The dilemma of governance in Latin America

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Abstract

The last decades of the 20th century have seen the institutions of governance in Latin American countries affected by small macroeconomic achievements and reduced economic growth, and the development of an extremely fragile democracy. The implanting of the new model of neoliberal state consolidation has come at high cost, and has not produced either the expected strengthening in the political, economic and social spheres, or the expected gains in efficiency, equity and freedom. This so-called economic liberalization has generated institutional instability in the structure and functions of the state, limiting the reaches of democracy and legality, and ensuring that the effects of the associated managerial orientation which has transformed public administration are largely negative. Looking forward into the 21st century, a pessimistic prediction is that these tendencies will continue, producing similar unstable mixes of democratic populism and oligarchic pragmatism. More optimistically, the Latin American states may come to see that genuine social development is necessary for sustained economic growth, and introduce policies to achieve that outcome.

Some measures of economic, social and political malfunctioning

The globalization processes surprised Latin American countries because they didn't have the political-economic mechanisms and the necessary institutions to assimilate its effects in such a way as to achieve social justice in the distribution of the wealth that was created. The challenges posed for Latin America by globalization require a further revision of the romantic utopias that came first with the Bolivarian independence of the early 1800s and subsequently with several popular revolutions in various parts of the region.

Whatever its benefits, globalization clearly has perverse effects. The 100 biggest transnational companies now control 70% of world trade, although a significant relationship does not exist between the growth of world trade and world gross product. The volume of the financial economy is 50 times more than that of the real economy. Most significantly for present purposes, the market value of the 1000 biggest companies ($US23,942,986 million) is equivalent to 11.8 times the gross internal product of all the Latin American countries, and the market value of General Electric alone ($US520,250 million) is equivalent to the gross internal product of Mexico. Any one of the 23 most powerful multinationals has superior sales to what Mexico exports. Again, the value of 9,240 commercial coalitions and acquisitions throughout the world in 1999 reached $US2,963,000 million, compared with the annual gross internal product of all the countries of Latin America and the Caribbean calculated by the World Bank to be $US 1,769,000 million (1).

A brief survey by Lazcano [17] of the impact of globalization on the pattern of development in Latin American countries identifies several other outcomes:

* economic dependence on the exterior, particularly the United States and the European Union, has deepened;
* financial crises, devaluations and bank rescues have concentrated the wealth in less than 10% of the population;
* economic growth has slowed, productive plant has been destroyed, and underemployment and unemployment have increased;
* the northwards flow of Mexican (and other Latin American) workers (ie to the United States) has increased;
* privileges have been granted to foreign capital in relation to the financial system and the servicing of the external and internal debt;
* economic integration has been towards the outside, with economic disintegration internally;
* the possibility of a sustainable development pattern and the range of options in economic policy-making has been reduced.

In all these ways the social fabric of Latin American countries has been disrupted, the income of the general population reduced, local wealth transferred to the exterior, poverty levels expanded, and indigenous inhabitants excluded from the social pact.

**Key challenges for the future?**

The role of the state, and of the public sector which most directly supports and serves that role, is central to each of the three big challenges Latin America faces as it enters the new millennium. These challenges affect the economic, the social and the political spheres respectively, although of course there are many connections between them. The first is to achieve sustainable economic growth within the market economy; the second, to achieve fair and equal distribution of available income; and the third, to remove the obstacles that block development of state institutions that will allow a higher degree of democratic participation in governance.

**Economic policy and social development**

Sadly, it seems that the implementation of policies that reduce social inequalities enters into conflict with the logic of capital accumulation. Thus the privatization of public enterprises and the associated destruction of productive chains have together resulted in a growth of unemployment and an increase in numbers below the poverty line. The lack of appropriate employment opportunities is one of the main concerns of Latin Americans at the turn of the century [12]. Not enough employment is generated, and only a few individuals have access to well remunerated work.

The economic cycles of Latin America in the 1990s have allowed an average growth rate of 3.2% that has achieved little for the poorest sections of the population. The growth rate has slowed in the last few years, and this is likely to continue into the new century due to the pressures of globalization as described above. Financial crises continue, making it difficult to maintain macroeconomic stability. These negative results widen social dissatisfaction and lead to social protest demonstrating wide dissent against the newly adopted economic policies.

