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Latin America's Neoliberal Reality
Howard LaFranchi

The Left Responds
Andrés Oppenheimer

Whither Privatization?
Osman Morales on Bolivia
Jorge Vargas on Costa Rica
Alejandra Vallejo on Mexico and Peru

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ON THE COVER

Mexico City's International Stock Exchange. Photo: Alyx Kellington.

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A MAGAZINE OF THE AMERICAS

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FROM THE EDITOR

In each issue, *Hemisphere* attempts to tackle critical issues affecting the Americas. In recent years, our readers have requested more in-depth discussion of a single topic from a variety of viewpoints. In the last two issues, therefore, we have shifted our format to include a central core of articles about a specific topic. We have also attempted to move the magazine toward a more graphics intensive format. I hope you find our new format more appealing and our articles informative and challenging.

In this issue we focus on neoliberalism or, as some may prefer to call it, market-oriented reforms. Throughout Latin America and the Caribbean these reforms have entered into a critical second phase. Neoliberalism's harshest critics point to the exacerbation of inequality and the spread of poverty, crime and general social degradation. Supporters of the reforms note the end of hyperinflation, the restoration of economic growth, and an increase in large-scale foreign direct investment. We have invited a select group of scholars and journalists to examine this debate by focusing on some of the central themes of the neoliberal agenda, including administrative decentralization, privatization and free trade.

The issue begins with commentaries by journalists Howard LaFranchi and Andrés Oppenheimer, who report on the general economic and social impacts of market reform in Latin America and the left's attempt to formulate an alternative to neoliberalism.

The features section includes a special forum on privatization, a key tenet of neoliberal reform. The three articles devoted to this topic address the course and outcome of privatization in Bolivia, Costa Rica, Mexico and Peru. Also in this section, photojournalist Janet Jarman discusses attempts to regulate the environmental impact of free trade along the US-Mexican border, and Allan Rosenbaum traces efforts to strengthen local government in different municipalities across Latin America.

Hemisphere's reports section broadens the issue's focus with articles relating to other topics of interest in the Americas. In this issue, George Grayson discusses the future prospects of Mexico's ruling party, and Gary Brana-Shute provides an account of his experience as an elections observer in Jamaica.

Photo essays have become an important part of *Hemisphere.* We believe that images have the power to depict a certain point of view, and tell a story that articles may not be able to convey in words. We have published the works of outstanding young photographers from around the Americas, and in this issue we are delighted to share with you Ricardo Funari's dramatic photo essay on labor exploitation in rural Brazil. His depiction of workers in the sugar, rubber and charcoal industries points to the harsh realities of life in contemporary Latin America.

Finally, I would like to introduce our new managing editor, Alisa Newman. Alisa holds an MA in Latin American history from the University of Texas-Austin and has editorial experience with a variety of publications.

For the past decade, *Hemisphere*'s objective has been to promote an intelligent debate on a broad range of issues affecting the Americas. We urge you to write and share with us your views on the magazine and specific articles in this and previous issues.

Eduardo A. Gamarra

Staying the Course

Howard LaFranchi

During a Buenos Aires protest march last year against President Carlos Menem's neoliberal economic program, the usual jeers and cries were suddenly rivaled by a new chant. *"Bucaram! Bucaram!"* the crowd howled in unison.

Far from a cry of support for Ecuador's deposed president, the crowd's chant referred to Bucaram's fate after implementing stringent neoliberal economic reforms. As such, it was a warning to Argentina's leaders that the same end could befall them if they persist on the same course. Menem got a rude shock after the Congressional elections of October 1997, when the left-of-center Alianza party gained control of the legislature after a campaign that criticized the president's economic policy and its effect on average Argentines. This policy amounts to a fairly classic package of neoliberal economic reforms: curbing inflation with tight fiscal policies, downsizing the state, selling off public companies in favor of private enterprises and opening up heavily protected domestic markets to global competition.

The shouts of *"Bucaram! Bucaram!"* reflect the growing impatience across Latin America with a decade or so of economic reforms, depending on the country in question. Those reforms have ushered in unquestionable benefits, chief among these the toppling of inflation. At the same time, however, reform programs have been less successful at improving economic and social conditions for a wider spectrum of the population. Critics charge that while the macroeconomic indicators achieved by neoliberal administrations are often impressive, the gains have not trickled down to those who need them most.

Latin Americans will not soon forget the years when inflation in some countries reached an annual rate of 1,000%. Tales abound of the Argentine or Brazilian housewife who, one morning in the 1980s, decided to bake a cake. According to these stories, she went to the store to purchase eggs for the batter, got home, and decided she needed more eggs. She then returned to the store with the amount of money paid for the eggs 20 minutes earlier, only to find they had doubled in price. Such tales are legion and legendary.

In 1996, Brazil's inflation fell to a 36-year low. The reason for this drop was no mystery. São Paulo's Fundação Institucional de Pesquisa Econômica, an economic research institute, said in a report, "Inflation slowed because Brazil's more open economy led to increased competition in prices." Maintaining the present economic policy, the institute added confidently, "will keep inflation low."

The problem is that while inflation now appears to be under control, unemployment has soared to unprecedented levels in several countries in the region. Argentina's unemployment rate stands at between 17% and 18%, while Colombia's rate of 13% is the highest in a decade. Latin America's infamous income gap has also worsened. Brazil still tops the World Bank's list of countries whose income distribution paradigm is an inverted pyramid—representing enormous incomes for those at the top with but a small slice left for the masses at the bottom—but a recent addition to this list is Chile, ostensibly the economic model for an entire continent.

A survey in Chile showed that well over half the population rejected the economic model implemented by General Augusto Pinochet and maintained by his democratically elected successors. In light of other data showing that most Latin American countries have not reduced poverty, raised education levels, or improved workers' buying power, even those international financial institutions that advocate austerity programs and economic openness have sounded the alarm.

In 1996, the World Bank admitted that its free market policies had failed to improve the living conditions of the world's poorest 20%. The institution called on Latin American nations to increase spending on such social services as health and education. Similarly, the Inter-American Development Bank (IDB) warned this year of the consequences of "reform fatigue," resulting from mounting frustration over fruitless promises.

Yet despite protests and other signs of exasperation, the catcalls in Buenos Aires ring slightly hollow. Bucaram was forced out of office under rather unusual circumstances, and no other government in the region has felt threatened enough by protests and widespread public

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Howard LaFranchi is a Mexico and Latin America correspondent for the Christian Science Monitor in Mexico City.

Despite its flaws, neoliberalism is here to stay

A slum clings to a hillside in Ecuador. The economic gains of neoliberal policies often do not trickle down to those who need them most. In Latin America, the number of people living at the poverty level has reached 210 million.

discontent to change its economic policies. Nor does any Latin American country appear to be on the verge of social explosion. Venezuela may have come close, but despite 70% disapproval ratings for President Rafael Caldera's government and crippling strikes by various service sectors, a countrywide breakdown seems unlikely.

Statistics and other evidence of failed policies seem to shout out at us every day. The World Bank reports that the number of people living at the poverty level in Latin America has reached 210 million, of whom 58 million are children under the age of 15. In Argentina, 600,000 citizens have joined the ranks of the newly poor, and even in Chile, which has reduced extreme poverty over the last six years, one in four inhabitants lives below the national poverty line.

Why then has the widespread condemnation of Latin America's economic reforms—by religious leaders, unions, teachers, academics and workers, through press conferences, studies, summits and demonstrations—not progressed beyond the protest stage to become a nascent political movement? The answers vary from one country to the next, but together the factors upholding reform significantly outweigh any disenchantment.

First, those who lost under neoliberal reforms were already disenfranchised. The unskilled, the poor and those with little or no education have minimal influence over policy. In highly technical, decentralized and globalized societies, such groups are likely to be further marginalized, with less of an organized voice.

Second, there are more voices today, due to the spread of democracy throughout the hemisphere. Ironically, this characteristic of democratic societies has weakened the forces of criticism in Latin America. The proliferation of political parties, think tanks, nongovernmental organizations (NGOs), human and civil rights groups, consumer organizations and environmentalists has splintered the opposition into many different factions. The result is a widening arc with varying degrees of support for, or criticism of, the neoliberal model, making the possibility of a collective uprising against the status quo less likely.

A particularly eloquent example from Brazil provides one explanation for the lack of organized protest against neoliberalism. Market research shows that compact disc sales in Brazil doubled between April 1996 and March 1997, suggesting that Latin Americans are too busy shopping to worry about bringing down the prevalent economic system. And if they're not buying—which many are not—they're window-shopping, intoxicated by the availability of a wider and more affordable range of consumer products.

Like people everywhere in this increasingly globalized world, Latin Americans are becoming more individualist and consumer-oriented. In Brazil alone, household ownership of color television sets jumped from 55% in 1991 to 90% last year. VCR ownership rose from 31% to 58%, while ownership of a refrigerator-freezer increased from 28% to 54%. During the same period, the number of Brazilians holding credit cards rose from 18% to 32%. As more people become mass consumers, their interest in variety and lower prices grows—sometimes at the expense of somebody else's job. The closing of local, formerly state-owned industries is considered the price paid for consumer demands. In this new consumer context, shoppers tend to equate state-owned monopolies with poor quality, waste and corruption. This negative opinion contrasts with the good quality, efficiency and value associated with privately-owned, and in many cases, foreign companies.

This doesn't mean that Latin Americans are uniformly elated with their new, expanding role as consumers. Surveys show that people in many countries in the region are working longer hours, or additional jobs, to purchase consumer goods that their families now consider necessities. In countries like Chile and Argentina, it is not uncommon for a professional with a full-time job to drive a taxi after hours to make ends meet.

Then there is the problem of a viable alternative for those who see the neoliberal model as only exacerbating Latin America's woes. Despite its criticism of market-oriented reforms, for example, Argentina's Alianza was quick to clarify after its election victory that it would not push for any radical detour from Menem's economic model. And in a recent interview, a Chilean economist asked for an alternative to the neoliberal policies he and his colleagues oppose replied, "Our drama is that we don't have an alternative to propose."

Not all critics of neoliberalism would agree, or be so forthcoming. Last year, Mexican political scientist Jorge Castañeda invited a group of respected Latin Americans to Mexico to formulate a coherent, workable alternative to neoliberalism. In a subsequent article, Castañeda claimed that the foundation for such an alternative had been laid. He neglected to explain, however, exactly what the plan entailed.

Some observers argue that any alternative plan should recognize that hyperinflation is no longer a real threat for the region, and that low levels of inflation are acceptable—indeed, necessary—for achieving the kind of growth rates needed to tackle poverty. One Brazilian critic has suggested that voters put local government in the hands of more left-leaning or socially-minded governors who may act as a counterweight to the neoliberals at the national level. Neoliberal macroeconomics are unlikely to change soon, he says, but local governments can buck or soften the national model, like the Communist Party did in Italy.

What is the likely future of neoliberalism in Latin America? The shouting won't go away, but neither will the reforms. There may be some braking or detouring along the way; for example, Mexico stalled its privatization process when it became clear it was hurting the ruling party's popularity, and in Argentina, the courts have hindered some of Menem's reform efforts. Brazil is probably the best barometer of the direction neoliberalism is taking in the region, although it is generally behind its neighbors in the reform process. No one expects President Cardoso to reverse his government's present course, despite the temporary setback provided by the recent market crisis.

