent democratic regime, a continuation of the Trujillo regime, or a Castro regime. We ought to aim at the first, but we can't really renounce the second until we are sure we can avoid the third' (Schlesinger 1965:769).

With Castro out of the picture, the Saxon version of Pan-Americanism can now be heralded as the pristine expression of solidarity with Latin America in its move towards decent democracies and market economics. With the cold war finally laid to rest, liberal Pan-Americanists from the United States now dare to dream:

This should be the moment to consolidate democracy throughout the Americas, the moment.... when the most promising policy alternatives are at hand. The economic vulnerabilities that Washington has exploited to mandate liberal economic reforms in Latin America could just as easily be used in support of civil liberties, clean elections, and the subordination of armed forces to civilian control. Trade agreements could provide for enforcement of internationally recognized labour rights, high occupational health and safety standards, consumer safeguards, and pollution and waste controls.... In all these ways, we may yet seize the moment, with the objective of making the 21st century an unequivocal 'best of times' for the Americas (Reding 1992:401-2).

III CRACKS IN THE MIRROR

According to an old Castilian proverb, some people see a glass of wine as half-empty while others see it as half-full. Optimists look at Latin America today and see half the countries governed by civilian democracies; political violence declining; governments endowed with new agility and transparency; sound macroeconomic policies; improved economic efficiency; regional commercial integration; and a more comfortable partnership with the United States. Such achievements are of no little historic significance. This is especially apparent when today's politics are compared to the years of bureaucratic authoritarianism; when today's economic policies are analysed against mercantilism at its worst, or when today's social indicators are examined against those of the lost decade, and today's geopolitics are reviewed against the internecine conflicts throughout Latin America during the cold war period.

But, the flipside of reality also needs to be considered. The advances of Latin America in most geopolitical, political and economic respects are still precarious and superficial. Critical areas are still unattended and there is no unequivocal improvement in the overall standing of the region within the world-system. Therefore, it can be stated that the 1990s are good times for the countries of Latin America but they are not quite the best of times in terms of either geopolitics, politics, or economics.

3.1 Geopolitics: interests, not friends

3.1.1 In bed with the elephant.

The above selection of Reding's quotation 'best of times' to conclude Section II was not unintentional. For a bona fide expression of post-cold war American liberalism towards Latin America, the statement in question carries two disturbing undertones:

First, it underlines – and rightly so – the importance of 'labour rights, high occupational, health and safety standards' for a modern day democracy. But the fact remains that delayed recognition of such standards in Latin America sounds suspiciously of 'social dumping', the fashionable notion of the right-wing protectionists throughout the industrial world to halt the 'unloyal competition' of low-wage imports from developing countries (Gómez 1995). So much for the theory of comparative advantages and efficient international specialization, once so cherished by American liberals themselves.

Second, and worse, the notion of Washington 'exploiting' the 'vulnerabilities' of Latin America in order to issue a 'democratic mandate' to the region could have been borrowed from none other than General Ernesto Geisel, the 1974-79 Brazilian dictator who swore to 're-establish democracy, by means of force if necessary' (Erickson 1977:28). The difference in might – however unpleasant for the liberals to mention –

between the United States and any Latin American country makes innocent solidarity impossible. There is no need to dwell on the obvious, but the GDP of the United States is 14 times that of Brazil; 31 times that of Mexico; and even 6.5 times the combined GDP of all Latin American countries. And that lopsidedness is evident even in the big-brother intonation of goodwill offers to Latin American countries to help create 'decent democracies' and to choose enlightened economic policies.

In spite of the idealism of operation 'Uphold Democracy' and all the pragmatic leverage the United States may put on its Latin American friends, the Organization of American States (OAS) failed to formally endorse the use of US force against the Haitian dictatorship and, even though there were token multinational forces under the UN banner, American troops were not enforced by soldiers from any Latin American country. Previous efforts by the US to uphold democracy south of the Rio Grande have been too voluminous and traumatic to be disregarded lightly. To the invariable mention of democracy, troops from the United States have admittedly been involved in operations against Latin American governments on numerous occasions.[12] As far as upholding democracy is concerned, the results of this particular brand of Pan-Americanism are on record for anyone to appraise.

US support for democracy in Latin America – meaning either elections or, more broadly, social reforms – is evident in other means than just overt military intervention. Under different circumstances and in different countries, American methods to promote political liberty among its southern neighbours have ranged from rhetoric declarations and half-hearted diplomacy to such specific measures as i) financial backing for given political parties or opposition groups; ii) conditioning economic aid or trade benefits; iii) supervising elections; iv) reorganizing the local army; v) directly carrying out concrete social reform projects; and vi) engaging in 'intelligence' activities to topple a dictatorial regime. Indeed, the question 'how can best the United States promote democracy abroad' (Pastor 1989:132) has for long been keenly debated among American policy makers and scholars. Yet, the actual success of the superpower's efforts to bolster political or social democracy throughout Latin America has been limited at best. After a careful review by fifteen authors of almost one hundred attempts by the US government to implant democracy in Latin America, liberal editor Abraham Lowenthal concludes:

> External factors, including US policy, are usually of secondary or tertiary importance in determining a Latin American nation's prospects for democracy, except in highly unusual, very finely balanced circumstances when foreign influence tips the scale – or else in the small, nearby nations most penetrated by and vulnerable to the United States. In the latter case, however, the immediate pro-democracy influence of the

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[12] The original enumeration of US armed interventions in Latin America up to 1962 was presented by the Secretary of State Dean Rusk to a joint meeting of the Committees of Foreign Relations and Armed Services of the US Senate; the enumeration was updated to 1985 by Chilcote and Edelstein (1986:168-9) and to 1995 by the author. Interventions after 1962 include only those officially admitted by the United States government and include the following: Nicaragua, 10 occasions; Mexico and Honduras, 8 each; Panama, 7 occasions; Colombia, 6 occasions; Cuba, Dominican Republic and Haiti, 5 occasions each; Uruguay, 3; Guatemala, 2 and Paraguay, Argentina, Chile and Brazil, 1 each.

United States is often overcome by longer-term obstacles to democracy building that derive precisely from US interventionism (1991:237).

Democracy is precisely *not* the sort of commodity meant for export. Democracy, if it means anything at all, is popular sovereignty, i.e. the right of the people to decide on its public institutions without foreign interference. Hence, the US efforts to mandate democracy to Latin America are just as misguided as General Geisel's offer to bring it about by sheer force. And the very question of 'how can best democracy' be spread to third countries should not be so popular among politicians and scholars proud of their democratic convictions.

Although it has been the main official argument since the days of President Monroe, upholding democracy is, of course, not the only reason for US intervention in Latin America. In fact, there is no need to subscribe to the entire school of 'realism' in international politics to agree with Lord Palmerstone's *dictum* that, 'Nations have not friends but interests' (Johnson 1992:237). The national interest of the United States may well consist of the desire to be surrounded by liberal democracies, as was argued by many well-meaning liberal scholars and politicians. But, on the other hand, US national interest may side with assisting an out-and-out tyrant ('our s.o.b.', to echo Roosevelt), or in actively seeking the illegal overthrow of a democratically elected president as was painfully demonstrated by Chile's Allende (Muñoz 1991). Thus, supporting democracy cannot be the ultimate end; it is simply a means to impose US policy in Latin America. Once the post-cold war honeymoon is over, there is no lasting assurance that America would not again turn cold on some Latin American democracies.

Moreover, even amidst the current era of no East-West ideological confrontation and recommendation for free trade, quite a few difficult questions in the economic relations still exist between the two Americas:

- Despite signatures on UNCTAD's Uruguay Round and the renewed commitment to commercial liberalization across the western hemisphere, protectionism continues to be an issue north and south of the border. Because of its quantitative import restrictions, Brazil – along with Japan, India and China – continues to be listed officially as an 'unfair trader' under Section 301 of the US Omnibus Trade and Competitiveness Act, while countervailing duties are routinely set (and challenged) on such diverse imports to the US as printed products from Mexico, apparel from Argentina, or bananas from Central America.
- The debt issue lingers on in spite of significant relief from the Brady Plan after 1989 (International Monetary Fund 1991) and in spite of the improved current account situation in most Latin American countries. Interest payments continue to account for a high 20 per cent of total exports from the region and the ratings for commercial creditworthiness remain low in most cases (World Bank 1995).

Neither has the end of the cold war been able to promote complete harmony in other areas of American-Latin American relations, old or new:

- Cuba is still a contentious issue because, in spite of Clinton-Castro agreements, the US embargo under the Torriceli Law (tightened under the Burton-Helms initiative) remains in place. Widespread disapproval from Latin America and almost unanimous opposition by the UN General Assembly have had no effect on the embargo.
- Even in the absence of military regimes, American liberals continue to denounce the frequent violation of human rights by state security forces in most Latin American countries and particularly in Mexico, Haiti, Guatemala, Colombia, Peru, and Cuba (Garretón 1994).
- The traditionally high migratory flows from the south are becoming a more visible target for American chauvinism. Unemployment among the non-educated in the US is climbing steadily (Reich 1991) and voters support amendments to deprive guest workers of all social protection (Paz 1994).
- The newer environmental issues are likewise to be rather divisive for the Americas. Inasmuch as the US has been most reluctant among industrial nations to foot the global bill, Latin America is doing little in the way of preservation. In NAFTA-type negotiations, each party balances its ecological standards against the need to attract or to conserve employment-creating industries (Rappaport and Flagherty 1991).

In addition, the new issues of drug production, trafficking and consumption seem to replace the cold war in its traumatic ramifications over the whole inter-American agenda. Drug trafficking is considered by the US as 'the most serious organized crime problem of the world today',[13] and drug offenders constitute almost 60 per cent of all federal prisoners in that country (US Department of Justice 1993). The effectiveness of US efforts to curb consumption at home and perhaps the seriousness of the official commitment itself are debatable at best (e.g. Woodiwiss 1988; Nadelmann 1990). Thus, demands to define and to *treat* drug inflows as the 'new number one national security problem for the United States' are becoming louder (Perl 1995:37) and, 'for the first time since the Civil War, the Army and Navy are being called upon to fight civilian crime' (Gugliotta and Leen 1989:111).

Meanwhile, the drug producing and processing countries in Latin America find themselves confronted with a tragic and inescapable dilemma – either wage war against the drug traffickers and be defeated, or ignore them and be corrupt. It is impossible to win the war for the simple fact that the profits involved are too high for a captured or dead drug baron not to be replaced immediately; there will always be sufficient money to bribe or to kill. Peace cannot be settled simply because the drug industry is open only to criminalized minds and organizations. In the everyday life in Colombia or Mexico, Bolivia or Peru, useless violence and harmful corruption are mixed in different proportions as the pendulum swings back and forth between repression and the so-called alternatives of utterly unrealistic crop substitution for the peasants and of equally unrealistic voluntary surrender by the drug lords.

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[13] President Clinton's Address to the United Nations General Assembly. 25 October 1995.