The inability of governments to overcome such problems points to the lack of appropriate governance arrangements. In some areas, the rule of government is virtually absent, and chaotic situations have arisen marked by mass illegality and barbarism. Governance, in terms of the capacity of the state to solve the problems of society, is reduced to arrangements among different political-elite groups.

Poverty and inequality are of course not new in Latin America, and their earlier manifestations have been explained as the result of a pattern of Iberian colonization [21]. While this doesn't explain why the former colonies of the British, French and others in the Caribbean and Latin America also have much poverty, Yañez (2000) discerns an Iberian institutional plot that favoured the formation of economies with high transaction costs, ill-defined property rights and
incomplete markets where inequality and exclusion are the norm. As former Spanish President Felipe González put it, the first challenge for the prevailing Latin American economic pattern is to put an end to poverty, whose continuing existence explodes the neoliberal economic model [26].

It is broadly acknowledged by academics and intellectuals that the Latin American social structure is a "pigmentocracy" whose peak is represented by the direct descendants of the Spanish aristocrats, of tall stature and clear skin, well educated and owners of the production factors of earth and capital. At its base are placed the direct descendants of the indigenous population, lower in stature and with dark skin. Between these two strata is the big band of mestizos or mixed-bloods. The Spanish settlers used military force and the powers of the state to assure their economic and political dominance over the lower-strata majorities [9].

The persistence of this social stratification until the present time is one of the causes of social exclusion and it constitutes a serious problem for good governance: the dominant social stratum owns the major corporations and the main means of production. But the market is not the source of its dominance, and so the new competitive atmosphere of globalization could be its tomb. Equally, marketization can open up opportunities for the disadvantaged groups that previously had no opportunity to participate actively in the economy.

Globalization certainly imposes pressures, but many of the sources of poverty are internal to Latin American society: lack of knowledge, education and science, lack of capital equipment of all types, lack of incentives for individual action (except for those in big government or big corporations), lack of institutions that protect people’s lives and their property, generally absence of the “rule of law”, and often predatory governments. Public policies are needed to address all these issues.

Latin American countries require with urgency and with anguish a new development paradigm, and it is most likely to come by means of alliances among public and private sectors. Positive government is essential, but the companies that have benefited from privatization must participate in full measure. This new paradigm should allow and measure increments in wealth that are not disassociated from measures of monetary growth, population growth and debt. The systems and practices that fail in the current hegemonic paradigm point the way to eventual change and the instituting of the new paradigm.

The low efficiency of public administration in the social arena in the last two decades must be overcome. While priority was given to macroeconomic reform, social expenditure did rise by almost 25%—but the return on that investment was very low, due to diverse factors such as corruption. Investment in human capital through attention to the education and health systems has provided only temporary relief because it has not been appropriately institutionalized: through Latin America the real expense per capita in education and health in 1995 hardly reached the levels of 1980, because there were no increments in the per capita income (Ocampo, [19]: p.34). The “welfare state” was never deeply entrenched in any Latin American country, and what little of it there was is being dismantled by the neoliberal economic model. Existing programs to combat poverty offer only a temporary palliative through the provision of social security nets: they are focused on the consequences of poverty and not its causes.
All this must be changed. The proposal of Attanasio and Székely [3] for a dynamic attack on poverty involves abandoning the focus on the family income and its distribution. The focus must instead be on the access of the poor to property, on the better use of asset-generating revenues, and on the accumulation and use of those assets to generate income-earning production. These investigators argue convincingly that the process of human capital formation is decisive for the development of Latin America and for the elimination of its poverty.

**Participation and democratic governance**

The demand for democratic participation in Latin American countries is at the same time a demand for transparent public administration. In its attempt to move away from authoritarian government, it represents a search for a way of providing the new development model with a genuine social identity.

The monetarist and neoliberal economic policies which have driven the changes to the Latin American state over the last two decades hold the expectation that those changes will make it more efficient and more effective. They have certainly made it smaller and thinner; and the globalization processes they are associated with reduce its sovereignty. That is the external attack; it is also being attacked from within by the economic and political malfunctioning that results. The fact is that, despite the efforts to democratize, most of these states continue to be strongly centralized, their governments permeated by anti-democratic traditions and controlled by the political elites which perpetuate existing relationships and the socio-economic and regional inequalities [27]. In an atmosphere of neopatrimonial clienteles, these political elites benefit from the economic inefficiency. This situation is aided by the disconnection between the budgeting, planning and procurement systems which govern the application of financial resources---high levels of technocracy operate here---and evaluation of results; the latter already shows up many limitations and deficiencies, but the evaluation process is still in its infancy. All this must change too if there is to be genuine political and social reform.