Another trend that will continue within the economic reform process is the extension of trade accords and the creation of what could conceivably become a hemispheric trade zone—minus the United States. While the US has pretty much wasted the past three years when it comes to launching trade initiatives with Latin America—we all remember that Clinton invited Chile to join Nafta back in 1995—Latin American countries, from Mexico to Argentina, have not been idle. They now have more than a dozen trade agreements among themselves and the number keeps growing. As former Bolivian President Gonzalo Sánchez de Lozada said in Atlanta earlier this year, "We think we'll have by the year 2000 at least...a trading bloc comprising all of South America."

That's hardly the voice of a region pulling back from neoliberalism. ■

Seeking "A New Path"

Andrés Oppenheimer

Will the defeat of President Clinton's "fast track" authority to sign new free trade agreements generate a backlash in Latin America? Will the increasingly powerful center-left coalitions in Mexico and Argentina shift away from a US-proposed hemispheric free trade bloc?

The answer is yes, according to a document prepared by potential presidential candidates from some of Latin America's leading opposition parties. The document in question—a 24-page manifesto entitled, "After Neoliberalism: A New Path"—was released in Buenos Aires in November 1997. The alternative vision of development presented in its pages may have a significant impact on US exports—and jobs—in coming years.

The explicit critique of neoliberalism was the result of four meetings in Mexico, Chile and Costa Rica by a group of centrist and leftist politicians, several of whom have a good shot at winning their countries' next presidential elections. Members of the group, informally known as "the Buenos Aires Consensus," included Mexican politicians Vicente Fox, Cuauhtémoc Cárdenas, Manuel Camacho and Andrés Manuel López Obrador; former Brazilian president Itamar Franco and leading opposition candidate Luiz Ignácio "Lula" da Silva; Argentine opposition leaders Graciela

Andrés Oppenheimer is a columnist at the Miami Herald.

Excerpts from "After Liberalism: A New Path"

A strong, active and financially healthy state is a necessary precondition for, not an enemy of, a democratized market economy. To this end, we should aim for increased tax collection that progressively reaches international levels. To reconcile increased levels of taxation with the need for private savings and investment, we should consider implementation of a range of options. When properly administered, indirect consumption taxes—generally in the form of a value-added tax—can attain this objective. The regressive slant of such taxes is more than compensated for by the redistributive effects of the social spending that they fund. Certain types of direct taxes also play an important redistributive role: a progressive tax on personal consumption (based on the difference between a citizen's total earnings and proven savings); an estate tax, with special emphasis on inheritances and charitable contributions; and a tax on natural resources, to set aside a portion of the profits from such deposits for the national patrimony. Swift punishment of tax evasion and broadening the base of contributors are further key elements of fiscal reform.

Latin American governments should strive to eradicate corruption, dishonesty and inefficiency so that every fiscal dollar yields its maximum productivity in social and human terms. In some countries, where domestic debt siphons off a large part of public finances and produces astronomical interest rates, the state must be restored to fiscal health. The methods for achieving this goal can include privatization, as long as the profits of such sales are channeled toward reducing domestic debt and the interest paid by the government and private entities on international loans. We reject the practice of using privatization to finance the current account or pay off foreign debt. Privatization should be implemented on a case by case basis, not as a

Fernández Meijide, Carlos "Chacho" Alvarez and Rodolfo Terragno; and Ricardo Lagos, Chile's public works minister. Nevertheless, the document makes it clear that not all participants agreed on all points. The final product was not signed, to avoid time-consuming debates over details, and at least one of the original members of the group—Brazil's da Silva—has already asked that his name be removed.

Despite these drawbacks, the group's attack on neoliberalism represents an opposition consensus on major issues, including the following points:

➢ "To set in motion mechanisms for regulating speculative foreign investment." The group suggests following the example of Chile and Malaysia by limiting massive overnight withdrawals from local stock markets, in an effort to prevent the sudden waves of capital flight that periodically cripple Latin American economies.

➢ "More integration among ourselves, and less with others." The group hopes to strengthen and expand Mercosur, the South American free trade agreement that includes Argentina, Brazil, Paraguay and Uruguay. The logic behind this argument is that Latin America should become a strong free trade bloc in its own right before engaging in trade negotiations with the United States.

➢ "The taxation rate should rise progressively to international levels." Wealthy Latin Americans pay significantly less taxes than their counterparts in the United States or Europe. The document proposes new value-added taxes, as well as more stringent taxation of charitable contributions and inheritances.

➢ "Privatization should be implemented on a case by case basis, not as a matter of ideological dogma." The document argues that the purpose of privatization is to fragment ownership and encourage competition, not simply to transform key industries from state monopolies into private monopolies.

➢ "We must open up the communications media, which in most Latin American countries have passed from state control into the hands of private monopolies." The concentration of radio and television licenses should be limited, as it is in the United States, to prevent news monopolies in specific markets.

Jorge Castañeda, the Mexican political scientist and New York University professor who organized the meetings along with Brazilian-born Harvard Law School professor Roberto Mangabeira Unger, insists that the Buenos Aires Consensus will not undo the economic reforms undertaken by most Latin American countries.

"What has been done is a given," Castañeda says. "There's no going back on it. This is a new set of proposals that has nothing to do with the import substitution or big government schemes of the past."

Will the Buenos Aires Consensus stand the scrutiny of economists? One thing at least is clear. In light of recent events—the victory of center-left coalitions in Mexico and Argentina, the setback to Clinton's "fast track" proposal and the collapse of Latin American stock markets—the group's proposals will be taken more seriously than ever. ■

matter of ideological dogma. New state-owned enterprises could be created tomorrow, while others are sold to the private sector today. Privatization is a useful tool for breaking up property and spurring competition, not simply a way for public monopolies to pass into private ownership. Above all, policy makers must bear in mind three points whose absence has already taken a toll on Latin America. First, countries should have long-term development strategies that set broad parameters for growth. Privatization, as well as the conservation or creation of state-run enterprises, should fit within these parameters. Second, there is a vital need for institutions to oversee the sale of state-owned companies, ensuring the transparency and fiscal logic of privatization. Such institutions are necessary to avoid obvious abuses—such as influence trafficking, leaking privileged information and selling below market value—and to make sure that the choice of buyers is in the best national interest, with the funds for purchase deriving from legitimate activities. Third, most Latin American countries lack the regulatory framework to supervise private companies that acquire a semimonopoly on public services. Without such a framework, privatization can be harmful and counterproductive. ■

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Mexico's Nine-Fingered President

George W. Grayson

In Mexico City, storytellers like to regale visitors with tales of Mexican heroes' missing appendages. Some insist that nineteenth-century dictator Antonio López Santa Ana buried a lost leg amid pomp and circumstance. Others recall the amputated arm of revolutionary paladin General Alvaro Obregón, who wore his empty sleeve as a badge of valor when successfully running for president in 1924 and 1928.

Since the July 6, 1997 setback suffered by the ruling Institutional Revolutionary Party (PRI) in key mid-term elections, local raconteurs have added the nation's "nine-fingered" president to the list. Ernesto Zedillo, figuratively speaking, has lopped off his index finger: at least with respect to handpicking some major office-holders in the time-honored practice known as the *dedazo* (after the Spanish word for finger, *dedo*).

In an act of political self-mutilation, Zedillo divested selection of Mexico City's mayor from the presidency, proposing an off-year ballot that nonetheless drew an overwhelming 75% turnout. And once the electoral results flashed across TV screens, Mexico's 47-year-old *jefe* took placatory actions never before witnessed within his party which, since assuming power in 1929, has treated political foes with all the tenderness of Cromwell ruling Ireland. Zedillo not only congratulated Cuauhtémoc Cárdenas—the winning candidate from the leftist-nationalist Democratic Revolutionary Party (PRD)—but also invited the mayor-elect to meet personally in the presidential palace. After the requisite socializing and photo opportunity, Zedillo promised to endorse Cárdenas' candidates for the capital's police chief and attorney general, despite the fact that naming these officials is a prerogative that has rested with the chief executive for most of this century.

Such "cavorting with the enemy," in the words of one critic, appeals to the PRI's contingent of machine-politics "dinosaurs" as much as would gargling glass shards. Led by tough-as-nails governors Manuel Bartlett Díaz (Puebla), Roberto Madrazo Pintado (Tabasco), Víctor Cevera Pacheco (Yucatán), and union honcho Leonardo "La Güera" Rodríguez Alcaine, these hardliners see in the mid-summer election the imperative for confronting, not appeasing, their adversaries.

Why did the PRD sweep Mexico City by a two-to-one margin? Who bears responsibility for the loss of two additional governorships, raising to six (of 31) the number of statehouses held by the center-right National Action Party (PAN)? What accounted for the PRI's squandering of its majority in Mexico's 500-member Chamber of Deputies? These are a few of the compelling questions that the party needs to address.

Bartlett and his cohorts have drawn up a plan of action for the PRI to avoid future debacles at the voting booth. Their priorities include: selecting candidates more likely to appeal to the electorate; running more skillful campaigns; giving no quarter to PRD and PAN "crybabies," quick to claim election fraud at the first hint of unfavorable results; playing hardball with the press by withholding government advertising from publications whose reporters fail to write puff pieces about the PRI; and employing the regime's legitimate resources to reward loyalists and mobilize voters. "After all," observed one portly boss, "no one in your country raised a fuss when Bill Clinton jetted around the US on Air Force One, stumping for Democratic candidates in 1996, just as George Bush had done for the Republicans four years earlier."

PRI veterans buttress their arguments by pointing to last July's voting tallies in the states under their control. There, with the exception of PAN-dominated cities, the official party demolished its opponents—with few morning-after yowls of fraud.

Zedillo's allies in the PRI point to different lessons from the mid-year election results and dismiss the old guard's calls for cosmetic change to party tactics as too little, too late. As of early 1998, the PRI's approval rating stood at an anemic 25%. Party reformers—including Senators Elba Esther Gordillo, de facto head of the prominent Teachers' Union, chief of the PRI's white-collar "popular sector" and the country's leading female politician; and Esteban Moctezuma Barragán, Zedillo's movie-star handsome alter ego—contend that the recent reverses call for root-and-branch reforms. In their view, the PRI must abandon its status as an arm of the governing hierarchy, assuming a more critical attitude toward official policies. They call on the party to devise a more coherent, moderate program, attractive to the

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George W. Grayson teaches government at the College of William & Mary. His eighth book on Mexico, "Mexico: Corporatism to Pluralism?" was published by Harcourt-Brace in late 1997.

Can Zedillo hold the PRI together without the dedazo?

Mexican president Ernesto Zedillo

nonideological majority of Mexican voters. Besides banning the dedazo, they argue, the PRI should open all decisions to rank-and-file members. They place particular emphasis on courting previously ignored constituencies such as women, environmentalists, shantytown dwellers and, especially, young people—82% of whom voted for the opposition in the Mexico City mayoral elections.

This divergence of views could spark a brawl at the next meeting of the PRI's National Political Council, the party's central committee, tentatively scheduled for mid-1998. After hardliners clash with reformers, the party headquarters on Avenida Insurgentes Norte may be reduced to rubble. Even if one side prevails, the PRI itself will have lost the struggle, making its chance of holding onto the presidency in 2000 about as likely as Mexico's changing its national anthem to the "Star-Spangled Banner."

In its favor, the PRI boasts astute coalition-builders such as new Government Secretary Francisco Labastida Ochoa and Senators Gordillo and Moctezuma—potential worthy successors to Zedillo, who is limited to a single, six-year term under the country's constitution. Continued economic expansion in 1998 and 1999 would make this list of hopefuls look even better vis-à-vis the alternatives in the PAN and PRD.