But it is generally believed that violence and corruption are the price to pay the 'enormous volume of money which enters the Latin American countries through the drug industry' (Giusti 1991:137). Indeed, fancy econometric modelling based on totally unreliable data has produced a number of wild guesses to determine how crucial the drug exports are to the macroeconomic health of Latin America (e.g. Delpirou and Labrousse 1988; Hardinghaus 1989; Giusti 1991a).

Microeconomic common sense seems to suggest that the issue has been greatly exaggerated. Whatever the industry, there is no point in paying production factors beyond their contribution to value added. The overwhelming cost component for the drug industry is, above all, risk – risk of capture by US authorities. Consequently, a kilo of heroine south of the border costs approximately 5 per cent of its street price in New York and a kilo of cocaine is worth around 5 times less before entry to the US. A kilo of marijuana outside customs goes for about half its American retail value.[14] This is why semi-legal US grown marijuana has taken the market, and why the crop today ranks as number one in American agriculture to the tune of US$ 32 billion per year compared to, say, corn, which sells only US$ 14 billion (*New York Times* 1995). Payments associated with risk within the US carry thus a lion's share in the production function of drugs, not to add the cost of chemical inputs and international money laundering that feeds back mostly into the industrial countries.

The flow of drug-related payments to Latin America needs to cover only the regular market cost of inputs and manpower plus a premium for the presumably low risk locally. If local authorities are as inefficient as US authorities claim them to be and if this is not the case, then the only other explanation for the entire issue must be sheer inefficiency on the American side. Naturally, drug-related risktakers within the US may be mostly Latin Americans, and may basically choose to reinvest their huge profits back home. But one should not picture the drug barons as romantic patriots or as naïve businessmen; they behave exactly like all other rational investors in the global financial markets, and Latin America accepts their money along with all others in a strict response to interest rates and macroeconomic uncertainties.

The end of the cold war did not, therefore, entail a full reconciliation between the two variants of Pan-Americanism. From the Saxon perspective, the extra-continental aggressor has now disappeared but new, perhaps more subtle, menaces to the 'national security' of the United States are emerging within the western hemisphere *itself*. From the Latin viewpoint, the fundamental lack of symmetry among partners remains unchanged, and unilateral decisions and arm twisting by the senior party are still common. The United States – unencumbered by a superpower with immense nuclear arsenal – is ready to engage in low-intensity operations such as 'Uphold Democracy' in Haiti or the drug motivated occupation of Panama in 1989. Therefore, it is possible that under the surface, inter-American tensions are building rather than decreasing because

[14] However, price levels and price differentials seem to change considerably across time (Krauthausen and Sarmiento 1991).

for the US, 'the enemy' now comes from the same hemisphere and because for Latin America, 'the elephant' is now free of extra continental restrains.

There are no signs of willingness by America to accept any measure of effective multilateralism within the hemisphere. To begin with, the OAS was created in 1948 basically as a US-led preparation for the cold war. During the first decades of the existence of OAS, the US managed time and again to have the organization rubber stamp its decisions, or plainly ignored it whenever convenient (Gil 1971). Next, OAS languished into awesome silence during the Central American wars of the 1980s. At its best, it faded to ceremonial status, and at its worst, it was ignored in Grenada, Panama, the Malvinas/Falkland, Haiti and – despite it all – Cuba after 33 years of embargo. Hence in practice and in keeping with its general attitude on multilateral institutions, the US adheres to bilateralism in any meaningful dealing with a southern neighbour.

Contrary to fashionable writings about the common worldwide process of regionalization (e.g. Hettne 1994a), the similarities between the process of European Union and the far reaching initiatives for integration of the Americas are only skin-deep. Despite illusions south of the Rio Grande, the 'free trade zone' envisaged for the hemisphere in a decade is to be a piecemeal product of bilateral understandings to liberalize trade among countries or among existing sub-regional blocs. In other words, the 'union will be a summation of partial agreements with different timetables and each with its own list of exceptions. Furthermore, invitations to join NAFTA are viewed strictly on an individual basis – the US is already hesitating in the case of Chile – and even then, NAFTA is a far cry from the model of EuroUnion.

It is undoubtedly important to secure stable entrance to the US market; to attract foreign investors to Latin America; and to induce the kind of financial endorsement Mexico received in 1995 but NAFTA as the instrument to achieve regional integration is comparatively timid:

- The treaty aims in fact at giving official and bilateral imprimatur to the strong market trend to which both parties were already irrevocably committed. It reduces the average tariffs for Mexican exports to the US from around 3 per cent to zero, a fairly small reduction. It approves key exceptions and contemplates a transition period up to 15 years during which trade, instead of being free, will be intensely managed. And, of course, the possibility exists that technical regulations, sanitary controls and the still pending environmental standards will create new trade barriers (Greenaway and Whalley 1994);
- More fundamental still, NAFTA has been designed air-tight to ease commercial exchange across the frontier without any increase in economic, social or political integration between the three countries. There is no trace of such EuroUnion issues as common parliament, special administrative entity, common currency, compensation for the less developed countries or, God forbid, a common labour market. As a matter of fact, stopping the inflow of Mexicans was one basic reason for the US to sign NAFTA. Also, Latin American dreamers are no closer

to the mark than their American counterparts in envisioning the 'best of times' when instead of NAFTA there would be a US-Latin American....

> .... agreement that includes compensatory financing, encourages industrial planning and a common regulatory framework, confronts the issue of workers mobility, harmonizes upward labour standards and rights, creates an environmental and consumer protection charter, and institutes a broad multi-purpose dispute-resolution mechanism (Castañeda and Heredia 1992:676).

3.1.2 Too many single beds

The particular history of nation-state building in Latin America describes groups of local bourgeoisie, mostly from Mexico, Santafe (Bogota) and Buenos Aires who, having pushed for independence from Spain, then competed for control of the hinterland and for a place in the world market. This was to break-up the former Spanish possessions (i.e., except Brazil and Haiti) into 18 independent but weak political units. At the same time, the US was expanding from the original New England colonies to a vast continental state. Such self-reinforcing contrast between successful integration of new territories under federalism and fragmentation due to failed centralism, is held as largely responsible for the lack of symmetry in the development between the two Americas (Veliz 1980).

Dependencia and world-system writers frequently blame the lack of integration among Latin American countries on successive world powers; namely, Spain in colonial times, England during the nineteenth century, and the US since 1870 or thereabouts (Chilcote and Edelstein 1986). However, Brazil's remarkable exception, the incidence of local political institutions hinted above, and the many occasions during which national bourgeoisie of Latin America have attested to historical short-sightedness, are eloquent enough to acknowledge the independent contribution of internal factors to geopolitical division. Whoever is to blame, fragmentation is, however, to the obvious advantage of the major power. Consequently the United States no longer has an interest in a unified and strong Latin America any more than the US has an interest in hemispheric multilateralism or in any sort of American Union patterned after the European Union.

Effectively constrained by its all-important bilateral ties with the United States, each Latin American country has for the most part opted for *respice polum* over and above *respice similia*. Consequently, and comments on autonomous Latin-Americanism aside, 'Pan-American' institutions act largely as resounding boards for US foreign policy. The 1947 Inter-American Treaty of Mutual Assistance (ITMA) has been extensively used during serious conflicts within the hemisphere, but always to the advantage of the US 'since it is the only country which need not fear the intervention of any other country in the region, being able at the same time to invoke ITMA to legitimize its own interventions in any of them' (Faundez-Ledezma 1988:173). OAS stood behind the US in such delicate situations as the 1954 invasion of Guatemala and its long lasting confrontation with socialist Cuba. The organization yielded to American pressure in instances like the 1965 invasion of Dominican Republic or simply remained mute in the face of the 1984 US attack on Nicaragua. The Inter-American Development Bank depends essentially on funds supplied by the US and the American representative has a *de facto* veto power over loans and technical assistance from the Bank (Mercado 1988).

Despite its costly political fragmentation, Latin America – in comparison to most of Africa, Eastern Europe or to a number of sub-regions within Asia – is blessed with little risk of large scale inter-state military conflicts or even of ethnic confrontations which would threaten to tear apart any of the existing nation-states, although Guatemala could be an exception in this respect. This does not, however, mean that international peace in the area has been perpetual or that it is unconditional. Military showdowns take place time and again, reflecting a combination of any of the four main factors: ideology, migration, territorial disputes, and demagoguery:

i) Ideology was, of course, the typical *casus belli* during the cold war years in the military tensions of Honduras and Costa Rica with Nicaragua over the former offering sanctuary to *Contra* fighters;

ii) Migratory flows now and then generate intense friction between neighbouring countries as in the case of Guatemala and Mexico, Colombia and Venezuela, Haiti and Dominican Republic, Chile and Argentina, or El Salvador and Honduras, not to mention the tensions associated with mass entrance of Mexicans, Salvadorans and other Latin Americans into the United States;

iii) Most inter-state conflicts in Latin America, however, are caused by the uncertainties of border demarcation remnant from colonial times and often compounded by the semi-imperial intent of the larger neighbour, or by the discovery of valuable natural resources in these remote territories. Thus, territorial issues were behind the three major international conflicts in regional history.[15] Likewise, claims over land have ignited recent military clashes between Salvador and Honduras (1969), and between Ecuador and Peru (1981 and 1995) as well as numerous near-clashes between Chile and Argentina, Guatemala and Belize, Mexico and Guatemala, Colombia and Venezuela, Venezuela and the Guyana Cooperative Republic (Contardo *et al.* 1993);

iv) Governments in dire straits, and military dictatorships in particular, tend to fuel external tensions in order to ride on national fervour. Latin America is no exception to this well-known tendency and the utterly suicidal attempt by Argentina's *Junta* to recapture the Malvinas/Falkland in 1982 is only a painful reminder of how very irresponsible a desperate leader can be.

Interestingly, conflict – military or otherwise – has not dominated nor does it dominate inter-Latin American relationships. Indifference is a more accurate description. Whereas pilgrims came to America for the purpose of establishing colonies, *conquistadores* came to Latin America to send its wealth to Spain or Portugal. This outward orientation left important imprints in the patterns of territorial settlement, population distribution, trade flows, transportation systems, urbanization, and location

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[15] Viz., the Triple Alliance War of 1865-70 (Argentina, Brazil and Uruguay versus Paraguay), the Pacific War of 1870-1883 (Chile versus Bolivia and Peru), and the Chaco War of 1932-1935 (Bolivia versus Paraguay).

of administrative centres. With nodules individually connected to the metropolis rather than to one another, development took place along the exit corridors rather than across the national frontiers. As a result, most borderlands in Latin America are scantily populated and ill developed even today. The Rio de la Plata area is an exception; but it was also the region of the Triple Alliance War and, no less, for today's Mercosur.

'A continent with more geography than history,' as Hegel (1953:27) put it aptly, Latin America evolved into a group of countries that are isolated more by geography than united by mutual history. This fundamental reality has not been affected by the recent efforts of mutual trade liberalization, however welcome they may be. Trade necessitates different specializations, and there is not much specialization in the overall economic structure of the twenty developing countries which for a long period have been isolated from each other and which have been striving deliberately for self sufficiency. Thus, if short-distance trade or trade across densely populated frontiers are excluded, it would appear that most Latin American countries practice more extra-regional than intraregional trade and that intraregional trade is heavily concentrated on basic consumption items (Rossi 1991).