There has been some reform of electoral processes. But more than that is needed in the new century: legitimacy of government requires that the reformers must enhance the democratic participation of citizens in the processes of government itself. They must be enabled to exercise their citizen rights, to inspect and criticize the public function, and to participate in the design of policies and programs affecting their communities. Norms of reciprocity between governments and citizens must be established, such as are envisaged in Putnam’s [22],[23],[24] nomination of institutions to develop social capital---nets of civic commitment---such as neighbourhood associations, cooperatives, sports clubs and mass political parties.

Even as their capacities to make these changes have been diminished by two decades of neoliberalism, Latin American governments are being required to alleviate the imbalances caused by the market, to deepen the processes of economic restructuring and to redefine property relationships [1]. The processes of transition to democracy have had some successes. Thus democratization of Latin American society recovered where it had been eliminated, as for example in Argentina, Brazil and Guatemala, and has been deepened where certain democratic manifestations already existed, as in Colombia, Costa Rica, Mexico, the Dominican Republic and Venezuela. However, the advance and consolidation of Latin American democracy will occur only when it is thoroughly thought through and implemented as a regional strategy of development.
One significant analysis (Cavarozzi, 1992) leads to the conclusion that the dominant theoretical perspective during this period saw the installation and consolidation of the institutions of political democracy as an isolated process separate from the main causes and effects of the transition that was taking place. This analysis suggests that what is now needed is to move consciousness of this political reform to central stage, so that the continuation of authoritarian management systems is reversed and a new womb of political-social and economic relationships constructed. The democratizing wave must not be allowed to be blunted by recurring economic crisis.

This will involve a recognition that the capacities of the state have been weakened to such a degree that the military are presently increasing their activities to provide emergency services, and that this tendency must be reversed before provision of the full range of assistance programs required for civil society can make headway [14]. The military have been called in or they have themselves volunteered, importantly to control the explosive violence, but also to fill the vacuum left by the weakening of the traditional state. The economic elites must be brought to support instead the participatory democracy, which they too often perceive as a threat to their own interests.

The main challenge is to make the state responsible to the society, the social groups and the citizenry in general. The society will support a government that attends to its necessities, but it will oppose and even rebel if these necessities are not satisfied. The globalization processes that have weakened the Latin American state in their pursuit of modernization must be turned to support social development. They must understand that the political and civil conscience of those who suffer the effects of the application of regressive economic policies will seek to find refuge in the territorial base of democracy, and that these people need to be assisted to develop their own autonomy and promote actions of self-management [2].

**Into the 21st century: The dilemma of governance in Latin America**

The low level of governance in Latin America has its antecedents in the weaknesses of the economic, social, cultural and educational policies which existed despite the past strong presence of the authoritarian state and its governing institutions. Sadly, as we have seen, the new economic policies associated with the neoliberal transition of the late 20th century, which weakened that state, did nothing to remove these governance deficits.

What is now required is to develop a critical appreciation that the prevailing international economic system, which mortgages the future of big sections of the population, needs to change. Latin America cannot effect this change alone, but it can exert much more pressure on the levers which have designed and presently perpetuate that system if it now begins consciously to reform its governance along the lines indicated here. The centre of this debate on governance involves questioning the global economic pattern implemented in the last two decades that has given dominance to the market, and recognising the imperative need to correct the social imbalances it has generated.

Quality governance certainly favours economic growth, but it also demands sustained social development. Economic development needs to be seen as a step towards a higher level of life, to be taken in the smallest possible time and at the smallest possible cost. It is thus a means, not an end in itself. If it has any validity as a process, it must be accompanied by social development, which involves better distribution of income. More generally, it involves an increase in the good of mankind, facilitating constructive coexistence of each member of the population with every other member.
Imperatives are participation in community activities and the mutual help that insists on the validity of law and the
democratic way of life; to achieve these standards, the horizons of education and culture must be opened and enlarged
(Servitje, 1999). In these terms, the results obtained in Latin America over the last 20 years must be seen as very
disappointing, and they point clearly to what needs to be done to improve standards of governance in the future.