Despite his best efforts to undergo a political facelift, Cuauhtémoc Cárdenas won the capital elections more as a result of street-level animosity toward the PRI than pro-PRD sentiment. Indeed, the PRD more closely resembles a Mideast bazaar than an organized party, as disaffected *priístas,* social democrats, Trotskyites and hard-core Stalinists vie for influence within its ranks. Before campaign advisors convinced him to smile occasionally and preach the virtues of free enterprise and moderation during the July elections, the Yankee-bashing Cárdenas railed against Nafta, lauded protectionism and touted the virtues of big government. A lackluster governor of Michoacán state in the early 1980s, Cárdenas must now show his mettle in administering a city—called "ungovernable" by some urban experts—beset by crime, pollution, gridlock and unemployment if he hopes to be a credible presidential contender.

The more conventional PAN augments its commitment to capitalism with social Christian precepts. After the party's candidate for mayor of Mexico City finished last among the major contenders, a new cadre of politicians with strong ties to business sought greater influence within the PAN. The favorite of these so-called "northern barbarians" for the presidency in 2000 is successful Guanajuato governor and ex-Coca Cola executive Vicente Fox Quesada, a blue-jean clad, shoot-from-the-hip populist who tailors his message to suit his audience. Much to his dismay, Fox—already at odds with orthodox *panistas*—may have to compete with popular Chihuahua Governor Francisco Barrios, another northern barbarian.

Fortunately for the PRI, its national conclave does not have to end like a Greek tragedy. Although personal and ideological differences will pervade the meeting, key decision makers in the 69-year-old party share an emphatically pragmatic outlook. There is widespread consensus that the divided forces within the PRI must forge a rapprochement, lest modern Mexico's dominant political force find itself relegated to has-been status after the 2000 elections.

In fact, Zedillo—once prepared to take a "hands-off" approach—now realizes that the next national contests are too important for him to remain on the sidelines. Soon after his inauguration in December 1994, the new chief executive found himself overwhelmed by a currency devaluation and subsequent deep recession. The brainy, Yale-trained economist threw himself into obtaining external loans, cutting the federal budget, raising selected taxes and pushing ahead with the local version of perestroika. His herculean efforts bore fruit last year as the economy, which nose-dived 6.9% in 1995, grew 7% amid tumbling prices and substantial job creation. Nevertheless, these gains came too late to stave off the PRI's losses at the polls.

While tackling the economic crisis, the technocratic Zedillo—with scant experience in politics before reaching the presidential palace—delegated the political heavy lifting to then-Government Secretary Emilio Chuayffet Chemor. This veteran wheeler-dealer, trained in the State of Mexico's Machiavellian political machine, became virtual prime minister. Even as Zedillo and his economic team racked up one success after another, Chuayffet—an old-school manipulator uncomfortable with Mexico's recent political opening—botched one assignment after another. His Keystone Kops tactics led to a bungled attempt to grab control of the Chamber of Deputies after the July 1997 elections, and he showed little imagination in resolving the festering conflict in Chiapas, where he refused to recognize self-governing Indian enclaves in return for Zapatista concessions.

Chuayffet's inability to bring closure to the Chiapas problem cost Zedillo dearly when masked gunmen—allegedly linked to the PRI—slaughtered 45 Tzotzil Indians on December 22, 1997. This massacre prompted the president to sack Chuayffet and appoint Labastida Ochoa, a 55-year-old career politician with experience as a governor, diplomat and cabinet member. Until becoming government secretary, Labastida ran the Ministry of Agriculture, where he observed first-hand the grinding misery that afflicts most *chiapanecos* and, indeed, half of Mexico's 97 million inhabitants. His appointment demonstrates Zedillo's increasing confidence in his own political judgment. Making peace in Chiapas will not only boost Labastida's political star, but will enable the president to complement economic opening with more ambitious political liberalization.

Which priorities have the best chance of bringing the PRI's clashing factions closer together? At the top of the list are creating jobs, improving education, broadening health care and combatting crime in cities and rural areas. Just as important is reinvigorating the Solidarity Program, a grassroots, antipoverty initiative launched by Carlos Salinas de Gortari, Zedillo's once-lionized, now-vilified predecessor. His recent tribulations aside, Salinas understood that political stability implied a genuine social stake for Mexico's lower classes, even as irreversible changes buffeted the economy. Nevertheless, the PRI would have to reinvent the Solidarity Program under a new name; in the present climate, as political scientist Oscar Aguilar Asencio has pointed out, any venture associated with the ex-president is automatically branded with a "political swastika."

Mexico's leadership might also consider modifying Nafta to postpone elimination of tariffs on corn and other grains. Otherwise, most communal farms, or *ejidos*—especially in the poverty-stricken, violence-prone states of Chiapas, Guerrero and Oaxaca—will be unable to compete with the US agribusiness giants poised to achieve full entry into the Mexican market early in the next century. By then, the largely unskilled campesino population will have grown to 30 or 40 million people. Those unable to land jobs in the countryside will overflow into Mexican cities, cross the Río Grande, aggravate the drug crisis in the United States or join the guerrilla movements active in Mexico's southern states.

On the whole, three factors bode well for the PRI's survival, although predictions for the year 2000 are still premature. First, just as a rising tide lifts all boats, economic gains should enhance the PRI's standing with voters, although turmoil in Asian markets accompanied by the fall in oil prices has forced the president to trim his ambitious 1998 budget. Second, Zedillo may have found in Labastida the man who can bridge the gap between the party's warring camps. And finally, although still spurning use of the dedazo, Mexico's increasingly popular chief executive can promote party unity by vetoing the nomination of Bartlett, Madrazo or other reform-averse bitter-enders whose selection would ensure the PRI's political dismemberment at the hands of the electorate. ■

THE GLOBAL MANAGER PROGRAM

CENTER FOR INTERNATIONAL EXECUTIVE EDUCATION

COLLEGE OF BUSINESS ADMINISTRATION
FLORIDA INTERNATIONAL UNIVERSITY

The Global Manager Program, offered by Florida International University's Center for International Executive Education, is an intensive development program designed to prepare executives for the responsibilities and opportunities of management in the new millennium. Participants from U.S. and foreign businesses are brought together to explore the potential of the global business arena and develop the competencies necessary to meet emerging challenges. Through a combination of lectures, case studies, and small group learning exercises, the program participants reevaluate old ideas, explore new ones, and formulate strategic plans for their individual enterprises.

PROGRAM DESCRIPTION

The program is organized around three one-week modules. Each of the week-long modules emphasizes a different dimension of management in the dynamic international arena. The physical locations for each module are chosen to reinforce the core learning concepts.

Module I — Updating and Integrating the Fundamentals: Strengthening Core Functional Competencies and Developing Multifunctional Integrative Skills. During this week, participants are familiarized with the latest knowledge and advances in the fundamental functional areas of marketing, finance, information systems, organization theory, human resource management, and strategic management.

Module II — Developing Team and Leadership Skills in a Multicultural Business Environment. The focus of the second module is on the development of the skills and competencies necessary to be an adaptable, flexible, and responsive manager in an uncertain global business environment characterized by complexity and diversity.

Module III — Managing the Challenges of a Global Competitiveness. During the final module, participants examine the challenges to organizations competing in an evolving global environment. Emerging trends such as the "virtual corporation" and the "boundariless organization" are evaluated as potential responses to the transformation of business in the economic arena. Further, participants are exposed to issues relating the organization to the broader economic, social, and legal environments. Topics such as the dynamics of business-government interaction, the impact of international laws on inter-company alliances, and the role of ethics in a contemporary society are explored.

WHO SHOULD ATTEND?

Program participants should:

- have attained or be on track to attain a position in general management or be a functional division head with strategic management responsibilities;
- be from an organization that is currently international or has the desire to become a player in the international business arena;
- have a minimum of five (5) years of managerial experience;
- hold responsibility for activities that are impacted by international competitive forces;
- have the strong support of a sponsoring institution.

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Patrolling the Polls

Gary Brana-Shute

Since Jamaica's democratic system took root in 1944 with universal adult suffrage, national politics have been characterized by a regular pendulum swing of two terms each for the island's main political forces, the People's National Party (PNP) and the Jamaican Labour Party (JLP). This trend has been accompanied by a rising spiral of political violence, with 1976, 1980 and 1993 remembered as particularly bloody years.

The country's most recent elections, on December 18, 1997, brought new hope of breaking this cycle. Incumbent Prime Minister P.J. Patterson led the PNP to a historic third victory over the JLP and its leader, Edward Seaga. In the final tally, the PNP won 50 of the 60 parliamentary seats at stake and 56% of the popular vote. The JLP acquired 10 seats with about 40% of the vote, and the National Democratic Movement (NDM), a JLP splinter group led by Bruce Golding, won 5% of the vote but no seats. Total voter turnout was about 65%, although it varied by constituency; in some rural areas, the figure averaged less than 50%.

Perhaps more important than the election results, however, were the relative transparency of the political process and the low level of political violence that accompanied it. In 1993, nearly one-third of constituencies were decided by less than 500 votes, creating a situation in which violence and intimidation became key determinants of voting behavior. Observers feared a repeat of this performance in 1997, but both local participants and international onlookers were relieved to report elections that were peaceful, orderly and open.

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A pair of soldiers beefs up security at the Tel Aviv polling station in Kingston. Photo: Gary Brana-Shute.

The Preparations

As Election Day approached in late 1997, the mood on the streets and the tone of the political debate indicated a change from the political gridlock and violence that usually precede elections in Jamaica. Politics here are dominated by garrison constituencies, essentially armed camps that pledge their loyalty to political parties in exchange for all manner of patronage. These bastions of one-party rule are potential powder kegs for political violence. This time, however, political tribalism and garrison warfare were denounced in the media and on street corners. Control over key parliamentary seats, long dominated by a particular party, suddenly seemed less certain. Jamaicans seemed to be exercising more choice in their political options, with traditional dependency on leadership giving way to a new sense of "followership" that called into question traditional party allegiances.

Local and international observer groups made an effort to ensure the transparency of the electoral process. Civic Action for Free and Fair Elections, a local NGO, offered to monitor polling stations, hoping to deter through its presence the most blatant instances of ballot stuffing, theft and turf wars between rival gangs. The Electoral Office also invited the Carter Center to observe the elections, the first time an international organization was asked to play such a role in Jamaica. This initiative was welcomed by the JLP and NDM but opposed by the PNP until

Jamaica moves towards peaceful elections

An armed personnel carrier guards the Denham Town polling station, Kingston. Photo: Gary Brana-Shute.

Robert Pastor, the director of the Carter Center, persuaded the leaders of the three parties to agree to a truce during the elections. Ultimately, Pastor's was the only voice believed when national radio confirmed that the margin of error on the voter rolls was negligible and that the elections could proceed. His 60-member observation team was joined for several days by President and Mrs. Carter, General Colin Powell and world heavyweight boxing champion Evander Holyfield.

The Jamaican government itself instituted various electoral reforms, including a mechanism for halting procedures and reballoting if malpractice was reported at any polling station. These reforms were backed by the presence of Jamaica's security forces. Every one of the country's 6,332 polling stations had armed police on duty; in Kingston, police with body armor and automatic weapons were joined by soldiers who secured defensive perimeters around the stations. Snipers took up positions on rooftops, and columns of armored personnel carriers rumbled along major thoroughfares. Soldiers patrolled Kingston's labyrinth of gullies, and fleets of motorcycle police were on call if necessary. Helicopters crisscrossed overhead. If the posses and political gangs were armed, the security forces had upped the ante.

Despite these preparations, however, Prime Minister Patterson was criticized for calling elections without allowing for adequate time to prepare an updated voter registration list and the sophisticated voter identification technology to guard against fraud.

