

Perilous Times for Latin America

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Latin America has suffered more than its fair share of economic crises, but the global recession of 2008–2009 was supposed to be different. Because this crisis was triggered not by fiscal mismanagement in Latin America but by a combination of risky lending and lax regulation in the United States, some experts and politicians in the region proclaimed it a moment of “de-linkage” from the North. Yet early predictions of a soft landing—following a six-year economic bonanza for the region, which was largely driven by China’s thirst for natural resources—proved incorrect.

Indeed, the prognosticators’ pendulum has now swung in the opposite direction. We hear warnings about a long, slow, painful recovery in many of the region’s nations. Reductions in poverty, unemployment, and inequality are not expected to be achieved until long after economic growth returns. Many expect to see populist, autocratic leaders once again pushing protectionism and resource nationalism.

In reality, though, Latin America is likely to muddle through the current economic turbulence. The bigger story in the region is an unfolding, longer-term crisis of democracy.

First, the required caveat: Latin America and the Caribbean form a diverse region that is increasingly divided along a number of subregional and ideological lines. Mexico, Central America, and the Caribbean, with their higher dependence on the North American economy and on immigrant remittances, are experiencing more serious effects from the recession than are other areas. The volatile Andean region is torn between the Bolivarian ambitions of Venezuelan President Hugo Chávez and the democratic security message of Colombian President Álvaro Uribe. The Southern Cone, led by Brazil, is flex-

ing its muscles in the Group of 20 and diversifying its trade and political relations with Asia, Europe, Africa, and even Iran.

Regional integration by most accounts is dead, notwithstanding Brazil’s effort to establish a Union of South American Nations. Old tensions between neighbors are apparent again as talk of arms races gets louder.

Before the recession hit, different countries varied in their fiscal, trade, and debt situations. As a result, some will return to growth faster than others. States that before the crisis accumulated capital reserves and kept their spending in check, such as Chile and Brazil, have been able to carry out countercyclical spending policies. These policies include further investments in the social safety net, which will, at a minimum, soften the impact of the crisis on the poorest. States in a weaker fiscal position, such as Venezuela and Mexico, are in for a much tougher ride.

POLITICS IS BACK

One direct political consequence of the global recession is that it has driven the final nail in the coffin of the neoliberal “Washington Consensus.” What will take its place remains to be seen, but certainly Latin America’s leaders are looking to reassert the state’s role in regulating economic affairs.

As former Chilean President Ricardo Lagos put it at a recent Club of Madrid gathering on the political implications of the economic crisis, “Politics is back.” And given the weakness of governments in the region, a consensus in favor of strengthening the state would on balance be a good thing. But will a stronger state be more or less democratic?

The answer depends largely on how leaders tackle longstanding structural challenges that have burdened the region with the world’s highest rates of inequality and public insecurity. Latin America’s persistent dependence on natural resource extraction and exports, reinforced by

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China's thirst for raw materials, means that the region will remain highly vulnerable to boom-and-bust cycles and external shocks. At the same time, continuing underinvestment in education, infrastructure, public services, and technology means that Latin America will fall further behind other regions in the global race for comparative advantage.

At the crux of these problems is that Latin America's economies are notoriously illicit and under-taxed, which leaves governments without the fiscal resources necessary to invest in a brighter future. Unless today's political leaders, and the special interests that support them, are willing to come to terms with the need to pay taxes, Latin America is doomed to remain a second-tier region.

A related economic and political challenge facing the region is respect for the rule of law. To attract private investment in today's competitive global market, states must maintain judicial systems and police institutions that are capable of protecting citizens and enterprises. While some progress in this arena has been made—witness the impressive prosecutions of former presidents and other senior officials on graft and human rights charges in Peru, Costa Rica, Chile, and Argentina—corruption remains a serious drag on the region's political economy. Trust in the social contract is frayed, and this leads small and large businesses alike to evade paying taxes whenever possible.

SHORT TERM, LONG TERM

Every crisis has a silver lining—at least to the extent that crises can compel a fundamental rethinking of policy and facilitate progress toward achieving much-needed reforms. So perhaps the current crisis will prompt Latin American political leaders to make some hard decisions: Do they raise taxes, redistribute income, and invest in high-quality education and other public goods? Or do they borrow from the future by incurring new debt and relying on the usual export-led economic model, which seems only to reinforce chronic underdevelopment?

In essence, do they govern for short-term political gain, or with a long-term view toward putting

their societies on a more sustainable and equitable growth path, even at the risk that they serve just one term? Does democracy, as it is now practiced in Latin America, allow a longer-term perspective? Or will the region's politicians be jarred into action only by another crisis?

While some of Latin America's democratization trends are positive—free elections, alternation of power, burgeoning civil society, and independent media are evident across the region—the underlying patterns of strong-man rule, elite control, corruption, and weak civic education still predominate.

To make matters worse, illicit networks such as those centered around drug trafficking are, in a vicious cycle of illegality, increasingly contaminating political and judicial systems in the region. These developments do not bode well for building consensus within nations around long-term goals.

The economic crisis if anything has exacerbated the difficulties involved in reaching such a consensus. Painful cuts in public services, and increasing crime and social tensions, have made coalition building all the more challenging. This in turn has increased the chances that populist and nationalist appeals to voters will succeed in a number of Latin American countries.

A proliferation of cross-border rivalries and of full-throated attacks against old enemies (Ecuador-Colombia, Peru-Chile, Venezuela-Colombia, Argentina-Uruguay, for example) demonstrates the tendency of politicians to change the subject when economic times turn sour.

The ongoing political crisis in Honduras following a military coup last summer demonstrates what can happen when key actors take matters into their own hands rather than pursuing some form of reconciliation.

Latin America's democrats, if they are to overcome their inherent tendency to govern for short-term gain, must build coalitions and undertake national dialogues to construct long-term visions for their countries. In this way they might establish some basic, common understandings about citizens' responsibility to honor the rule of law in exchange for their governments' delivery of public goods.

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CRISES AHEAD?

Elections are one way to build consensus and hold incompetent leaders accountable—but, as Assistant Secretary of State for Western Hemisphere Affairs Arturo Valenzuela recently explained, they are insufficient by themselves to resolve a constitutional crisis.

We are likely to see more political crises in Latin America as leaders on both the left and the right, with support from key allies, continue to attempt to revise constitutions to extend their hold on power. The Organization of American States, riven by internal conflict, is proving itself incapable of resolving these emergencies, let alone preventing them.

So we are left with a rather downbeat forecast for democratic politics in the region. Even if the major economies continue to climb out of the recession and return to a path of growth in the short term, few benefits will accrue to the average person's economic status. This will raise social and political tensions for years to come.

Even as economic growth resumes, Latin America's great democratic experiment of the past two decades faces considerable peril unless the region's political and civic leaders invest themselves in constructing new forms of national dialogue and reconciliation and begin governing for the long haul. ■