3.2 Politics: between democracy and populism

Section I under the heading 'The creed of democracy' outlined the positive side of Latin America's current political situation. The persistence or restoration of stable civilian governments in all countries, the diminished intensity of guerrilla activity, and the advances towards a more participant and organic kind of democracy, are achievements of undeniable significance. But they do not imply that the risks of destabilization and political violence have been eradicated for good or that a truly mature democracy has flourished overnight in that part of the world.

To start with civilian government, it does seem that military coups have become obsolete along with the cold war. According to standard theory, the background of domestic confrontation which prompted armies to step in has by no means disappeared. On the contrary, all major stakeholders have been affected by changes in economic policy and, as will be discussed in the following, poverty does not appear to be abating, nor have the tensions between professional soldiers and civilian governments ceased to exist under democracy. Two aborted coup attempts in Venezuela, Pinochet's open defiance of elected authorities, and sabre-rattling in Argentina, Brazil, Paraguay, Colombia, Ecuador, Nicaragua or Guatemala are among the more visible signs of conflict. Somewhat paradoxically, the end of the cold war has threatened the status of armies everywhere, and this threat is reflected as military unrest. Finding a new 'legitimate, credible and honourable role' for the army is one of today's most difficult challenges for many countries in the world, including, of course, the countries in Latin America (Hunter 1994:634).

The extreme unlikelihood of a new socialist revolution as well as the post-cold war disenchantment with guerrillas have certainly improved the prospects for political peace throughout Latin America. Once again, however, the Indian uprising in Chiapas proved that US-USSR geopolitics were not the only determinant of armed insurrection in the region, while Colombia, Guatemala and Peru are further indications of the inertial weight of domestic tensions and localized social deprivations in sustaining old guerrillas. The background of prejudice and hatred is reflected in the frequent human rights violations by armies, guerrillas and paramilitary alike.

More worrisome and deleterious is the problem of drug traffickers who have already displayed a capacity for political violence surpassing conventional guerrilla activity in both ruthlessness and efficacy. Lacking the legal means to enforce contracts, all forbidden markets tend to develop their own apparatus of violence (Reuter 1986). Further, as a large export industry needs a safe political umbrella in the originating country, drug traffickers easily put their private armies to political use (Krauthausen and Sarmiento 1991). Hence, the unbearable levels of violence by the Medellín cartel to further its political interests have already been copied in other Colombian cities as well as in the Bolivian Yungas, in Brazil (Rio), in Mexico (Ciudad Juárez, Ciudad Victoria, Culiacán, Tijuana), and in Peru's Huallanga Valley. Corruption may generally be the first choice of the drug lords to secure protection. For instance, Bolivian president García Meza and Panama's General Noriega were known to be personally involved in drug trafficking, and rather credible accusations of deals with cartel leaders have been issued against heads of government in Bolivia, Colombia, Costa Rica, Cuba, Honduras, Mexico, Nicaragua and Peru. The menace of drug related violence is always present, ready to escalate existing social or political conflicts and is often interlinked in a pathological circle to both left-wing guerrillas and right-wing paramilitarism.

Beyond classic or representative democracy, the recent political achievements of Latin America are even more precarious. In spite of remarkable advances to reduce the scope and size of the public sector, to 'reinvent the government', to widen the sphere of citizens' participation, and to decentralize, major insufficiencies remain and crucial questions are still unsolved in each of these four areas:

i) Paradoxical as it sounds, instead of decreasing the number of nation-states, the creeds of democracy and markets have modified certain aspects of their traditional roles. Thus, the current process of globalization has not reduced the importance of the essential political functions of the nation-state – viz., internal legitimation, regulation, allocation, and control. On the contrary, their significance has been increased by the acceleration of domestic change and the consequent exacerbation of internal conflicts brought about by pressures from an ever more internationalized market. Renouncing *dirigisme* and old-fashioned interventionism, most nation-states have engaged in a new type of intense economic activism consisting of the introduction of sweeping legal reform, of substituting some macroeconomic management with some use of microeconomic tools to foster native industries (e.g. procurement policies, technological support, ...) and, above all, of negotiating the country's re-insertion within the emerging world order (Gómez 1995). And this all, not to dwell on the issue of whether a strong private sector necessarily entails a weak public sector or vice versa, not to elaborate on the big distinction between state and bureaucracy, especially so in Latin America, and not to enter the controversy surrounding the substantive merits of privatization.

ii) Washington economists themselves are in accord about the limited reach of the public sector reforms already introduced in Latin America. To underscore the magnitude of the pending tasks, it is now fashionable to distinguish between Stage I, the set of (easier) innovations already completed, and Stage II, the more demanding package yet to come. Stage II priorities are to 'improve social conditions, increase international competitiveness and maintain macroeconomic stability'. Typical new instruments include 'reform labour legislation and practices, civil-service reform, re-structuring of social ministries, overhaul of administration of justice, upgrade of regulatory capacities, improvement of tax collection capabilities, sectoral conversion and re-structuring, complex privatizations, building of export-promotion capacities, and re-structuring of relations between states and federal government' (Naím 1994:36). In short, even in the eyes of neoliberal reformers, the more difficult days are ahead as the public sector revolution has barely begun in Latin America.

There is also a genuinely utopian ingredient to the concept of 'reinventing government'. Complex societies cannot do without bureaucratic organizations, and bureaucratic organizations cannot do without bureaucratic pathologies, as perennial literature on the subject abundantly attests (e.g. Weber 1922; Etzioni 1964; Garvin 1993). Hence, many well-meaning attempts to cut official red tape and lighten governmental agencies are either self-defeating or isolated, short-lived endeavours in the bureaucratic maze.

iii) Again, there is a utopian element at the root of 'participant' democracy. Outside the small (and elitist) Greek *polis* (e.g. Kitto 1951) – and short of tomorrow's doubtful dream of 'tele-democracy' (Fishkin and Schudson 1993) – the situation in which all citizens would participate in all, or most, governmental decisions cannot be envisioned. Neither would it be an unqualified blessing since the majority of people lack the interest and time (the 'rational ignorance' situation), expertise or autonomy to enable them make a better choice than their elected representatives. In the Latin American context, there is also a widely documented gap between theory and practice when it comes to popular participation in decision making. Commonly reported difficulties include the ignorance of citizens, limited trust in the efficacy of participating, resistance by politicians and bureaucrats to anything more than token participation, scant representation by community leaders, and general weakness of grassroots organizations (Velázquez 1992).

iv) Lastly, the decentralization progress offers only cautious optimism. Achievements, for one thing, are very uneven among countries, sectors, and specific dimensions. More often than not, actual transfer of power and resources fall short of guidelines, reflecting many vested interests and the strong tradition of centralism unique in Latin America (Veliz 1980). Also, the major aims of decentralization have complex built-in tensions, i.e. administrative efficiency, accountability, popular participation and securing one aspect, for example, may clearly compromise the others. The risks of functional duplicity and loss of coordination also exist. Local governments are often technically unable to provide the service. Participation of local communities is not always smooth. And there are the vexing problems of fiscal discipline and reciprocal responsibility or the lack of them (Amaro 1994).

At a deeper level of analysis, it could be that Latin America is basically not changing from representative to participant or organic democracy but from authoritarianism and traditional clientelism to populism. Mature democracy stands on two basic pillars – the complete submission of power holders to the rule of law and the organized participation of citizens in selecting power holders or in public decision making. Most countries in today's Latin America still display to varying degrees symptoms of relative immaturity in both regards:

- Without a doubt, ending the military regimes was a major step in re-asserting the supremacy of law and all present governments are constitutional in nature. Without minimizing the significance of these achievements, however, mention should be made of some of the pitfalls in democratic lawfulness. Chile, for one, remains a constitutionally 'monitored' democracy, and Mexico, even though crumbling, is the oldest example in the world of a 'perfect dictatorship'.[16] Political assassinations, kidnapping and torture with the apparent connivance of the army are still common in several countries. And, more subtle but no less disturbing, a wave of caesarean constitutionalism has recently overtaken Latin America. Under the battle-cry of terminating corruption, endorsed by the media and by overwhelming popular support, a number of civilian governments chose to violate the constitution in order to introduce political reform.[17] However well sounding the slogan 'legitimacy above legality' may be, it is still an exercise in populism, not in democracy.
- Equally populist is the notion of a political system where numerous citizens express themselves individually on public issues. Any functioning democracy requires stable organizations to represent large aggregations of citizens in public life. This is the crucial function of political parties, however ill-named they might have become in the global village. Thus, the weakening of parties in post-modern societies is 'but one indicator that even well-established democracies are currently facing difficulties' (Lipset 1995:5) and the weaknesses of old political parties throughout Latin America is one important reason why democracy has never really flourished in the region; nor is it about to flourish.

Political systems differ considerably among the twenty individual countries to allow for simple generalization. In Latin America, there has been – and still is – a multiplicity of party systems. Some systems date back to the times of independence (Colombia) and some have been recomposed after the recent wave of bureaucratic authoritarianism (Brazil); some are multi-party (Ecuador) while some are bi-party

[16] The label was introduced by Llosa (1990:23).

[17] Menem in Argentina, Gaviria in Colombia, De Leon in Guatemala, Endara in Panama, Fujimori in Peru.

(Venezuela) and some single-party (Cuba); some are competitive systems (Chile) and some are non-competitive (Mexico). There are many active political parties, both large (Argentina's Peronism) and small (greens). 'Cadre' parties are styled on the US system (liberals) and 'mass' parties on the European model (socialists); class-based parties (communists), inter-class parties (radicals), issue-parties (evangelists) and 'flash' parties (Fujimori's Cambio 90); parties to the right, the left and the centre of the ideological spectrum, totalitarian and democratic parties; parties loyal and unloyal in systemic terms. Still, the majority of Latin Americans were not traditionally represented in the political arena because, at first the (French) idea of representative democracy was superimposed to a non-democratic (Spanish-Indian) social organization (Guerra 1994). Then the patron-client relationship was carried over to the boss-activist and activist-voter political dyads (Gómez 1989) and more recently because modern mass parties gained only limited expansion (Jaguaribe 1989). Hence, Latin American countries did not benefit from either the class-based type of political representation and nation-wide pacts which were typical of modern Europe, nor from the interest group-cultural identity type of political representation typical of the United States. And, Latin American polities, without ever being fully modern, are now suffering a 'post-modernity' crisis, of political parties (further) weakened by the combination of such strong pressures as the growth of a merit-based civil service, the media, the post-cold war re-surfacing of corruption and, no less, the 'direct' mechanisms of participant democracy recently adopted by many countries.