There are many governance weaknesses to be overcome. Why were public and private investments in Mexico in
1996 less than the annual levels of the 1970s and 1980s? A serious study of the Mexican case [15]; also [28] points to
several main problems: official and private corruption, the traffic of influence, the corruption and inefficiency of judicial
organs, the influence of drug cartels, deficiencies in internal security in the form of guerilla groups operating in rural areas,
vigilance in the big cities. Another study [6], based on a survey of private sector views of the governments of Central
American states (including Mexico, Costa Rica and Jamaica), sought to evaluate the institutional quality of the various
countries and located significant obstacles to business opportunity in the rate of crime and robbery, inadequate infrastructure,
inflation, corruption and poor financing. All this points to a high degree of risk associated with a government's capacity to
establish macroeconomic stability (cf Malvin, [18]; also [7]). Removing sociopolitical uncertainty must be an important
component of all efforts to reduce the burden of these existing problems, and central to that cause must be the strengthening
of education and health programs and basic social services to support the reduction of poverty. Such policies are essential to
modify the economic environment so that a diverse range of individuals will be able to take advantage of opportunities to
behave entrepreneurially and contribute broadly to the combined objective of economic growth and social development.

Is the process of selling strategic public enterprises to the private sector likely to be reversed? In their privatization
programs, Latin American governments have destroyed the assets of nations, gambling on an assumed prosperity expected to
come from globalization processes. Now, it would seem, a better future rests in the possibility that the provision of social
welfare and other essential collective goods for a stable democracy may come from state actors and institutions forging close
and mutually constructive links with private actors whose cooperation will be essential if political stability is to be achieved
and economic growth restored.

A non-partisan strategy will be required. It must be recognized that all will benefit from such privileged connections
between the actors of the state and those of the private sector, and this will not happen unless and until there is developed and
entrenched a theory and a policy that stresses the importance of a sense of community identity and yet is tolerant of
differences among the diverse members of that community.

The paradox is that, contrary to the principles of neoliberalism that postulate the free market, democracy and
individual freedom, the recent reformations of the Latin American state have been implemented under practices of
authoritarian government. Also, the interventions that have taken place (such as those under the authoritarians Salinas in
Mexico and Menem in Argentina, dictator Pinochet in Chile or the delegate democracy of Fujimori in Peru) have accentuated
the practices of a strong presidentialism, cronyism, corporatism and populism. The delegate democracy is a perverse form of
democratic governance, maintaining existing iniquities. In the Latin American states at the turn of the century, tendencies
sprout toward a system of public administration characterized by an oligarchic pragmatism that still personalizes presidential
power. However, the resurgence of populism is another present possibility in Latin America, as in the recent case of
Venezuela.
The processes of economic liberalization do not bring the benefits expected in economic growth, distribution of wealth or depression of poverty, and the advance of the processes of democratization is slow. The results appear in the tensions and social and political conflicts which have such serious implications for governance. Moreover, in the resolution of the various conflicts, the Latin American states are losing efficiency and effectiveness because they have fewer resources, insufficient and inadequate means, and reduced autonomy for the formulation and implementation of policies.

The hope for the future is that the causes of this decline will be clearly recognised, and that governments will turn towards the strengthening of social development and social cohesion, which will then surely promote also the cause of economic growth. To do this, they will need to be far more selective in choosing which components of the globalizing process they wish to support; they will need to be stronger in standing against components which restrict their own developmental opportunities. A future in which these things happen may restore for Latin Americans the dream of a democratic Bolivarian utopia.

**End note**

1. Not surprisingly these relativities, being so unfavourable to Latin America, have attracted a large literature in that region. These comparisons drawn from eg Barros, [4]; Brito, [5]; Castillo & Romero, 1990; Contreras, [10]; Cason & Brooks, [8]; Daniels, [11]; Enríques Cabot, 2000; González Amador, [16]; Peón Solís, [20]; Rugman & Hodgetts, [25]: pp.44-45. See also EFTA, [13].

**References**