Election Day

On Election Day itself, the garrison communities were sealed off. In the capital, West Kingston and Seaga's fabled strongholds of Tivoli Gardens and Denham Town turned out on cue; one polling station reported 178 votes for the JLP against only one for the PNP. South St. Andrew—a district that includes Jones Town, Trench Town and Rema, the sites of much bloodshed in the past—gave its votes to PNP finance minister Omar Davies. Central Kingston and the boroughs of Alman Town and Tel Aviv went to new PNPer Ronnie Thwaites, a middle-aged activist lawyer from the 1970s. In Rae Town, bordering Central and East Kingston, gangs of JLP young men chanted, "Showa, Showa" (for Shower, the name of the posse associated with the JLP and which, through its "dons" or "rankin's," runs the neighborhood and its "foreign relations"). Faces painted green, they invaded a Tel Aviv polling station that was fortified like Fort Apache, only to find themselves outgunned by Jamaican army troops. Fortunately for all involved, the army, usually all too ready to use force, did not fire a single shot all day. What gunfire there was came from lone shooters and political saboteurs, who raked polling stations with bullets or opened up on passing cars rumored to hold politicians from other parties.

Suburban and rural areas tended to lean toward their traditional preferences. Labor Minister Portia Simpson, known as the gunwoman of the PNP and head of a large garrison in Southwest St. Andrew, won handily in the area known as "Miss Portia's constituency." There were some exceptions, however; in suburban North St. Andrew, JLP newcomer Delroy Chuck won a surprise victory over the PNP incumbent. Another unexpected result was Bruce Golding's loss to the formidable Olivia "Babsy" Grange in the rough city of Spanish Town. Miss Babsy wanted that seat back for the JLP, but her victory came only after tense voting during which a female poll monitor was fatally stabbed.

This murder was the only one directly connected to political violence during the elections. Three other homicides occurred technically before and after the polls were open, and have been traced to drug deals or personal animosities. The final tally for Election Day thus included four deaths; two stolen ballot boxes, one of which was retrieved; shots fired; and intimidation of candidates and their supporters. One case involved the kidnapping of a PNP polling supervisor by an angry mob in the JLP stronghold of Rae Town. He described his experience as "being held captive behind enemy lines."

In Barbados, where elections display the rectitude of a Swiss canton, this sort of behavior would be grounds for national outrage. By Jamaican standards, however, it was an encouraging performance. The low level of violence did not go unappreciated by the rank-and-file; in a run-down, filthy elementary school in Trench Town, an old woman shoved her folded ballot through the slot of a grey metal box and, oblivious to the 20 heavily-armed men who surrounded her, raised her arms and cried, "Oh, thank you Jesus, 'dis too sweet—las' time we dead like dog."

There were reports of voter fraud, but by all accounts it was not sufficient to affect the outcome of the elections. In Angola, a JLP outpost in East Kingston, observers encountered several polling stations where presiding officers had boldly opened ballot boxes and were busy stuffing them with extra ballots. The officers reported 156 votes for the JLP and one for the PNP, but there were only 136 ticks on the tally sheet. To make up for this discrepancy, they filled out 20 more ballots themselves. Since police officers were not allowed to enter polling stations, they were presumably ignorant of such violations.

BREAKING THE CYCLE

The PNP's victory in the December 1997 elections marked the first time in Jamaica's democratic history that one party remained in power for more than two terms. *Dates in bold represent JLP victories; regular typeface indicates a PNP victory.*

1944, **1949**, 1955, 1959, **1962**, **1967**, 1972, 1976, **1980**, **1983**, 1989, 1993, 1997

Continuing Problems

Political violence is the foremost obstacle facing the democratic process in Jamaica. This problem has intensified as the garrisons augment their traditional activities with drug trafficking, gunrunning, document forgery, smuggling of aliens and links to criminal gangs abroad, primarily in the United States. Children as young as nine or ten, known as "fryers" (small chickens), carry out armed missions for the garrison commanders. Sadly, this culture of violence has become deeply rooted in the fabric of Jamaican life and will not easily yield to attacks by reform-minded politicians.

The 1997 electoral process was also marred by administrative bungles. Polling station officers failed to show up; voting materials, such as ballots and ID cards, were not delivered on time; people who insisted they had registered did not appear on the voting lists and were turned away; and there was confusion over where to vote. Because Patterson called the elections without much advance notice, the Electoral Office was unable to produce all of its voter cards on time and had to hastily update the old voter registration list. To add to this chaos, voters and candidates were subject to intimidation in the form of roadblocks, jeering and harassment, gunfire, and gang members who prohibited voters from crossing their turf to reach polling stations.

The elections could not have been carried out as smoothly as they were without the help of the Jamaican security forces, which helped protect voters from intimidation, posses, privateers and freelance crooks. The performance of the army and police, as well as the equipment at their disposal, was vastly superior to that of the 1980s and warrants continued upgrading and assistance.

Despite the relatively peaceful outcome of the last elections, however, the underlying structures and voting patterns of Jamaican politics remain unchanged. The JLP shrank back to its original garrison base and supporters among the merchant elite, while the PNP, appealing to Jamaican nationalism, surged ahead with the support of marginal voters. And yet, some familiar faces seemed destined for retirement, allowing new leaders to take their places. With the PNP's victory, Edward Seaga seems finished, while Bruce Golding suffered a humiliating setback. Patterson himself appears to have reached the apex of his career, and rumors are already circulating that Health Minister Peter Phillips is his likely successor.

Jamaica's biggest problem is its economy, which has not improved substantially over the past decade no matter which party was in office. The new government must restore growth and deal with Jamaica's myriad social problems, including violence and drugs. And while the 1997 elections were a positive omen for the future of the country's political system, Jamaica's leaders must institutionalize electoral reforms that will ensure further peaceful transitions. ■

Frontiers of Development

Allan Rosenbaum

Perhaps the most interesting aspect of any discussion regarding the role of local government in promoting economic development in Latin America is simply the fact that it is occurring. Such a discussion would have been virtually unheard of little more than a decade ago, when issues related to economic development were dealt with almost exclusively at the national level. Concerns such as local job creation took a back seat to controlling inflation and other macroeconomic objectives; even the largest municipalities lacked the resources and the infrastructure to play a significant role in economic development.

Obviously, much has changed in Latin America over the past decade. Whereas 15 years ago most local officials were appointed by the central government, today almost all mayors and municipal council members are chosen by popular election. Municipal officials are now closely involved in redefining local policy agendas, thus helping to change the nature of political accountability and responsiveness in the region. This transformation has contributed to the dispersion of political power throughout the region and is central to the democratization process occurring all across Latin America.

Perhaps equally important, however, the process of decentralization is also changing patterns of service delivery throughout the hemisphere. The reason for this is simple: As the role of municipal governments increases, local officials recognize the connection between effective services and the likelihood of success in the next election. The emergence of local government as a significant presence in an increasingly democratic Latin America has created a healthy competition between national and subnational governments. At the local level, this trend has helped create close linkages between economic development, job creation and the rise of strong and effective municipal governments.

Local Governance and Economic Development

This relationship is very important, because there is a clear correlation between the strength of local government and the relative level of a country's economic development, as evidenced by the differing proportion of governmental expenditure and employment found at the subnational level. In North America and Europe, an average of 50% of all governmental expenditure and 57% of all governmental employment occurs at the subnational level. By comparison, in Asia—the scene of rapid economic development over the past decade—the figures for expenditure and employment are 30% and 37%, respectively, while in Africa—the least economically developed region of the world—rates are as low as 10% and 6%. Latin America falls somewhere in between the two, with 19% of governmental expenditure and 21% of governmental employment at the subnational level.

The reasons for the correlation between economic development and governmental activity at the subnational level are obvious. Economic development does not spring magically from the environment. It depends on such factors as local initiative, adaptability and capacity; basic infrastructure to facilitate business, commercial or industrial activity; a supportive legal framework; and the ability to mobilize necessary resources and respond rapidly to an ever-changing environment. These requirements are most easily met when local authorities have the capability to cooperate with entrepreneurs—be they local or national—to initiate new economic development.

A perfect example of these trends is a part of the United States familiar to many Latin Americans: the state of Florida. During the past decade, the Disney World/Orlando entertainment complex and the Miami/Dade air- and seaport have emerged as two of the most significant forces for economic development in the state. The Disney/Orlando area now possesses more hotel rooms than any other metropolitan area in the country, while commercial activity at Miami's air- and seaport has turned a once-sleepy tourist town into a major center of international trade, banking and tourism.

Were it not for the highly decentralized nature of government in the US, these remarkable engines of local economic development would not exist at all. Under a centralized system, political forces from California (then a much larger and

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Local governments in Latin America play an important role in promoting economic growth and democracy

more powerful state than Florida) would have undoubtedly blocked the creation of the extensive infrastructure necessary to establish the Disney World complex. Likewise, states such as New York and Maryland (both sites of major ports) could have discouraged investment in the construction of port facilities in the Miami/Dade County area. These projects were made possible by the fact that local governments in the US enjoy significant autonomy, including the capacity to raise revenue and the authority to modify the legal framework to facilitate economic development activities.

Strategies for Local Job Generation and Economic Development

As local officials in Latin America become concerned about issues of job development, their initial approach resembles that of their North American counterparts three or four decades ago. Their first efforts tend to focus on luring major corporations, factories and commercial enterprises to their communities. This strategy has always been politically attractive, since large facilities are likely to generate favorable media attention; however, the number of large corporations available for recruitment is limited at any point in time and cannot be relied on to meet the employment and development needs of most local communities. There has been an increasing realization, in both North and South America, of the need to adopt new approaches to job creation. Consequently, local officials are paying more attention

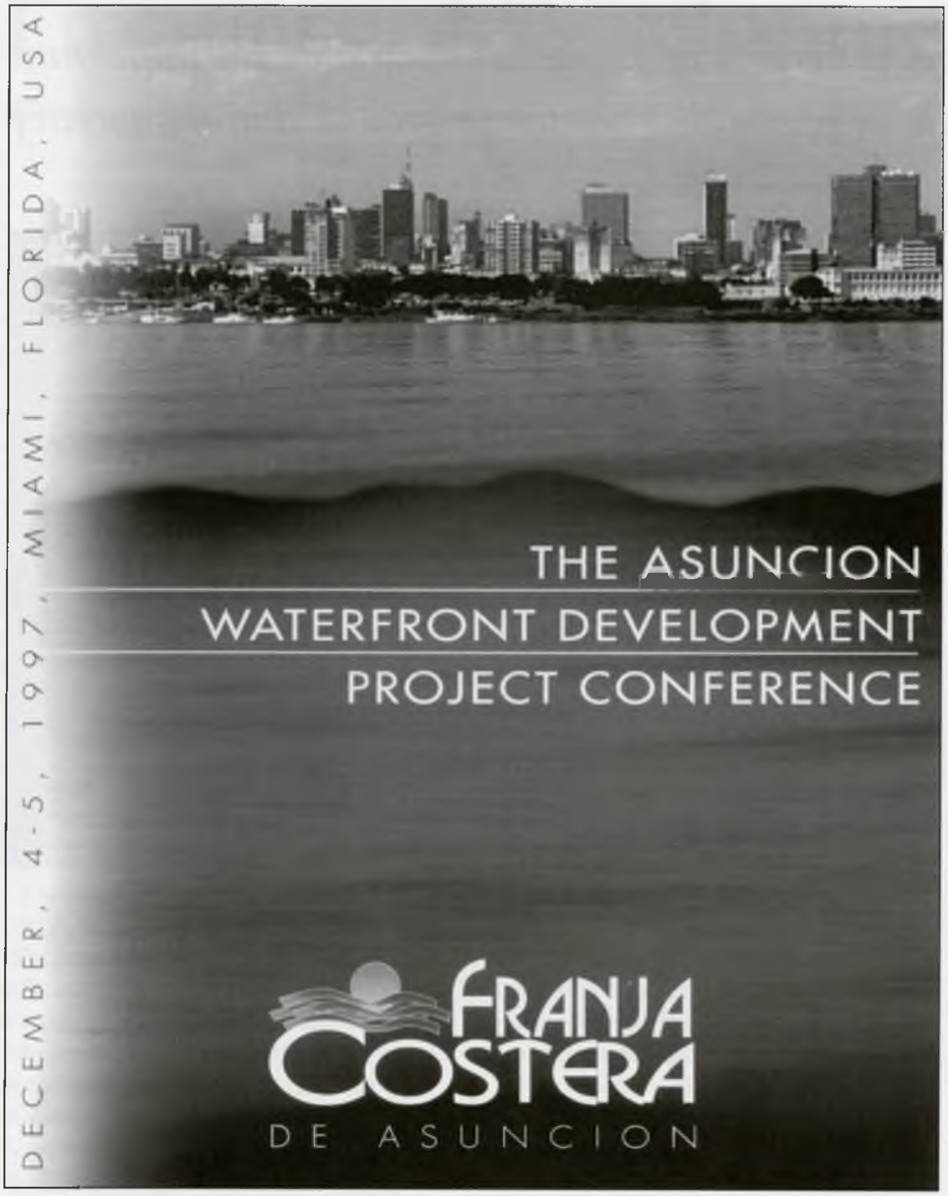
The author (right) with Martín Burt, mayor of Asunción, Paraguay.