3.3 Economics: a mixed bag

Creeds, regardless of any pragmatic consideration, are to be followed for their own sake. The expression *creed of markets* refers directly to that genuinely ideological dimension in the neoliberal revolution and since economic liberalization *is* the right thing to do, governments should be measured against the yardstick of how much they have advanced in the reform process, independent, to an extent at least, of actual economic results. This sort of immunity to the facts is not built on ideology alone but also on more subtle issues such as timing and internal consistency. Obviously, the initial phase of stabilization may take a number of years and make demands for drastic fiscal and monetary cuts, thus postponing structural adjustment and, by the same token, steady economic growth. Neoliberal economists freely admit to serious uncertainties on the sequencing of policy measures aimed either at stabilization or at structural adjustment as well as the optimal path to remove distortions when several markets are initially overregulated (Michalopoulos 1987; McKinnon 1991; Edwards 1994). It is also possible that stabilization and liberalization components of the Washington consensus are not easily reconciled with each other. The former has been the standard remedy recommended by IMF, whereas the latter has evolved more recently around the World Bank as a special variety of growth modelling from a neoclassical perspective (Kahn *et al.* 1986; Corvo *et al.* 1987).

It is not surprising, therefore, that much of the fashionable praise or criticism of economic policy-making in Latin America has the distinctive flavour of being politically correct. As reviewed in Section I, current cross-national appraisals tend to focus on compliance with the guidelines set by the Washington consensus rather than on the actual performance of the national economies. But this is not to deny the remarkable improvements in most countries of the region during the 1990s, nor does it imply that the adoption of the creed of markets has been unrelated to these improvements, especially with regard to i) fiscal balance and control of inflation, ii) economic growth, and iii) a renewed inclusion in the world economy. On the other hand, it is impossible to ignore the present, and even worsening, obstacles to the long-term development in Latin America. Also the partial and arguable responsibility of neoliberal policies should also be acknowledged in outcomes such as i) the still precarious insertion in the global economy, ii) the insufficiency of savings and investment, and iii) the continued incidence of poverty.

3.3.1 Much stabilization

Beginning as early as 1982, most governments in Latin America seriously attempted to correct the sharp macroeconomic imbalances resulting from the debt crisis. In practically all countries, fiscal reforms have since been introduced – and often reintroduced – typically consisting of i) substantial increases in the sales or the value added tax ii) steep price hikes in utilities and other state-supplied goods and services, and iii) legal assumptions and administrative measures to curb elusion and evasion (Gnazzo 1991). Public expenditures, in turn, have remained stable or grown slightly. This was helped in part by the lesser weight of debt servicing so that fiscal equilibrium has been achieved, or even surpassed, in most instances.

The combination of tax reform, privatizations, reduced debt payments and some control on expenditure meant that by year end 1994, the public sector was no longer a source of pressure on domestic credit in eleven economies of the region. Although the 'tequila effect' temporarily reversed the situation during the first months of 1995, this was evident in all the large economies except Venezuela.[18] When one recalls the huge fiscal deficits prevailing ten years earlier, 7 to 8 per cent of GDP, achieving equilibrium in public accounts is indeed remarkable.

Furthermore, the persistent deficits in most of the smaller countries are neither harmful nor can they be blamed solely on the lack of fiscal discipline. Thus, in Bolivia and Nicaragua, the usual imbalances in public accounts tend to be minimized, thanks to external financing. The long-lasting, Washington-supported process of stabilization is exemplified in Bolivia where ten years of different austerity programmes have brought the deficit down from nearly 20 per cent to 4 per cent of GDP, and external loans have matched national efforts. Likewise, Nicaragua's large deficit, 8 per cent of GDP, is a carry-over from the tragic 1980s but a series of severe stabilization packages have been adopted over time and foreign support continues to finance excess public spending. Macroeconomic disturbances resulting from fiscal disequilibrium are felt more severely in the seven remaining countries. Despite rather mild reforms, the fiscal situation in Cuba and in Honduras worsened in the 1990s as the inflow of cold war finances came to

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[18] Unless otherwise stated, the data in this section are from ECLAC, specially from the 1990, 1991, 1992, 1993 and 1994. Some averages and recalculations are taken from the 1990 to 1994 issues of the Inter-American Development Bank.

a halt. Haiti is in the midst of a national viability crisis, with runaway printing of money by its government. The austerity programme in the Dominican Republic was suspended before the 1994 elections in view of its costly social implications so that fiscal deficit rebounded to 1 per cent of GDP. Uruguay is a country with a deeply rooted history of being welfare state, where the process of adjustment has been gradualized, indexation of incomes remains widespread, and social security payments continue to loom large in a deficit nearing 2.5 per cent of GDP. Traditionally orthodox Costa Rica watched its fiscal imbalance soar to 7 per cent of GDP in 1994, largely on account of a major bank failure. Similarly in Venezuela, even in the face of an extremely tight monetary policy implemented from 1993 onward, severe disarray in the financial market forced an already strained government to step in and provide the equivalent of 11 per cent of GDP in emergency assistance to banking institutions. In short, even though Cuba, Dominican Republic, Haiti, Honduras, Uruguay, and Venezuela have not lived up to the expectations of the Washington consensus, the failure to restore fiscal equilibrium cannot be attributed to the absence of serious stabilization policies. Instead, it seems to be a combination of three additional factors; namely, i) how severe was the fiscal imbalance inherited from the 1980s; ii) how much external financing has been available to the country; and iii) how much stability has existed in the national financial market.

Control of inflation has long been the main objective of macroeconomic policy in Latin America. But monetary tools and price-wage handling were preferred to fiscal discipline. The series of painful failures during the 1970s and 1980s apparently brought the lesson home. As a budget begins to show widening deficits, confidence in the stabilization programme vanishes, expectations become increasingly pessimistic, and prices start to adjust in an anticipated move of self-defence. Consequently, most of the stabilization plans adopted during the 1990s have relied on a much tighter grip on public finances.

Implemented side-by-side with widespread reduction in tariffs to bring down import prices and a conservative management of the money supply, the new 'fiscal' type of stabilization programmes have been quite successful. With Brazil an exception, average inflation dropped from 87 per cent in 1990 to 49 per cent in 1991, to 22 per cent in 1992, to 19 per cent in 1993, and to 16 per cent in 1994, which is a record low in three decades. The year 1995 is expected to finish around 20 per cent basically because of the 'tequila effect' (*El Tiempo* 1995). In 1994, six countries achieved one digit inflation, a feat unheard of in a long time.[19] Seven other countries stayed below the 25 per cent level, moderate by Latin American standards, and only Brazil, Haiti, Honduras, Uruguay and Venezuela exceeded that limit (but, again, it is anticipated that Brazil will manage to bring inflation down to about 22 per cent in 1995).

Haiti, Honduras, Uruguay and Venezuela, unaided by foreign resources, are paying the price for large fiscal deficits. Brazil is the textbook case of economic instability and policy zigzagging with eight different stabilization plans and six changes of currency since 1986. Both conventional and shock therapies such as intervening in

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19 The countries were Argentina, Bolivia, Chile, El Salvador, Panama, and Mexico (the last to be replaced by Guatemala in 1995).

the labour contracts or freezing of bank accounts were tried time and again, but each time inflation resurged at a feverish pace. Thus, prices by mid-1994 were growing at an annualized rate of 5000 per cent, when the new *real* plan designed by Finance Minister Cardoso – who was to become president solely on this account – took effect and rapidly lowered inflation to around 3 per cent per month. Four components of the new plan seem to explain its remarkable effectiveness:

i) The government set the example, and the first step consisted of balancing the budget for 1994 by means of a real increase of 16 per cent in taxes and a constitutional amendment to reduce mandatory allocations;

ii) The plan was not made up of a sudden package but constituted of three stages expanding over time;

iii) Expectations were carefully monitored so that surprises were avoided, commitments were precisely defined beforehand, and each step in the process was announced from the outset; and

iv) The exchange rate has been used to anchor inflation most of the time, since the Central Bank first withdrew from the foreign currency markets to induce revaluation, and was then required to maintain international reserves in an amount equivalent to the value of *reales* in circulation, at the selling rate of one *real* per US dollar.

Argentina and Peru constitute the two other success stories worth mentioning in Latin America's renewed battle against inflation. Argentina first attempted to contain the explosive growth in the stock of money by forced conversion of term-deposits to dollar denominated long-term bonds, bringing down the monthly inflation rate from 95 to 5 per cent between March and December 1990. However, the persistent fiscal deficit resulted in a loss of confidence, jacking up the exchange rate and accelerating inflation to a monthly 28 per cent. Beginning early in 1991, President Menem's measures were twofold; first, to restore fiscal equilibrium by revamping taxes to increase collections by a remarkable 6 per cent of GDP in three years, an aggressive programme of privatizations, and a sharp (albeit initial) cut in public expenditures. And second, to replace the *austral* with the *peso*, to declare free convertibility of the national currency, and legally fix its parity to the US dollar. The results have been most impressive. Argentinean inflation had peaked at the level of 4,923 per cent in 1989, and still in 1990 had reached 1,344 per cent but then dropped to 84 per cent in 1991, to 18 per cent in 1992, to 8 per cent in 1993, to 3.6 per cent in 1994, and to an anticipated record of 2.7 per cent in 1995. For Peru, the figures are equally impressive at 7,650 per cent in 1990; 139 per cent in 1991; 57 per cent in 1992; 41 per cent in 1993; 18 per cent in 1994, and 10 per cent projected for 1995. Once again, in stark contrast to the disastrous populism of its predecessor, the rigidly orthodox handling of the new government deserves the credit. Immediately after his inauguration in August 1990, Fujimori launched an austere stabilization programme basically aimed at fiscal balance and at restoring ties with the international lending institutions. The real prices of gasoline and utilities were multiplied, fiscal subsidies were slashed, tax revenues grew from less than 7 per cent in 1990 to more than 12 per cent of GDP in 1994, privatizations have been common, tariffs on imports fell overnight, the local currency eventually was revalued, and inflationary expectations were firmly reigned in.

3.3.2 *Some growth*

From a historic perspective, the overall record of Latin American economic growth during the 1990s – 3.4 per cent expansion in GDP for the average year 1991-94 - may not appear overly impressive and only 1.7 per cent is predicted for 1995 (*Wall Street Journal* 1995). The regional product, however, had increased by an average 5.1 per cent every year from 1951 to 1960, by 5.7 per cent per annum during the period 1961-70, and by 5.8 per cent between 1971 and 1980 (Maddison 1989). However, the record for the 1990s is more satisfactory when tallied against the accumulated 8.3 per cent loss in per capita incomes during the previous decade and when the severity of the stabilization programmes recently implemented by most governments in the region have been taken into consideration.

Even before the 'tequila crisis', economic progress had not been uniform among the countries and over the years. The economy of Cuba is experiencing a free fall and its GDP has diminished by an estimated 42 per cent between 1990 and 1994. Likewise, Haiti has become impoverished by about 29 per cent of its GDP during the 1990s. Nicaragua has barely managed two years of modest growth (0.4 per cent in 1992 and 2.5 per cent in 1994) but not nearly enough to compensate for the 13 per cent accumulated loss of the 1980s. Giant Brazil shifted from a 4.4 per cent recession in 1990 to a still negative rate of 0.8 per cent in 1992, and then to positive growth of 4.1 and 4.5 per cent in 1993 and 1994, respectively. Mexico expanded rather fast in 1989-91 (3.8 per cent average) but decelerated to 2.8 per cent, 0.6 per cent and 2.9 per cent in the three consecutive years, to lose a projected 5 per cent of its GDP in 1995. Peru zigzagged from -2.3 per cent as late as 1992 to a high of 6.5 per cent in 1993 and on to a record 11 per cent in 1994. Argentina, after losing 6.5 per cent of its GDP in 1989-90, bounced back to growth rates close to 9 per cent in 1991-92, and to 6 per cent in 1993-94, but growth for 1995 is expected to be zero. Venezuela has gone through an inverse process of rapid growth (9.7 per cent in 1991 and 5.8 per cent in 1992) followed by a worsening recession (-0.2 per cent in 1993, -4.0 per cent in 1994, and -4 per cent predicted for 1995). Honduras followed a similar growth pattern (6.3 per cent in 1992-93 *vis-à-vis* minus 1.5 per cent in 1994). Although Argentina has the growth record for the 1990s, Chile is able to boast of eleven years of sustained economic expansion with a remarkable average of 6.4 per cent, followed afar by Colombia with 3.4 per cent and trailed by Bolivia with, albeit less stable, 3.1 per cent.

Once again, therefore, generalizations on the individual Latin American countries are risky. It, however, remains true that:

i) Until 1994 and with only Cuba, Haiti and Paraguay as exceptions, the average growth rate of the 1990s had been an improvement over the 1980s;

ii) The region as a whole had has been able to maintain a stable, if moderate, expansion, i.e. rates of 3.5 per cent, 3.0 per cent, 3.2 per cent and 3.7 per cent respectively in each of the last four years; and

iii) Argentina, Brazil, Mexico, and Peru – that is, four out of the seven largest economies in the region together constituting over 90 per cent of total GDP – were able to reverse the actual recession of the mid-1980s to fairly sustained recuperation between 1990 and 1994. Chile accelerated its expansion, Colombia maintained its old record of sustained modest growth and Venezuela experienced a definite downturn in the early 1990s.

3.3.3 A better part in the world economy

Observers, whether of neoliberal or structuralist conviction, generally agree about the critical role that exports and capital inflows have played in the recent restoration of macroeconomic equilibrium and product growth throughout Latin America.

Faced with the double risk of sharply raising interest rates and sharply falling terms of trade that precipitated the debt crisis, most countries in the region launched large-scale export drives early in the 1980s. Even though the total *value* of exports actually continued to fall until 1987 so that the external gap was off-set entirely by means of huge and painful reductions in imports, the overall *quantity* of goods exported from Latin America grew by nearly one-half and Mexico posted a record 70 per cent increase in the volume of exports (Frenkel and Rozenwurcel 1990). This forced opening of the economies set the stage for a longer-term reinsertion of the region in the world market at a time when industrial activity around the globe was undergoing a structural redistribution, as the OECD countries and Asian NICs moved into technologically more demanding products (Ballance and Forstner 1990). Aided further by the somewhat improved performance of the industrialized economies and by the above mentioned dynamism of intraregional trade, Latin American exports have increased steadily since 1987. The increase has fluctuated from 11 per cent for the average year 1987-91, with a slowdown to 5 per cent in 1992-93, and up to an encouraging 14 per cent in 1994-95 (which is also projected for the second year). Brazil, Mexico and Argentina remain the biggest sellers although Chile, Colombia, Peru and Bolivia are also experiencing above average expansion in their exports. More significant perhaps is the fact that, 'at present, exports of manufactures constitute nearly one third of the Latin American region's total merchandise export earnings. In comparison, at the beginning of the 1970s, they contributed only about 10 per cent of export earnings' (Bonturi and Lord 1992:21).

Likewise, major Latin American companies have joined the worldwide move towards internationalization. Speculative outflight of capital is, of course, a malady endemic to the region and has long been imposing growth costs, eroding the tax base, and worsening the distribution of income (Pastor 1990). But a recent, much healthier phenomenon is the registered investment in productive ventures overseas. Available data for the seven largest countries indicated foreign direct investments in the non negligible amount of US$ 7,461 million in 1990, which was more than double the estimated total for the whole region in 1975 (UNCTC 1990). Peres (1993) identifies three main trends as most promising within this new phenomenon:

i) In the context of NAFTA, Mexico's large private groups are investing anew in the United States;

ii) Mercosur has encouraged Argentinean companies, especially in agro-industry, to move into southern Brazil, and

iii) Some Chilean companies, including pension funds, have entered the international equity markets in a fairly aggressive fashion.

While exports began expanding from the mid-1980s, the upsurge in imports in Latin America has happened more recently. This was, in part, a natural reflection of the positive economic growth. But it was also partly the consequence of the generalized reduction in tariffs and partly the by-product of using the exchange rate to anchor inflation. After hitting a low of US$ 61 billion in 1985, down from US$ 101 billion in 1981, imports to Latin America jumped to US$ 171 billion in 1994. Yearly growth rates rose from almost 17 per cent in 1990-91 to 23 per cent in 1992, receded to 8 per cent in 1993, and climbed back to 15 per cent in 1994, giving an unprecedented 16 per cent as the five-year average. This is more than twice the corresponding rate of growth in the value of exports which stands at 6.7 per cent per annum.

Consequently, the merchandise trade balance for Latin America as a whole turned from a surplus nearing US$ 30 billion in the late 1980s to successive deficits of US$ 10, 15 and 18 billion in 1992, 1993 and 1994 respectively; the slowdown of growth in 1995 is reducing imports, so that some observers predict a close-to-zero commercial deficit for the year (*Wall Street Journal* 1995). The four national exceptions to this trend are a compendium of possible strategies to determine the 'winner' in international trade. Cuba aside, Brazil has been the most reluctant convert to neoliberalism in Latin America, the standing half-champion of high tariffs, import substitution and subsidized exports. As a result, this quasi-industrial country has managed to accumulate for 1990-94 trade surplus which is equivalent to approximately half the total value of imports, even though currency revaluation stemming from the *real* plan slowed exports down. Chile was exactly the opposite with full reversal to free-market prices for tradeables where exports again consisted of primary products, largely copper, cellulose, and fruits. Reflecting gains in productivity and better world prices, Chilean exports have expanded at an average annual rate of 12 per cent since 1985. Ecuador is the pre-industrial economy growing at a modest pace where the combination of higher exported quantity and improved prices for oil and shrimp are yielding a fair surplus of exports over imports. Venezuela is the sad alternative, forced by the deepening recession to tighten imports by 40 per cent while its currency devaluations augmented the volume of exports only slightly.

The overall trade deficit of Latin America has come on top of negative balances in the services and, more so, the profits and interests accounts, where the gross excess of non-capital outflows over non-capital inflows has kept inching towards the worrisome level of 5 per cent of the regional GDP; US$ 29 billion in 1991; 37 billion in 1992; 46 billion in 1993, and 50 billion in 1994.

The large, growing deficit in current accounts has been financed by mass inflows of capital, a trend that represents the most innovative, publicized and controversial indication of Latin America's changed status in the global economy. The flow began in 1991 and continued for three consecutive years to be surrounded by questions in the aftermath of the Mexican crisis. In view of the standards of the region, the amounts pouring in are, without a doubt, large – US$ 40 billion in 1991; 62 billion in 1992; 65 billion in 1993 and 57 billion in 1994, for a total equalling almost one-fifth of the combined product of these twenty countries for 1994. The Mexican crisis withstanding, net inflow in the amount of US$ 30 billion is anticipated for 1995 (*El Tiempo* 1995).

These figures are indicative of the global confidence in the newly liberalized economies of Latin America, however shaky one might deem that confidence to be. Furthermore, two aspects in the destination of incoming capitals would appear to grant an additional measure of optimism. First, and contrary to developments in the 1970s which eventually led to the debt crisis, commercial bank loans this time have played a minimal role (except in Chile). In view of a decade-long history of difficulties with repayment, this absence is not surprising. Second, world investors in mass had been attracted to the emerging markets of Latin American securities and stocks, notably those of Mexico, Argentina, and Brazil. Although numbers vary between the years and among the countries, bonds, commercial papers and deposit certificates account for nearly one third of the flow, while American Depository Receipts and direct portfolio investment in stocks absorb a notable 15 per cent. In addition, direct foreign investment through privatization has been highly significant in several countries, especially in Argentina, Peru, Venezuela, and Mexico, although only after the drastic policy turn of March 1995.

3.3.4 A precarious global insertion

The argument was developed in Section II that Latin America's conversion to the creed of markets was induced largely by the debt squeeze which forced public savings and foreign currency earnings to be multiplied. Starting from the mid-1980s, both fiscal and trade surpluses were indeed generated and each contributed substantially towards easing the debt burden. These efforts, moreover, were helped by sizeable reductions in the real values of commercial and official debt to be serviced, mainly as a result of:

i) The development of a secondary market for commercial bank debt where average bids fell from a low 65 per cent of face value to a still lower 30 per cent by late 1989 (World Bank 1991);

ii) The Brady Plan after 1990, to re-negotiate commercial debts through case-by-case combination of buy-backs, state guaranteed bonds, rollovers, debt-for-equity swaps and the like, under which Mexico, Costa Rica, Venezuela, Uruguay, Dominican Republic, Ecuador, Argentina, Brazil, Peru and Panama have reached successive and more or less encompassing and effective agreements;

iii) Conventional rescheduling of commercial debts such as those negotiated by Chile and Colombia; and

iv) Paris Club meetings and other deals to restructure or even write off inter-governmental loans. As for standing debts and arrears to multilateral institutions needing invariably to be serviced in full, some fresh resources have been mobilized to governments entering an IMF-sponsored programme of adjustment.

Even though the worst is certainly over, none of the above measures have totally solved the debt crisis for Latin America. The proportion of exports gone into debt servicing thus fell from a peak level of 40 per cent in 1982-83 to the present 20 per cent, which is still too high. At the end of 1994, only six mostly small countries – Chile, Costa Rica, Dominican Republic, El Salvador, Guatemala, and Paraguay – had debt-to-exports coefficients below or around 10 per cent, whereas six mostly large countries displayed coefficients in excess of 20 per cent.[20]

Thus, the debt issue has not been laid to rest completely, but the urgency has diminished. Liberal economic reforms have affected the process of appeasement, but so have the exogenous trends of the international debt market. What is more, Latin America's sudden reversal from an exporter of net capital to an importer of net capital from 1991 onwards has a lot more to do with events on the global financial markets than changes in local economic policy. To express it mildly, neoliberalism in Latin America was given a timely boost by autonomous developments in the global financial markets. Specifically, the mass inflow of capital into the emerging markets of Latin America began shortly after three major and related events in the world scene. First, after a long delay, the US Federal Reserve lowered interest rates early in the 1990s, and it was matched by Latin America's neoliberal bid for revaluation and high interest rates – facts which together created a most profitable arbitrage between the two markets. Second, the 1990 vertical price drop in all traditional stock exchanges of the world shifted attention to the new markets and seemingly helped to repatriate funds to the developing countries. And third, a period of intense speculation ended which had involved a US surge of mergers and acquisitions financed by high-risk, high-yielding instruments, including the notorious junk bonds; and ensuing debt depression channelled hot money to emerging markets all across the non-industrial world.