to small businesses and their potential to generate local employment. Such enterprises have played an important role in job creation during the past two decades.

Studies show that 50-80% of all new jobs in the US are created by companies with less than 100 employees. Additional research suggests that companies with under 20 employees produce as many as two-thirds of all new jobs. Similar patterns of development are beginning to be recognized in Latin America and the Caribbean, popular relocation sites for large-scale production plants from other regions. In one study, the Inter-American Development Bank (IDB) found that small and medium-sized companies account for one-third of the region's jobs and GDP. Such companies, however, are responsible for the creation of at least 50% of all new jobs in Latin America and the Caribbean.

In light of these statistics, it is clear that municipalities that focus their efforts on luring large businesses can meet only a part of their economic development and employment needs. Ultimately, large companies do not generate as many new jobs as do small businesses. Furthermore, the ability to play one potential location off against another allows big companies to secure tax breaks and subsidies that may undercut the benefits of relocation for the communities involved.

There are a number of important activities that local governments—independently or in conjunction with national or regional



In an example of local initiative, the Municipality of Asunción is involved in a joint venture with the private sector to redevelop the city's waterfront.

governments—can initiate to encourage and support small business enterprises. Probably the single most important step is improving access to the credit that small businesses need to start up and expand their operations. In the US, this concern has led to the creation of various kinds of government credit assistance programs at both the state and local level, especially in larger cities like Chicago and Miami. Such programs have been successful in many communities.

Credit is an even greater concern for small businesses in Latin America than it is in the US, due to the traditional restrictiveness of Latin American banking and credit practices. Since the mid-1980s, the IDB has created various financial institutions to make loans available to small and medium-sized businesses in the region. One example is the Inter-American Investment Corporation, which has made over 1,000 loans since 1989. The IDB has also encouraged individual countries to establish financial institutions responsive to the needs of small entrepreneurs. Perhaps the most successful experience in this regard is Banco Sol in Bolivia. Created as a nonprofit organization in 1985 (and originally known as the Fund for Promotion and Development of Micro-Enterprise), Banco Sol was chartered as a commercial bank in 1992 with a mission to lend to small businesses. This strategy has proven to be both profitable and productive; since going commercial, Banco Sol has made over 71,000 individual loans, averaging $660 each. Over 70% of its customers are women. Without question, whether working independently or in conjunction with private or nonprofit organizations, Latin America's larger and mid-sized cities should make a greater effort to make credit available to support the growth of small businesses.

Another crucial area of support is providing small businesses with technical assistance, especially with regard to such activities as proper accounting procedures, marketing and market research, and product distribution techniques. A successful example of such efforts is the small business incubator program in Porto Alegre, Brazil, which exists through a public-private partnership.

Local governments can undertake a variety of other activities to encourage the development of small businesses and, consequently, employment opportunities within their communities. In La Paz, Bolivia, former Mayor Ronald McLean worked to reduce cumbersome municipal regulations and fees, thereby creating a tax and regulatory environment favorable to small business development. Another important and increasingly common strategy involves the creation of new municipal structures to facilitate long-term economic development. Such efforts, which are already underway in Cali, Colombia and several Uruguayan cities, can help identify particular market niches and potential areas for future development. Still another useful strategy involves orienting local purchasing practices toward local vendors and producers.

Increasingly, Latin American municipalities are turning to strategic public-private partnerships as vehicles for local economic development and job creation. In Asunción, Paraguay, Mayor Martín Burt has launched an initiative to use local community centers for job training activities in cooperation with the National University of Asunción. Another Burt effort—first initiated by his predecessor, Carlos Filizzola, and encouraged by a US Agency for International Development local governance project—involves a joint venture between the Municipality of Asunción and the private sector to redevelop the city's waterfront. This project will add 1,700 acres of waterfront land and generate a wide variety of new tourist and commercial activities.

Conclusion

Issues of local governance are becoming a growing concern in Latin America as recognition spreads of their importance to democracy and development. Increasingly, however, this new frontier of democracy is also becoming a frontier of effective public service. Motivated by the realities of growing electoral accountability, energetic and committed local officials are taking on new and more significant responsibilities. Increasingly, their efforts have concentrated on economic development and job generation.

Like their North American counterparts several decades ago, Latin America's municipal officials are realizing that successful economic development and job creation initiatives can have positive political consequences. As a result, the hemisphere's more creative and politically astute local officials view economic development and job creation as important elements on the municipal agenda. With the assistance of the international aid community, they have worked to make credit available to small entrepreneurs. Other efforts involve public-private collaboration, an area with great potential for future growth.

The promotion of job creation through economic development is a new field for Latin American government, at all levels. As such, it represents an opportunity for local officials to undertake new initiatives without having to compete with the national government. It also gives local governments a chance to demonstrate the relevance and importance of the institutions under their control. ■

Cleaning Up Free Trade

Janet Jarman

In 1993, opponents of the proposed North American Free Trade Agreement (Nafta) felt certain that its implementation would increase pollution and further degrade environmental conditions along the Mexico-United States border. Already, decades of economic integration had caused rapid industrial and subsequent population growth. Former agricultural towns were transformed into industrial centers too quickly for local governments to accommodate growth with adequate infrastructure.

In addition, the number of *maquiladoras*, or export plants, in Mexico increased from 12 in 1965 to over 2,000 in 1993, contributing to serious air and water pollution on both sides of the border. During the Nafta debate, estimates for cleaning up the region ranged from the $6 billion predicted by the Clinton administration to a $20 billion estimate by the Sierra Club.

To combat these criticisms and get Nafta passed, Congress created an environmental side agreement designed to provide mechanisms for resolving disputes over potential transnational environmental problems. Lawmakers also incorporated a third, parallel agreement with special reference to the border region. This agreement called for the establishment of two binational institutions, the Border Environment Cooperation Commission (BECC) and the North American Development Bank (NADBank). These institutions were designed to facilitate and fund border cleanup and infrastructure projects, acting as a type of "social contract" to counteract the possible negative effects of free trade. Their potential to do so has been an ongoing debate between pro- and anti-Nafta groups in the United States. Both organizations have been subject to sustained criticism since their inceptions, especially from NGOs, but also from local Mexican officials and residents. Should they fail, free trade advocates in Congress could feel more confident of excluding environmental clauses from future agreements.

Janet Jarman is a freelance journalist and photographer. She holds an MSc in Environmental Issues in Latin America from the University of London. Her photo essay exploring the plight of one Mexican migrant family in the US will appear in the next issue of Hemisphere.

Formula has Flaws

BECC works with various levels of government, local communities and NGOs on both sides of the border, assisting them in developing environmental improvement projects. NADBank provides financial packages for these projects. Although this formula seems straightforward, both institutions have been less efficient than predicted, albeit sometimes for reasons out of their control. Most grievances fit into three categories: affordability, speed/efficiency and public involvement.

For instance, critics argue that the low-income communities most in need of basic environmental services cannot afford loans under NADBank's conditions. Also costly and time-consuming are the rigorous engineering studies required by the BECC application—a two-stage, arduous process. According to Mexican residents and officials, it takes less time to obtain infrastructure through existing methods—either by waiting for government grants to trickle down to municipalities or through a much more rapid system based on political patronage.

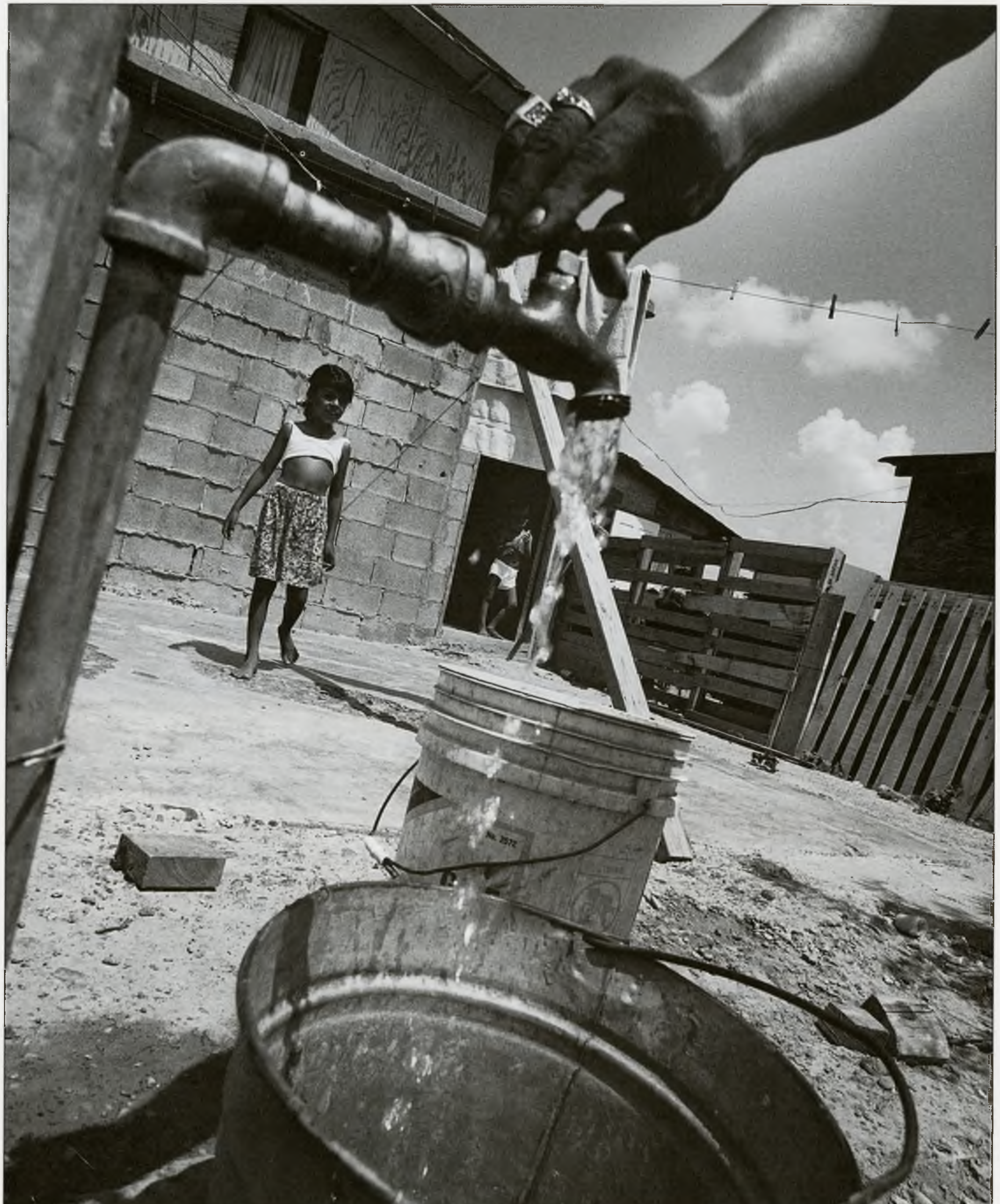
Long-Term Solutions Needed

Strapped by debts incurred in the 1980s and exacerbated in the 1990s, the Mexican government lacks funds to support the country's endless number of backlogged infrastructure projects. Despite President Zedillo's election promises to decentralize government, giving more power to municipalities, mayors lack the resources to accommodate growth. As a result, officials are forced to implement short-term solutions to long-term problems.