Of course, the recent massive capital inflow has not been restricted to the developing countries of Latin America. The blossoming economies of South and Southeast Asia remain preferred destinations while the transition economies of Eastern Europe teem with new, albeit risky, opportunities. Available data for 1990 suggest that about two-thirds of private capital transfers from OECD to non-industrial countries went to Asia, including China; another 10-15 per cent found its way to Latin America, and some 2 per cent was channelled to Central and Eastern Europe (UNCTC 1992). In addition, while bank credits accounted for 40-75 per cent of capital flows to Asia in 1991-93, they represented less than 10 per cent of the flows to Latin America (UNCTAD 1994:32-3). Whatever the advantages of not borrowing may be, it also hints at limited financial credibility. As a point of interest, about three-quarters of the funds coming into Latin America have been 'fixed-interest security loans consisting of high-risk non-investment grade bonds' – meaning junk bonds – so that 'the negligible amounts of syndicated bank credits, the onerous terms of international bond issues,

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[20] These included Nicaragua, Honduras, and then Mexico, Brazil, Argentina, and Peru.

ratings from the major credit-rating agencies and the evidence from trade finance suggest that Latin America's financial creditworthiness has not yet been fully restored' (UNCTAD 1994:29) and it should be noted that all of this was before the 'tequila' shock.

The speculative, quick-profit motivation of overseas investors in Latin America makes the flow of capital all the more vulnerable to ultimate factors such as the lowering of interest rate differentials, currency devaluation, or local political unstability. It was a combination of precisely these three factors that brought about the Mexican crisis from December 1994 to March 1995. An explosion of unrest by armed peasants; the assassinations of a president-to-be and a powerful secretary general; a series of top level kidnappings; a number of claims of fraud in the local elections; a fiercely fought national election, and sundry scandalous rumours and accusations, all make up the elements of politics a la Mexico 1994. Turning to economics, the trade deficit of US$ 28 billion – 8 per cent of the country's GDP – the raise in US interest rates, and foreign reserves already depleted from US$ 29 billion to below 7 billion during the year, and the rather compelling case for devaluation is obvious. (It is described as 'rather' compelling, because the global media and many neoliberal economists blamed the incoming government for the decision to devalue, and outgoing President Salinas even hunger-striked over the issue). Whether or not timed appropriately or handled properly, the devaluation announcement triggered the standard run on the peso, causing the dollar to appreciate, local interest rates to soar, and stock prices to sink. Foreign investors had acquired some US$ 55 billion worth of Mexican financial issues since 1990. Taking a part of the beating, they withdrew most of their money and left the country on the brink of bankruptcy. It was just at this point that NAFTA proved its usefulness, though Mexico will have to limp along with long lasting fiscal and commercial austerity programmes, lesser economic growth, higher inflation, more poverty, and diminished control over its pride, the oil industry, and its own economic future.

Was the crisis a temporary set-back for Mexico, or a sure sign indicative of a fundamental flaw in the new strategy for Latin American development? Although too early to venture a straight yes or no answer (that is, short of ideological slogans), it however, seems safe to state that Mexico's trauma was unique but that at the same time, it exemplified some grave risks in the new economic measures of the region.

On the positive side, the crisis did not repeat itself fully in any other country. To start with, global investors of the 1990s, not interested in the smaller countries, had concentrated about 75 per cent of their funds in Argentina, Brazil, Mexico and Venezuela. Investments in Chile, Peru and Colombia trailed far behind, each with less than 5 per cent. The experiences of these seven individual countries illustrate the advantages and limitations of the new regional strategy:

i) Argentina had the closest call (and it remains so at the time of writing), since it was faced with the combined effects of a mammoth trade deficit of 13 per cent of GDP and an all-or-nothing bet on zero devaluation. Panic over Mexico caused an overnight plunge in stock prices, but enough foreign reserves had been accumulated to hold the fort, and confidence was restored by a pledge of high interest rates, new fiscal cuts, and more privatizations.

ii) Brazil after 1990 had accumulated US$ 61 billion in trade surpluses – enough to cushion initial deficits resulting from the *real* plan – and was still able to boast of US$ 40 billion in reserves when the crisis hit. Contrary to Argentina, Brazil had already made some plans for a nominal devaluation which were put to use.

iii) Mexico itself managed to find a way out of the worst crunch. Fearful of a deluge of cheap imports and illegal aliens, Uncle Sam headed the move for the global partners and multinational institutions to eventually step in. Some degree of confidence returned after President Zedillo finally presented a credible plan of counter-guarantees, repayments, privatizations, fiscal cuts, monetary austerity, and across the board discipline from *pacto social.*

iv) Venezuela, its fiscal deficit ballooning and capital fleeing already in 1992, was an early drop-out from the global financial net. In addition, Venezuela was left by the US to fend pretty much for itself and thus it is not surprising that the country remains, without question, the failure of the region.

v) Chile, the most successful country in Latin America, had remained a fairly small financial market. This was partly because the government had undertaken special measures to prevent the inflow of hot money by establishing stern conditions on external bond and equity issues, special reserve requirements, reduced availability and high cost of swap facilities at the central bank, and a stamp tax on foreign credit. In addition, this country had the combined advantage of a favourable trade balance, reserves worth over one year's imports, and a recent revaluation, thus suffering a mere ripple compared to the Mexican upheaval.

vi) Peru had been severed from the global financial circuit since the days of populist President García, and as a newcomer, was able to offer secure investments under Fujimori's very attractive programme of privatization.

vii) Finally, Colombia had a surplus of reserves derived from oil, a diversified portfolio, and a well-deserved reputation as a reliable payer who could cope easily with the 'tequila crisis'.

To summarize, and largely as a result of the crisis in global confidence, Latin America's economic growth is projected to slow down to approximately only 1.7 per cent in 1995. Yearly inflation is predicted to climb back to almost 20 per cent, and the current account deficit is expected to be enlarged by some 1 per cent of GDP (IMF 1994; *El Tiempo* 1994). Against the unique circumstances of each country, the 'tequila effect' served to highlight some of the major potential weaknesses in the new economic strategy of the region. To single out five basic lessons, the following can be noted:

i) Trade deficits cannot be allowed to enlarge forever;

ii) To the extent possible, it is better to receive little than to receive a lot of hot money;

iii) It is more advantageous to have support from a powerful partner with solid interests in your well-being than to rely on international goodwill;

iv) It is easier to manage rough times when governmental finances are in order; and

v) Most important, it would be ideal if development could be financed with the country's own savings.

3.3.5 A gap in savings and investment

'It cannot be stressed too often', writes the President of the IDB, 'that a better investment climate is *the key* to Latin American development in the coming years' (Iglesias 1993:26). Data are difficult to collect and even more difficult to compare. Yet, in this critical respect, it is clear that Latin America has lagged behind the fast growers of Asia for a long time; in between 1955 and 1980, the region's average savings rate was below 20 per cent compared with more than 30 per cent among the NICs of Asia. Further, the 'lost decade' included a serious slowdown in the pace of capitalization; the regional coefficient of net investment fell from 23 per cent in 1980 to 16 per cent in 1988 (CEPAL 1990a). Nor has the restoration of macroeconomic equilibrium and of product growth during the 1990s been sufficient to catch up with Asia. 'Ratios of gross investment or gross fixed investment to GDP were in the range of 17-21 per cent for Argentina, Mexico and Venezuela in 1992.... while those for the Republic of Korea, Malaysia, Singapore and Thailand, for example, exceeded 34 per cent' (UNCTAD 1994:35). In short, 'savings and investments as a share of GDP remain low both in comparison with Latin America itself in the 1970s and early 1980s and in comparison with the high-growth nations in Asia. In 1993, for example, average investment in the region as a whole represented 18.5 per cent of GDP, while the major developing countries in East Asia invested over 30 per cent' (ECLAC 1994:5).

Consequently, in addition to the 'political correctness' of financial liberalization, there are three encouraging, yet fragile signs of advancement in the all-important processes of capital accumulation. First, the overall coefficients of savings and investment certainly improved after 1989 but this essentially seems to be a natural dimension of any post-recessionary phase. Second, for most large countries, the weight of capital goods in imports moved up slightly between 1992 and 1994. Third, and perhaps more significant, an enlargement of stock markets took place throughout the region. Measured according to the ratio of share value quoted to GDP, Chile's stock market at 94 per cent is now larger than the 72 per cent of the United States or the 71 per cent of the United Kingdom; Mexico's capitalization had reached 62 per cent in 1993, up from 8 per cent a decade before. Argentina expanded from 3 to 24 per cent, and even Brazil grew from 6 to 21 per cent in the same time-span (Welch 1993; *The Economist* 1994).

Despite such encouraging signs, however, the issue remains open as to whether the neoliberal strategy is truly able to solve the bottleneck of savings and investment in Latin America. Even if 'politically correct', the main advice of financial liberalism – to raise real interest rates – may be challenged on both theoretical and empirical grounds.

Theoretically, the neoclassical diagnosis stresses the role of incentives to encourage savings and the interference of such 'financial repressions' as nominal interest rate below inflation (e.g. McKinnon 1991). Insofar as this reasoning concerns the preference of households to save rather than to consume, it covers only half the picture and not necessarily the most important one. Investment of corporate retained earnings can be equally or even more important in overall capitalization. Neo-Keynesians have thus pointed out that primary relevance in a firm's decision to invest is influenced less by interest rates than by factors such like entrepreneurship, informational imperfections and failure of financial markets (e.g. Stiglitz 1994).

In the specific context of Latin America, the association between higher interest rates and increased savings is affected by no less than two significant disturbances. One, the 'capital flight' phenomenon, where political fears and inaccurate information on foreign financial assets tend to weaken the elasticity of savings to domestic interest rates (Pastor 1990). And two, the sizeable weight of public debts where the increment in debt-servicing due to a higher interest rate may offset the gains in households' savings (Williamson 1990a). Consequently, empirical evidence from the region fails to support the hypothesis of a strong association between interest rates and savings (Dornsbusch 1990).