BECC and NADBank aim to change this system. Their overarching goal is to supplant existing mechanisms for obtaining infrastructure by encouraging border residents and officials to adopt a long-term approach to environmental management. Their primary financial goal is to help border communities achieve a gradual transition from a limited number of subsidized ventures to projects financed by borrowing—either from banks or from the capital markets. Their primary social objective is to promote public participation, transparency and broader community involvement in decision making.

Tale of One City

One revealing example of BECC/NADBank programs in practice is the industrial border city of Matamoros. Located just below Brownsville, Texas, Matamoros houses three times the residents and



Collecting water from a public tap in the colonia of Nueva Era, in the border city of Nuevo Laredo. Residents complain that water there is of poor quality and supplies are erratic. Service was particularly poor during a severe regional drought during the summer of 1996. Photo: Janet Jarman.

Trash pickers converge on a load of garbage deposited in the Matamoros municipal dump. Thirty to fifty families work in the dump on a regular basis, creating an informal market for metal, tin, glass and other recyclable items. The dump is especially grueling during the summer and when large fires set to burn the garbage create noxious fumes. Other hazards include sharp objects, disease vectors and high levels of dust. Photo: Janet Jarman.

Why Not More Corporate Responsibility?

Ultimately, Sampayo wonders why BECC and NADBank were created when the logical responsibility for border cleanup should lie with the Mexican and foreign industries that operate in the area. Fifteen of the city's 100 maquiladoras are Fortune 500 companies, but they do little to enhance infrastructure. Instead, they enjoy their tax-free status and contribute minimally to Matamoros charities. At the very least, environmentalists and fair trade advocates argue, companies should pay workers enough to afford basic services that would reduce environmental hazards in their immediate surroundings.

In one of the most controversial BECC/NADBank projects to date, FINSA, a private industrial park, requested a loan to upgrade one of its water treatment plants to meet Mexican environmental standards. By charter, NADBank is permitted to provide assistance to private entities. Yet, upon certification of the FINSA project, even the bank's main sponsor in the US Congress, Esteban Torres, said that FINSA represented the "wrong type" of private project. In his words, "the FINSA project provided a clear example of the private sector taking advantage of public funds to enhance their own operations." Other allegations by environmental and policy groups in Texas stated that FINSA and BECC never adequately engaged the public before certifying the project.

The FINSA controversy brought about two fundamental changes in BECC policy. The first sought to ensure community participation by obligating BECC to publish a list of all projects under consideration at least 45 days prior to upcoming public meetings. A second and less straightforward ruling required all "private only" projects to provide some type of "community benefit." FINSA's response to this requirement was a reluctant agreement to contribute $50,000 (5% of NADBank's loan guarantee) of "in-kind" engineering services for infrastructure studies in neighboring colonias. FINSA made this promise in January 1996, but as of August 1997 colonia residents had seen no concrete studies.

At the time, FINSA representative Fernando Paulín Delgado gave several explanations for the park's failure to meet its community obligations. Among them, he cited "obstacles and red tape" created by BECC and NADBank. "We want to finish the study, but the NADBank refuses to give us our loan," he said. "How can we help the community if the NADBank doesn't give us our loan?"

Technically, though, NADBank never promised FINSA a loan—only a loan "guarantee" equal to half the amount of the $1 million needed to build the treatment plant. FINSA utilized a short-term loan from another Texas bank to pay for the plant, constructed by Mexican engineering firm BIMEXSA. FINSA may someday need NADBank's guarantee to repay this loan; until then, however, the bank cannot force FINSA to fulfill its promise to the community. "When the borrower is ready to borrow, we'll give them the loan," explained the bank's general manager, Victor Miramontes. "But if the deal never closes, we have no obligations."

According to a NADBank spokesperson, FINSA and BIMEXSA recently approached the bank about the loan. The guarantee is held up in the bank's internal approval process while officials do due diligence on the borrowers. It is still unclear whether NADBank will ever issue the guarantee.

Many colonia residents feel disillusioned and betrayed. "We thought we deserved the studies from FINSA, but they broke their promise," said one colonia president, Margarita Murillo. Without FINSA's support, Murillo must return to traditional methods of obtaining infrastructure in her community—through local and state government bureaucracy and infinite trips to City Hall. She and other colonia residents gave up on the BECC/NADBank process long ago. For them, the institutions seemed like distant entities far removed from the everyday realities of low-income border communities.

The Price of Modernization

The experiences of officials and residents of Matamoros illustrate some inherent contradictions and potential pitfalls of the BECC/NADBank process. Since its inception, BECC has reviewed over 100 project outlines and certified 19. NADBank has approved financing packages for four projects, but has actually financed only two. This is due in part to the fact that NADBank was never intended to be a primary lender. Its first objective is to solicit and coordinate funding from other sources. Should the bank choose to be a lender itself, it can provide only 50% of the value of any project. As a result, many projects become stalled as sponsors seek the remaining 50% financing or as communities negotiate rate-fee structures designed to cover debt servicing.

BECC and NADBank officials defend the organizations' track record. "What they [critics] don't want to admit," says BECC general manager Javier Cabrera, "is that this is the price of democracy ... It requires a lot more effort and mental investment since you have to sell ideas, discuss them, and have arguments to convince people at all different levels." He adds that in the past, many Mexican communities depended on subsidies. "This is the traditional way," he says, "but now we have opened up our economy, and we have to modernize. One of the ways to do this is to recuperate costs, and Mexicans are not used to this."

This is not to say that BECC and NADBank officials don't understand the controversial nature of imposing fees for the first time or of raising existing rates for new projects. Both institutions have established innovative technical assistance programs aimed at helping cities achieve smooth transitions to the new model. In particular, BECC has succeeded in promoting a more transparent and participatory approach to decision making in Mexico. According to Domingo Gonzales, an outspoken Mexican environmentalist, BECC has opened the process of what he calls "Mexican wheeler-dealerism" to public scrutiny.

Nevertheless, Gonzales and other skeptics doubt that the institutions can transform the border region. After observing the Mexican system for years, Gonzales believes that the NADBank's assumption that environmental infrastructure in Mexico can be decided upon and financed the way it is in the United States shows a poor understanding of the nature of Mexican government. In his opinion, Mexico's centralized power structure almost guarantees the failure of the application process.

Furthermore, neither BECC nor NADBank has enforcement powers aside from public pressure. According to Congressman Torres, this is because they are not part of Nafta's core. "Future environmental clauses must be integrated into the main body of the agreement," he argues. "Without these powers, no agreement can effectively address environmental or labor consequences of free trade."

On a more discouraging note, it is unlikely that BECC or NADBank will influence the inclusion of environmental clauses in future free trade agreements. The US Congress recently rejected President Clinton's efforts to gain "fast-track" authority over such agreements, due in part to the ongoing debate over controversial issues such as labor and the environment. These issues will likely come back to haunt the negotiation process for a hemispheric Free Trade Area of the Americas. ■

S P E C I A L

The Left as Arbiter

Osman Morales Roca

On August 6, 1997, former military dictator General Hugo Banzer Suárez became Bolivia's fifth constitutional president since the country returned to democratic rule in 1982. With a plurality of only 21%, Banzer's rightist political party, Acción Democrática Nacionalista (ADN), was forced into an unlikely coalition with populist parties such as Unidad Cívica Solidaridad (UCS) and Conciencia de Patria (Condepa), as well as Bolivia's main leftist party, the Movimiento de Izquierda Revolucionaria (MIR). These disparate allies pledged to maintain the neoliberal model introduced by President Víctor Paz Estenssoro (1985-1989) and expanded on by his successors: Jaime Paz Zamora (1989-1993) and Gonzalo Sánchez de Lozada (1993-1997).

Banzer and his coalition partners make for strange bedfellows, but they seem poised to continue a trend that has characterized neoliberalism and its implementation in Bolivia. In this highly politicized country with a strong revolutionary heritage, leftist and populist parties have emerged as a force in reshaping neoliberal reform. Given their importance in coalition-building, these parties have used political leverage to gain concessions and patronage posts from the government. Their advocacy of a component of social justice on the neoliberal agenda, combined with protests by labor unions, peasants, teachers and students, has played a role in determining the course of reform in Bolivia. However, this influence has not extended to any real modification of the reform process in such key areas as privatization and decentralization of resources.

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The Origins of Reform

In the decades following the Bolivian National Revolution of 1952, Bolivia—like most of Latin America—followed a statist model of development. After the debt crisis of the early 1980s, however, governments throughout the region recognized the need for drastic economic measures. When Paz Estenssoro took office in 1985, he embarked on a major overhaul of economic strategy. His main goals were to stabilize the exchange rate, liberalize trade and capital accounts, reduce the public deficit, halt hyperinflation and improve the country's relationship with international credit organizations. By the end of his term in 1989, most of these goals had been met, and in the last decade Bolivia has enjoyed economic stability, low inflation rates and manageable budget deficits and debt services.