The above mentioned does not imply that interest rates are irrelevant to savings or investment. Rather, it means that this is not a simple relationship, and that variables other than the level of interest play a very important role in the accumulation and efficient use of capital. With regard to the first point, it would seem reasonable to concur with Diaz-Alejandro in the observation that 'neither negative nor very high real interest rates are favourable to investment' (1985:17). Concerning the second point, one would reason that moderate real rates are a necessary but not a sufficient condition to raise savings and investment in Latin America. Correspondingly, the financial liberalization of the 1990s could be greeted as a step in the right direction but a partial and modest one, nonetheless. A full-fledged discussion of the 'extra-liberal' determinants of savings and investment in Latin America is well beyond the present scope. But an idea of what factors are involved – and of what additional efforts are called for – can be grasped from the concluding remarks of a recent overview:

> The comparisons with East Asia are also illustrative. The Asian countries have been able to increase saving *and* investment in a secular fashion.... The debt crisis was short-lived and had a smaller impact.... Also, the terms of trade are not as volatile as in Latin America, because exports are more diversified and concentrated heavily on manufactures rather than on commodities. In Asia, government revenues and public investment are much less dependent of foreign trade than in Latin America.... Increases in private investment have gone hand-in-hand with increases in public investment; in fact, there appears to be a strong complementarity between the two.... In all Asian countries there has been a steady increase in the ratio of credit to GDP, so that financial deepening has not been interrupted by hyperinflation or by overly tight monetary policies.... In most Asian countries, capital market failure has been (and continues to be) dealt with by government intervention in order to insure high investment rates.... Finally, all of them have attained much lower and less volatile inflation rates and considerably greater real exchange rate

stability, which has reduced the uncertainty of investment decisions (Agosín 1994:28-9).

3.3.6 *The resilience of poverty*

Poverty in Latin America is a reality ingrained too long and too deep for the rather superficial changes in economic policy over a few years to make *any* difference. Yet, in the final analysis, development strategies must be judged in terms of their ability to improve the quality of life for most people; that is, in terms of their ability to suppress mass poverty.

Comprehensive overviews of recent poverty trends and policies in Latin America are available already (Rodgers and van der Hoeven 1995; Cornia 1994; Morales 1994; UNDP 1992; Altimir 1992). Although this is not an attempt at detailed discussion of the complex issues involved in the measurement, determinants and remedies to poverty, a few basic facts need to be reminded:

i) Poverty, however defined and measured, has been prevalent throughout the history of Latin America but the poverty levels are quite different among the countries. For example, around the year 1990, only 13 per cent of Argentineans but a full 75 per cent of Hondurans lived below the poverty line.[21]

ii) Different methods of measurement – such as those based on income, on unsatisfied needs, or on a combination of both – show a different incidence of poverty. Thus, estimates on incidence of poverty for 1986 respectively came to 43, 50 and 61 per cent of households in Latin America. In general, however, relative order among countries and the direction of time trends are 'robust' to the measurement technique.

iii) Poverty decreased steadily, if modestly, during the 'import substitution' years from 1950 to 1980. Per capita GDP expanded at an average yearly rate close to 2.1 per cent, life expectancy rose from 52 to 65 years, infant mortality fell from 128 to 77 for every 1,000 births, and illiteracy was reduced from 44 to 23 per cent of the population aged over 15. Between 1970-80, the proportion of poor households declined from 40 to 35 per cent, and the poverty gap decreased from 5.3 to 3.6 per cent of GDP.

iv) During the 1980s, poverty increased significantly. Per capita GDP suffered an annual lost of 0.6 per cent. The share of households below the poverty line grew from the above mentioned 35 per cent in 1980 to 37 per cent in 1987, and to 39 per cent in 1990; this amounted to a leap from 41 to 43 per cent and then to 46 per cent in the proportion of poor *persons* in the region.

v) Data on poverty for the years since 1990 are spotty. However, evidence – some of it direct and the bulk indirect – points to either a slight decrease or to actual stability in the overall incidence of poverty. Regional per capita GDP – lately again experiencing some growth although perhaps no longer in 1995 – remained 3 per cent below the 1980 level. The 1994 value exceeded the 1980 level in only

[21] Unless otherwise stated, the data in this section are from ECLAC.

seven countries; Chile by 33 per cent, Colombia by 28, Uruguay by 13, Dominican Republic by 7, Panama by 7, Costa Rica by 3, and Argentina by 1 per cent. The regional rate of open unemployment remained stubbornly high in the face of economic reactivation, and it actually worsened during 1994 in each of the seven large countries, with the exception of Peru where it dipped from 9.9 to 9.5 per cent. The economic slowdown of 1995 is bound to raise unemployment, especially in Mexico and Argentina, where the rate is hitting the 18 per cent level. For most reporting countries, average real wages have not yet reached their pre-crisis levels. The informal sector for the most part has failed to contract, and self-employment or small industry occupations continue to grow faster than the modern sector (Gómez 1993). The overall distribution of income has no doubt deteriorated in recent years (Petras and Cavaluzzi 1995), and a seven-country report for 1993, based on survey rather than census data, finds three countries with poverty after 1990 increasing slightly *vis-à-vis* four cases of poverty decreasing slightly (*El Tiempo 1995*).

The essential picture to emerge from the last three facts is not surprising. Poverty is, indeed, sensitive to economic cycles with modest but sustained growth during 1950-80 steadily reducing poverty, the deep recession of the 1980s severely raising its incidence, and the mild recuperation of the 1990s alleviating it slightly. In turn, sharp economic fluctuations in Latin America are typically more of a response to changes in the world economy than to reorientation of local policies – or so this paper has been arguing. Still, the question is valid as to how likely is the conversion to the creed of markets to have a meaningful and positive impact upon poverty.

The goal of sustained economic growth under any theoretical strategy is, of course, the eventual alleviation of poverty. Nonetheless, the neoliberal creed treats poverty proper as a residual category; the aim of the game is that efficiency and well-being will generally accrue to those most efficient. However, as an addendum to the stabilization-liberalization paradigm, a special 'sub-theory' of poverty has evolved within the Washington consensus (World Bank 1990). One key point in the sub-theory is that governments should refrain from intervening to drastically redistribute assets, from large direct subsides, and from fiscal or monetary populism to create the illusion of prosperity. The second point is that outward-oriented growth should imply the growth of labour-intensive activities, and a 'natural' increase in the return to assets owned by the poor. The third point is that governments should contribute the right signals to directly improve the assets of the poor through, first, access to land, credit, and technology, and second, better endowments of human capital, specially health and education. The fourth point is that the earlier long-run strategy should be supplemented with a system of programmes and safety nets that are well-targeted and cost-benefit efficient.

Hardly no-one can disagree with what the World Bank considers sound economic strategies to combat poverty. The theoretical and empirical criticism stems mostly from what the Bank fails to see:

i) The assumption that poor people are not rational profit maximizers, and should become such, is either false or naive. On the one hand, there is an abundance of evidence to document the rationality and amazing ingenuity of the poor in Latin America when it comes to using their scant resources and taking advantage of their limited economic opportunities (e.g., Lewis 1961; De Soto 1987). On the other hand, there is much anthropological and 'institutional' evidence to substantiate the view that culturally imbedded 'irrationalities' do not disappear because of enlightened economic policies (Morales 1994).

ii) While stressing the *homo economicus* in the poor, the World Bank fails to underline the *homo politicus*. Even a cursory look at history shows that the political mobilization of the poor – or the lack of it – plays a very significant part in alleviating poverty – or in deepening it – but such emphasis would obviously be alien to the neoliberal perceptive.

iii) The more efficiency-less poverty argument is entirely valid in terms of long-run statics, but not so much in terms of short and mid-run dynamics. Of course, only an affluent society can insure, or afford, that every citizen is either productive or generously subsidized. But, affluent societies do not fare equally well in regards to poverty, and the path to affluence may result in more citizens – or, again, less citizens – staying poor or becoming more impoverished in the process. Consequently, even staunch neoliberals admit that poverty deepens during the initial stages of stabilization and adjustment, thereby calling for short-run, compensatory social programmes. The problem is that these initial stages can take a long time to be completed, not to mention the possibility that advanced stages are never reached in reality.

iv) The evidence that outward oriented strategy automatically leads to the expansion of labour-intensive industries is at best shaky. 'Labour' is not an homogenous but a very heterogeneous productive factor and everyday the global competitive edge moves towards highly skilled labour, i.e., non-poor labour. Also, poverty is not exclusive to developing countries. Low skilled workers in industrialized countries press for protectionism in precisely such labour-intensive products. And the whole concept of import substitution was based on the conviction that exactly the opposite was true.

v) Tough guidelines on targeting and efficiency in social policy are theoretically sound but they are not easy to carry out. For example, amidst mass-scale poverty, the idea of targeting becomes blurred, or else the results of individual subsidies are pitifully insufficient. Or, for example, the more 'efficient' subsidies to demand are likely to end up enriching the oligopolistic suppliers. For instance, a sites-and-services programme either picks a few beneficiaries among the many in need, or provides each with a ridiculous sum. If the subsidies are given to prospective settlers, they automatically tend to raise the price of the scant urban land (Gómez 1993).

vi) Last but no least, the Washington strategy to alleviate poverty does not take into full account what most observers consider the key determinants of the problem. Obviously, there is wide room discussion on the key determinants of poverty in Latin America; but no-one fails to mention the issues of i) land tenure and uneven distribution of capital assets, ii) labour market 'dualism', and iii) insufficient social expenditure by governments. No doubt, the World Bank has contributed substantive reflection and advice on each of these issues, but its overall approach is fairly timid. In particular, i) no far-reaching agrarian reform or redistribution of other assets has been considered (on the grounds that they are politically unrealistic), ii) the informal sector is (rightly) perceived as too difficult to be reached by specific policies or programmes administered by the formal mechanism available to the state, and iii) social expenditure, in view of the much stressed fiscal austerity, is not to be vastly increased, but simply redirected.

CONCLUSION: WHERE IS MIRACLE?

Countries enjoying more liberty at home, more material well-being, more solidarity from abroad – these are the 'good times' for most of Latin America. But democracy is not sufficiently distinguished from populism, there is a persistent international solitude, and economic progress has not been secured or evenly distributed – these are not the 'best of times' for all Latin Americans.

Good times. Latin America should be praised for the demise of military regimes, for the unimpeachable legality of all present governments, for the actual rotation of the ruling party in 16 out of 20 countries, for the proven ability of the new democracies to deal with discontentment originating from the barracks. As internecine political fighting diminishes, the sound of shots is yielding to the voice of reason. State administrations everywhere are becoming better focused, more agile, more open to citizens, and more decentralized.

Not the best of times. Domestic peace continues to be threatened by guerrillas in four countries; by increased drug related violence, and by still extensive violation of human rights. Electoral democracy is to be established in Cuba, and democracy has to survive explosive or at least touchy transitions in Mexico, Haiti, Guatemala, Venezuela and Chile. Some sabre-rattling will yet be heard elsewhere. State machinery is taking on new and taxing responsibilities, particularly in regards to negotiations concerning the re-inclusion of nations in the global village; administrative reforms have not proceeded beyond the preliminary stage; decentralization is either incomplete or ambiguous; and participation of citizens is easier to preach than to practise. No less, deepening weaknesses of political parties, and the aggravation of an emerging variety of 'democratic authoritarianism', are sufficient to cause anxiety over the question whether Latin America is indeed advancing towards a mature democracy, or is it in fact derailing towards a more subtle version of populism.

Good times. The economic efforts and performance of Latin America are no less worthy of praise. The often painful combination of fiscal discipline and the orthodox handling of interest and exchange rates, the tax, the monetary and the trade policies, have served to correct the grave macroeconomic imbalances of the 1980s. Such measures were to preamble a 'structural adjustment' move towards less regulated, more privatized, and more internationally open systems. The results in terms of easing the burden of foreign debt, carving down fiscal deficit and lowering inflation during the 1990s have been highly satisfactory for most countries. Economic growth, even if historically modest, was reactivated until at least 1994 in the majority of Latin American countries. Exports reacted favourably in terms of both volume and value-added composition at a time when Latin American firms were beginning to expand beyond their national frontiers.

Not the best of times. Three main weak spots are already evident in the new economic strategy – those in the foreign account, in the savings-investment sheet, and in the poverty balance: i) Imports grew almost twice as fast as exports and trade deficits began to mount; exogenous developments in the world capital markets, however, happened to fuel the mass inflow of mostly speculative funds so that trade deficits were masked until the Mexican crisis of 1994; ii) The shortage of domestic savings and investment reflects partly the debt drainage of the 1980s and partly the growing commercial deficit of the 1990s as well as the inelasticity of savings to interest rates, contrary to prevailing claims of economic wisdom; iii) The spread of poverty has been stopped or even diminished slightly during the present decade, but this is a natural reflection of the economic cycle. As for the mid run, the current economic strategy provides very little in the way of emphasis, assumptions or preferred tools to support the expectation that poverty is being dealt with in a more effective fashion.

Good times. Geopolitics of cooperation is taking precedence over the geopolitics of confrontation in the western hemisphere. In the eyes of many, Saxon and Latin versions of Pan Americanism are being reconciled for the first time. Commercial integration among the countries of Latin America is becoming stronger and more productive. Reciprocal access to markets north and south of the Rio Grande is being eased by a series of extensively encompassing initiatives. The menacing discontentment with the Monroe Doctrine is now less obvious and a sense of renewed commitment to democracy and human rights is evident across the spectrum of US policies towards Latin America.

Not the best of times. *Respice polum* still provides a much stronger guide to Latin American foreign policy than *respice similia*, so that the 20 nations remain largely isolated from one another. The essence of overt and covert interventionism to foster local democracy (and? or?) to further the US national interest still lingers on. And the agenda of American-Latin American dialogue is still blurred by old misunderstandings on debt, trade, migration, Cuba, human rights, while new and risky misunderstandings are evolving on the environment and, most of all, drugs.

For better or worse, Latin America has thus substantially changed its politics, its economics, and its geopolitics. The courage and lucidity of its people for the restoration, consolidation and deepening of democracy should be applauded. Yet no analyst can fail to notice the close association between these healthy local developments and the end of the cold war – a state of affairs which Latin Americans did little to induce. Better ideas and renewed technical leadership likewise played a significant role in resetting the course of economic development, especially against the inadequacies of the traditional import substitution strategy. But the simultaneity, reach, and results of actual economic reforms cannot be explained simply by the debt crisis of the 1980s nor the mass inflow of capital during the early 1990s. Neither can the new geopolitics in the hemisphere be understood simply as the global demise of the cold war.

Therefore, the recent turn in regional development is to a large extent only a reflection of larger events within the industrial world. This conclusion appears to be in line with the established interpretations of Latin American history since the 16th century; that is, with dependency and world-system views. Besides the seminal statements of either *dependencia* (Cardoso and Faletto 1967) or modern world-system theories (Wallerstein 1974), there are, of course, a number of interpretations and in-house debates on their theoretical aspects (e.g. Palma 1978 and Shannon 1989, respectively) as well as their specific applications to Latin America (e.g. Bath and James 1976 and Burns 1980). Hence, it would be pretentious to call on the intellectual authority of these 'schools' to support the particulars of this paper (while reading these particulars as an out-and-out confirmation or refutation of the above theories would be too simple). Still, there is enough coincidence among the basic tenets to state that present day Latin America is just the newest chapter in a long history of asymmetrical insertion into the global system.

Consequently, the test for Latin America concerns not only its advance or retrogression in relation to the past but also its relative change of status within the world-system – and the general impression from recent developments is not overly encouraging.

In terms of global trade, Latin America, to start with, was losing ground even as the golden years unfolded and the regional GDP was expanding at its fastest. According to Iglesias, 'Between 1950 and the early 1980s, the share of Latin American exports in global imports fell from 12 to a mere 4 per cent' (1993:19). The local recession of the 1980s could only deteriorate the situation further so that by 1986, the figure reached its lowest level, 3.8 per cent.[22] Subsequently the share in global markets was increased by efforts to tighten belts and to adjust the balance of payments during the second half of the decade as well as the current shift to an export-promotion strategy. By 1993, the share was still a modest 4.4 per cent at a time when Latin America was home to 8.5 per cent of the world population. Manufactured exports have fared slightly better and annual growth rates are not very far below those of the Asian NICs. Overall, however, the share of Latin America in the world market remains very small (Bonturi and Lord 1992). All in all, Latin America's relatively minimal significance for the world's largest and most dynamic markets can be observed from the fact that by 1992, the region bought only 4.9 per cent of its total exports from the OECD countries, and sold a mere 4.5 per cent of their total imports (Hettne 1994). Not even the adds on 'emergent markets' apparently managed to improve the relative status of Latin America in the eyes of the global village – the region's share in total foreign direct investment actually fell from 12 per cent in 1970 to 11 per cent in 1990 (Simai 1994).

If the data collected by Angus Maddison are to be trusted, it may disturb some fashionable writers to recall how the performance of Latin America in terms of comparative economic growth during the period 1950-73 (with import substitution at its apex) was surpassed by only five countries, viz., Germany, Japan, South Korea, Taiwan and Thailand (1989). Furthermore, according to an equally careful review by the United Nations, Latin America's performance has been deteriorating since 1970. Thus, the region – including the Caribbean – participated with 5.6 per cent of the gross world

[22] This and the following trade figures are calculations based on UNCTAD (1991 and 1994), GATT (1993) and UN (1994).

product in 1970, and with 5.3 per cent in 1991. Its per capita product was 70 per cent of the world's average in 1970, but had diminished to 60 per cent in 1991. If differences in cost of living are controlled by using purchasing power parities instead of market exchange rates, Latin America shows a better standing and a slightly different evolution. Its share in gross world product was 7.8 per cent in 1970 and 7.9 per cent in 1991 but, due to rapid population growth, per capita product dropped from its level of world average in 1970 to 90 per cent of that average in 1991. Again, if a common set of international prices is used, Latin America improves slightly and the share in world product goes from 5.4 per cent in 1970 to 5.8 per cent in 1991, whereas per capita product stays at 70 per cent of the world average (UN 1994). In brief, Latin Americans have seen their standard of living improve at a similar or slower pace than the average citizen of the global village. The overall regional economy has moved ahead, but not fast enough to conquer an unmistakably better position in the world-system.

Although difficult to assess change in the geopolitical standing of any country or region, it seems clear that Latin America has at most experienced slight variations in this regard. If anything, ending the cold war left the hemisphere under the tighter control of the neighbouring superpower; which is not to imply that Latin America has become a priority for the United States. In fact, as Huntington puts it, 'The new strategic interests of America are three: maintaining itself as premier world power, preventing the emergence of a new rival in Eurasia, and protecting its concrete interests in the third world' (1991:5). Such 'concrete' approach calls for selective concern or engagement with individual issues or countries, including those of Latin America, and the rest of American interests in the region are not unambiguous. On the one hand, markets south of the Rio Grande are certainly becoming more valuable for the United States; communist threats are gone for good; and there are new issues potentially conductive to better understandings such commercial integration, and perhaps environmental protection. On the other hand, topics like drug trafficking, mass migration, or human rights (one way or another) are likely to breed misunderstandings and conflict. At any rate, power relations within the hemisphere show no signs of effective change, and Latin America pretty much continues to be the nineteen reserve votes in support of US initiatives in either OAS or the UN – Castro's Cuba is about to be crushed by the superpower.

On account of their intellectual descent, most versions of dependency and world-system theories are open to the criticism they tend to overstress i) the international over the domestic (Lenin's 'imperialism'); and ii) the exploitative over enriching in economic relations (Marx's 'surplus'). The theoretical complexities of such debates are well beyond the present scope, but this paper has tried to elaborate on the ideas that i) global trends are mediated by the particular situation in each country, and ii) those trends are often beneficial to many actors within Latin America. The implicit 'model' to emerge is one in which global forces create changing opportunities from which local actors profit; yet the different capacity of local actors to do so is a function of their previous standing within their respective countries. For instance, cold war geopolitics encouraged armies to take power, but democracy was more likely to prevail in those countries with more economic stability and political cohesiveness. Or, neoliberal reform is uniformly mandated by today's global realities, but its likely beneficiaries in each country are capable of more or less effective coalitions *vis-à-vis* those with vested interests in the status quo. Or, for a more specific example, a global demand for drugs worth billions 'invites' criminal suppliers to easy wealth at the expense of national violence and corruption, but more intensely so in those countries endowed with 'competitive advantages' for that crime industry.

The mechanism of externally created opportunity-internally contested availment goes a long way to explain the amazing inconsistency of Latin American 'strategies' for development. To an outside observer, it would seem common sense that long-run economic growth cannot be built on maximum imports and minimum exports, fixed exchange rates when domestic inflation vastly exceeds that of the competitor, introduction of speculative capital, too much consumption and too little savings, or the omission of nearly one-third of the population outside the market. Still, these features of the new economic 'strategy' result each from a complex 'negotiation' among economic actors who interact disorderly with different foreign counterparts. The economic circuit is not self-contained anywhere; in Latin America, it is not self-propelled, not self-centred, and not self-directed: little wonder it can hardly be consistent.

The search for miracle did not begin in the late 1980s. A miracle was expected ten years earlier from mass international indebtedness and no-one cared to anticipate the obvious, i.e. the huge fiscal deficit would turn into the 'villain' of the coming decade (Fishlow 1990). Between 1930 and 1980, a miracle was expected from the substitution of more and more imports and no-one paid attention to the subsequent need to enlarge the domestic market, for example, through agrarian reform (Grabowski 1994), nor to the built-in correlates of 'deterioration in the balance of trade, deterioration of agriculture, and deterioration of the public sector accounts' (Cardoso and Fishlow 1992:200). But, then, from 1870 to 1930, a miracle had been expected from exports of agricultural and raw materials: little was said about the poor income elasticity of world demand and the falling terms of trade which – not incidentally – were to mandate the import substitution 'strategy' (Prebisch 1984). And there was the long quest for a miracle in colonial times when mining sparkled a few growth peaks, yet no-one recognized that the exhaustion of mines would leave the land and workers stagnating in the *hacienda* system of the nineteenth century. 'These vast rural domains, essentially based on a subsistence economy and almost entirely cut off from the authority of the state, were to become one of the most characteristic features of Latin American society' (Furtado 1986:29). Indeed, haciendas were the best breeding grounds for clientelism in politics -the main reason why democracy was not in Latin America, and for desegregation in social life – the main reason why nations were not in Latin America.

This brings us back to the paradox that only strong nation-states can succeed within the global village (the argument is developed in Gómez 1995), and calls for an explanation of how the global village evolved from within the strongest nation-states (the argument is to be developed in a third publication, if the author's wish do so comes true).

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