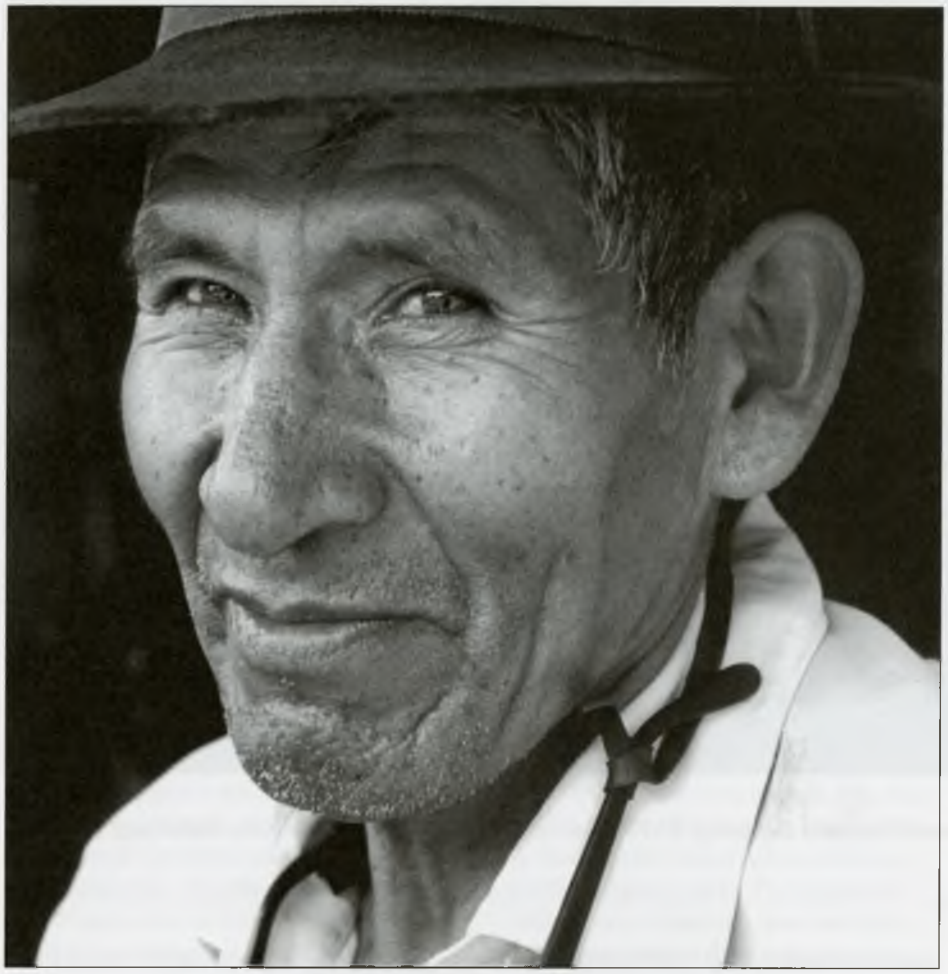
In light of this success, successive presidents retained most features of Paz Estenssoro's economic plan. However, implementation of these policies met with many hurdles, both internal and external. With its small private sector, scarce domestic savings and low levels of foreign investment, Bolivia relies on massive external financing from sources such as the IMF and World Bank. Such dependency is the Achilles' heel of the Bolivian economy, since foreign lenders, especially the United States, impose many conditions in return for aid. Well into his first year in office, Sánchez de Lozada declared, "The IMF comes, the World Bank comes, the US ambassador comes, all to tell us what to do."

Bolivia also faces internal challenges to neoliberalism: most important, an extremely politicized civil society. Labor, political parties and regional civic committees are outspoken critics of government policy, which they claim has only deepened existing inequalities in Bolivian society. Neglecting the social aspects of neoliberalism could thus pose a serious threat to macroeconomic stability and democracy in Bolivia.

The Bolivian Model: Capitalization and Popular Participation

Given Bolivia's internal socioeconomic and political context, pure neoliberalism is not a feasible option for governments hoping to stay in power. Sánchez de Lozada gave the policy a new twist, combining statist structures with newer economic models. In an astute balancing act, he applied market-based policies (especially privatization and macroeconomic management) to appease the nation's external creditors, while maintaining statist structures to satisfy internal demands for social justice. He structured his reform program around two basic elements designed to meet this double goal: capitalization, a variant of privatization intended to achieve sustained economic growth by attracting foreign investment and private sector involvement; and popular participation, an attempt to democratize the political system by redistributing political power and economic resources to

Implementing neoliberal reform in Bolivia



Bolivia's capitalization program originally included a $250 annual pension for the country's senior citizens. General Hugo Banzer's government eliminated this program, known as the Bonosol. Photo: Felipe Sanguinés.

states and municipalities. While these measures were designed to further the neoliberal model, they also contained structuralist elements that kept the state involved in key areas of the economy, politics and society.

Bolivia is perhaps the most anti-neoliberal country in the hemisphere. All sectors of civil society and the political elite have, at least since 1952, been nurtured by the state through public employment and political patronage, and are understandably loath to relinquish their privileges. Sánchez de Lozada's first task was to design a model of privatization that would be palatable to these entrenched interests. Under his plan, management control and 50% of key state enterprises—telecommunications, electricity, airlines, railroads, oil and gas, and the tin and antimony smelter and refining complex (ENAF)—were transferred to private foreign capital. The other 50% of shares remained in Bolivian hands, in the form of a privately managed pension fund that distributed about $250 annually to the country's senior citizens. The first distribution was carried out in May 1997; foreign investors did not pay the Bolivian government for their 50% shares, but instead invested the value in increasing the companies' capital.

Popular participation was another aspect of Sánchez de Lozada's attempt to implement a form of neoliberalism acceptable to his social critics. This program increased local autonomy by redistributing 20% of central funds to Bolivia's municipalities, provinces and departments, according to their population. It reversed the traditional flow of resources from the provinces to the center and effected a redistribution of functions, making local governments responsible for social services such as health care, education and housing. This new autonomy was especially important for indigenous communities and the poorest regions of the country, and ensured that funds were handled in a more transparent fashion. Decentralization thus enhanced political participation and democracy while legitimizing a system condemned for producing inequality.

Internal and External Constraints

Considering the strength of anti-neoliberal sentiment in Bolivia, the slow pace of reform should come as no surprise. Sánchez de Lozada had to balance external and internal demands in order to maintain his

Riding the neoliberal train: Bolivia's state-owned railroad company, ENFE, was capitalized in 1995 after bitter labor and bidding disputes. Photo: Felipe Sanguinés.

administration's credibility both at home and abroad. By paying attention to social concerns, he attempted to humanize the neoliberal model. At the same time, he carefully managed macroeconomic indicators and privatized major state enterprises.

All of Sánchez de Lozada's reforms met with serious opposition in the form of protests by peasants, workers, students and teachers. Nationalists opposed the capitalization of strategic state enterprises such as the state airline, Lloyd Aéreo Boliviano; the petroleum company, Yacimientos Petrolíferos Fiscales Bolivianos (YPFB); and the state-owned railroad. In light of the century-plus dispute between Bolivia and Chile concerning access to the Pacific coast, these critics were particularly incensed when the railroads were sold to Chilean private enterprises.

Labor unions denounced capitalization, calling it a scheme for ceding key state enterprises to foreign investors, and state employees feared the policy would result in layoffs. Miners, historically an important political force in Bolivia, protested the privatization of state-owned mineral deposits, while teachers and university students opposed educational reform. At the same time, civic committees urged greater regional autonomy than that granted by popular participation, pressing for direct election of departmental authorities. Some departments, such as Tarija and Santa Cruz, went so far as threatening to secede.

Despite such opposition, Sánchez de Lozada managed to achieve major progress in his reform agenda. By mid-1997, five of the six major state enterprises, as well as 49 smaller ones, had successfully been capitalized, bringing in roughly \$1.8 billion. Some enterprises, such as the state telephone company (Entel), attracted more revenue than anticipated. Layoffs were mostly averted, and the government granted certain opposition demands, such as allowing

Entel's employees to buy shares in the company. In a major coup, Sánchez de Lozada also attracted foreign investment for YPFB exploration and development projects. With the aid of more than $2 billion from multilateral institutions, the company has started construction of a 3,000 kilometer natural gas pipeline to Brazil.

And yet, while Bolivia's reform program has resulted in some notable successes, less promising economic indicators persist. Since 1987, the ratio of investment to GDP has hovered between 5% and 6%, low even by Latin American standards. The country's reliance on mining (accounting for almost half of exports) and natural gas leaves the economy dependent on primary products, which are vulnerable to swings in international market prices. High unemployment, unequal income distribution and outright poverty remain important problems for Bolivia, whose per capita annual income of $650 is the lowest in South America. The United Nations' Human Development Index—a rating that combines indicators of real purchasing power, education and health—consistently ranks the country towards the bottom of the list for Latin America. Bolivia also depends on US approval to continue borrowing from multilateral institutions, which account for most of the country's foreign debt.

Politically, the coast is also far from clear. If they persist, protests against the reform packages could further destabilize Bolivia's notoriously volatile political system. Despite successful negotiations and concessions made by both the government and protesters, political instability looms large. Unless the reforms yield immediate positive results, the nation's political system may once again become chaotic.

On a more positive note, Bolivia's democratic system is stronger now and has changed the way that structural reforms are debated and carried into law. When Paz Estenssoro introduced neoliberalism, he did it by authoritarian means. Under Sánchez de Lozada, however, structural reforms were subject to a democratic process that both slowed and legitimated their execution. Every item was challenged, debated and negotiated, enabling the president to gain crucial support from parties that could normally be expected to oppose neoliberalism. Sánchez de Lozada sought alliances with Víctor Hugo Cárdenas, leader of the indigenous Movimiento Revolucionario Túpac Katari de Liberación (MRTKL)—and subsequently his vice president—as well as with the populist UCS and the leftist Movimiento Bolivia Libre (MBL). These organizations, traditionally unreceptive to market reforms, supported the government while voicing some of the demands of the electorate.

Conclusion

The state still plays a major role in the Bolivian economy; it is responsible for macroeconomic management and infrastructure, and 60% of all investment is concentrated in the public sector. Likewise, a large part of the Bolivian labor force relies on public employment. The most blatant aspects of statism, such as high tariffs and nationalization, may be gone, but more subtle ones remain and may influence the future course of neoliberalism in Bolivia. Traditional structures and institutions, such as dependence on the state by various sectors of civil society—including labor for subsidies and welfare, business for protections and incentives, and political elites for patronage—will not vanish immediately, regardless of external pressures for market-oriented reforms.

Just as state regulation interferes with the market, so does market logic interfere with political and, especially, social goals. Sánchez de Lozada did not blindly pursue neoliberal reforms. Faced with opposition from labor and peasant organizations, as well as other political parties, he modified his agenda to devote more resources to social programs. Left-of-center parties (UCS, Condepa, MBL and MIR) played an important role in calling attention to the social costs of neoliberalism, while facilitating the consensus necessary for economic, political and social stability.

Popular leftist groups, given access to power, have managed to block the most extreme manifestations of neoliberalism. In the 1997 presidential elections, Sánchez de Lozada and his coalition government were perceived as too neoliberal and were voted out of office. Although Banzer and the ADN won the elections, the UCS and Condepa were close behind. As a result, the continued role of populists and leftists as coalition partners in neoliberal governments promises to maintain the delicate balance between neoliberalism and statism. Banzer has called for continued implementation of Sánchez de Lozada's reform agenda, although there are indications that the economy is faltering. In December 1997, in response to budget shortfalls, the new government launched a so-called *gasolinazo* that raised fuel prices by 30%. It also announced elimination of the Bonosol, the annual payment of $250 to all Bolivians over 65 instituted by Sánchez de Lozada's administration. Labor unrest predictably followed, but the ruling coalition stood steadfastly behind these unpopular measures.

On the whole, the need for economic growth seems to have modified Bolivia's left-of-center parties, who seem to be leaning toward the attitude expressed by Luis Maira of Chile's Socialist Party: "We must build a house with two stories. The second story should involve social programs, but the ground floor must include sound macroeconomic principles." ■

Democratic Constraints to Reform

Jorge Vargas-Cullell

Costa Rica has little to show for its experience with privatization. Even after three structural adjustment loans from the World Bank in a little over a decade—1985, 1989 and 1993—the Costa Rican government has implemented a slow, shallow, piecemeal privatization. Most privatized institutions once belonged to the Costa Rican Development Corporation (Codesa), a public holding that embodied the country's brief experience with entrepreneurial state strategy. A strong interventionist state remains a major actor in key markets such as finance, power, telecommunications, insurance and social security. As Sebastian Edwards argues in his work *Crisis and Reform in Latin America*, in terms of privatization, Costa Rica lags far behind the rest of Latin America.

Given its relative inexperience in this area, Costa Rica may seem like a spurious example for a model of privatization. In terms of the comparative politics of privatization, however, the country emerges as an important case. Privatization in Costa Rica has not been a response to widespread, prolonged state failure. On the contrary, Costa Rica, the oldest stable democracy in Latin America, is the only country in Latin America where the state has implemented economic and institutional reforms within a mature democratic regime. Unlike similar efforts in Chile, Argentina or Mexico, Costa Rican market reform has confronted multiple democratic constraints to sweeping policy changes. And in contrast to Venezuela, state interventionism and democratic institutions have not led to economic and political quagmires. The study of privatization in Costa Rica, therefore, sheds light on a basic question: How do democracies in developing countries cope with major policy reforms? Addressing this concern affords important insight into the long-term survival of democracies in countries with developing, vulnerable economies.

Privatization in Costa Rica is also intriguing on its own terms. Despite appearances to the contrary, "*E pur s'il muove*," as Galileo put it. Still it turns. In the last decade, the Costa Rican government has implemented privatization in the areas of finance, power generation, staple foods, commerce and industry, with heated debate over reforms in the power and telecommunications sectors. Despite its modest scope, however, privatization has been at the core of Costa Rica's political debate on modernization. Following Harvey Feigenbaum's and Jeffrey Henig's definition of privatization as the transfer of functions and activities from the state to the private sector, Galileo's maxim applies: Things move, albeit slowly, in Costa Rica.

What then accounts for the slow pace of privatization in Costa Rica? The most convincing explanation is that democratic constraints, as well as linkages between the state and political parties, limit the government's ability to implement sweeping institutional reforms. Since many actors hold veto power, the process of coalition-building is inclusive and collusive. Costa Rica is undergoing a process of alliance transformation, allowing reformers promoting privatization to collude with institutional actors who hold veto powers. This process has allowed the government to implement a limited privatization program; yet the complex nature of such negotiations renders sweeping reforms unfeasible.

The Costa Rican Experience

Compared to Chile, Argentina and Mexico, privatization in Costa Rica has been minimal. In the first three countries, governments transferred entire sectors to the private sphere through ambitious public divestiture programs. Modernization of the state was at the heart of market-oriented reforms designed to replace state-led development. In contrast, although Costa Rica was one of the first Latin American countries to receive a World Bank structural adjustment loan, privatization there has not proceeded as rapidly as elsewhere in the region.

In the 1980s, successive Costa Rican administrations implemented a gradual, piecemeal process of privatization. This process has been characterized by extended lags between the decision to privatize and actual implementation. Moreover, privatization has been implemented on a case by case

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The slow pace of privatization in Costa Rica

Oil is a sensitive issue for any country contemplating privatization. Costa Rica's refineries remain under the control of the state-owned oil company, Recope.

basis, with divestiture, as a rule, not the preferred approach. Instead, the government has chosen gradually to lower entry barriers to markets previously monopolized by the public sector, leading private companies to devise new market conditions to compete with existing public firms. These trends hold true for three of the main areas of the Costa Rican economy exposed to privatization: finance, power and telecommunications.

The Financial Sector

From 1980 to 1997, Costa Rica followed a steady policy of market liberalization. A series of laws passed to further this goal included provisions to allow private banks access to state funds; the formulation of a state regulatory framework over public and private banks; and new guidelines for the domestic capital market. Finally, in November 1995, Congress abolished what remained of the state monopoly over savings and checking accounts—the linchpin of state-led development from 1950 to 1980. The legislature then created a new legal framework for the financial sector, redefining the central bank's functions and reinforcing the state's regulatory capabilities.

Costa Rica's financial sector is presently undergoing an accelerated transition to private ownership and global integration. Following strong market expansion during the 1980s, private banks took the lead in supplying credit; between January and May 1995, they accounted for 51.9% of the country's total loan portfolio.

In the 1980s, the United States Agency for International Development (USAID) actively supported the expansion of private banks by exerting pressure on Costa Rica to lower barriers to private competition. At the same time, the agency advocated a strong financial program to aid fledgling private banks. USAID funds subsidized these operations by supplying low-cost capital, allowing for unusually large financial spreads. During this period, the state relinquished control over the stock exchange, which was founded in 1976. New financial operators—including private pension administrators, leasing and factoring firms—also came on the scene. In 1997, the main private banks launched vigorous merger processes and public banks inched toward institutional restructuring.

Costa Rica is the only country in Latin America where the state has implemented economic and institutional reforms within a mature democratic regime. The study of privatization in Costa Rica, therefore, sheds light on a basic question: How do democracies in developing countries cope with major policy reforms?

Electricity and Telecommunications

Since its founding in 1949, Costa Rica's state electricity company, the Instituto Costarricense de Electricidad (ICE), has retained a quasimonopoly over the power generation sector. It has done a remarkably thorough job; in 1990, the number of Costa Rican homes with electricity exceeded 90%. Small regional utility companies—usually cooperatives or community-based firms—have continued to operate independently, but ICE and ICE-owned companies produce, transmit and distribute over 95% of the nation's energy supply.

The state began encouraging private investment in the power sector in the early 1990s. New laws allowed private firms to generate an initial 15% of the country's energy supply, a level that soon rose to 30%. The same legislation required ICE to buy the power generated by private companies, even if state reserves were full.

In the last five years, ICE has authorized the construction of over 15 power plants, with nearly 20 new projects pending. In the meantime, private investors, including the nation's leading political families, have poured money into the power generation sector and formed a rival company, Empresas de Cogeneración Eléctrica. In 1996, Congress began debating a bill that would restructure the power sector and create a new regulatory framework, opening the market to private competition. However, due to a variety of factors—opposition from ICE trade unions and other civil organizations, divisions within the governing Partido Liberación Nacional (PLN), lackluster approval ratings for President José María Figueres and weak opposition support—the bill never made it to the voting stage.

Besides its dominance of the power generation sector, ICE also enjoys a monopoly over telecommunications. Congress granted it a mandate to develop this sector in the 1960s, although private companies remained in the market until ICE acquired Radiográfica Costarricense Sociedad Anónima (Racsa) in 1973. ICE showed signs of loosening its monopoly in 1988, when the company's board of directors authorized Millicom, a private firm, to develop the cellular phone market through leasing. After much legal wrangling, however, the deal was nullified in 1995 by the Supreme Court, and ICE took back direct operation of the market. Debate on a measure to restructure telecommunications—effectively ending ICE's monopoly—has come to a standstill. This bill would have created a new regulatory framework and opened the market to private investors. The Figueres administration has ruled out state divestiture for this branch of ICE, although it has suggested selling subsidiary companies (including Racsa) and leasing out radio frequencies.

Eliminating Codesa

Codesa's privatization was the single most important divestiture program in Costa Rica. Starting in 1985, the government sold all of the corporation's subsidiaries. This was a comparatively easy task; given Codesa's financial losses and its subsidiaries' lackluster performances, no political actors stepped forward to oppose divestiture. Over a nine-year period, 11 subsidiaries either folded or were sold. While some firms, such as the Central Azucarera del Tempisque (Catsa), were sold to cooperatives, others—Aluminios Nacionales (Alunasa) and Fertilizantes de Centroamérica (Fertica)—were sold to private firms. Osvaldo Durán asserts that in all cases the selling price was well below the book value set by the national comptroller. Finally, in 1996, Congress passed a law closing down Codesa.

USAID funded Codesa's divestiture programs. In 1985, the agency donated $160 million to a trust fund, naming Financiera de Inversiones Transitorias as fiduciary.

This entity was responsible for arranging the purchase and sale to the private sector of Codesa's subsidiaries.

The Limits of Reform

Despite success stories like Codesa, Costa Rica's ambitious privatization program faces a double bind. On the one hand, constraints on institutional reforms rule out privatization à la Chile or Mexico. Costa Rica is a presidential democracy with a strong executive branch; in terms of policy making and patronage, the president wields great political clout. Nevertheless, the regime has an effective system of checks and balances which limits presidential power. In this sense, Costa Rica fits Matthew Shubert's concept of a "democratic regime with multiple vetoers." On the other hand, the kinship between political parties and the state—the crux of the Costa Rican political system—creates high political and institutional stakes for privatization. Such relationships have strengthened institutionally-based party actors vis-à-vis non-institutional actors—and especially party organizations—to the extent that deep privatization could disrupt the party system.

The very state/party linkages that slow privatization may explain how Costa Rica's democracy gradually processes reform. These linkages have led to the creation of bipartisan networks of "politico-entrepreneurs," the origins of which may be traced to the flourishing of the interventionist state in the 1960s and 1970s. These ties have allowed political parties and the entrepreneurial sector to develop fluid working relationships. Historically close ties among a diverse host of political actors provide a framework for implementing gradual privatization with low levels of conflict.

In the 1970s and early 1980s, several authors called attention to the phenomenon of politico-entrepreneurs, most of whom belonged to the PLN: the party that has dominated Costa Rican politics since 1951. This group of politicians turned entrepreneurs actively promoted Codesa's expansion, sparking conflict with private industrialists. Politicians from the Partido Unidad Social Cristiana (PUSC), a coalition of opposition parties formed in 1982, later joined these cliques. Unlike other businessmen—who typically emerge from the middle classes, then become politicians—politico-entrepreneurs went the reverse route. Their power was rooted in the institutional structure of the state.

The consolidation of a bipartisan party system after 1982 and the structural adjustment process that followed helped forge a fluid relationship between the political and entrepreneurial sectors. Old antagonisms between the PLN and the private sector ceased, and both parties included prominent entrepreneurs as cabinet members during their times in office. These groups became deeply involved in policy making, developing close ties with politicians.

The financial sector is a good example of these linkages. Carlos Sojo argues that in Costa Rica, *"los nombres de la política no son nombres de empresa"*; i.e., there is a clear separation between politicians and entrepreneurs. Although this assertion may hold true for the banking system, one must acknowledge that prominent bankers are often political insiders. Well-known figures in the world of finance such as Luis Lieberman (Banco Interfín), Bernardo Baruch (BCT), Rodolfo Jiménez Borbón and Jorge Sánchez (Banco Banex) carry their own political clout. In the past 20 years, these figures have served in key public posts under both parties. Baruch served as vice minister of the treasury during the Carazo administration (1978-1982); Sánchez was minister of economy and industry under Oduber (1974-1978); Jiménez was President Calderón's top adviser (1990-1994); and Lieberman currently serves on ICE's board of directors.

In his analysis of financial liberalization in the early 1980s, Bruce Wilson argues that in Costa Rica, the shift from intervention to market reforms "may be accounted for by the formation of new coalitions within the government party and their informal coalitions with nongovernmental groups, both domestic and international." He goes on to show how realignments within the PLN gradually gave the party the authority to launch privatizations, an ironic role for a political organization that had once championed nationalization of the banking system. Technocrats and political pragmatists from both parties merged with a diverse array of social and political organizations to press for changes in the existing legal framework.

Conclusion

Costa Rica clearly does not fit the usual explanations of the politics of privatization. While the country has succeeded in opening up its economy, privatization has been a secondary component of market reforms. There is no protracted struggle between rival coalitions and opponents of privatization to account for such sluggish progress. The Costa Rican government has implemented reforms within a context of institutional stability, relatively low levels of political content and increasing competition between parties with similar policy platforms. A more likely explanation links the politics of privatization with democratic regime constraints and the historical relationship between political parties and the state: a relationship characterized by collusive negotiations between key political actors. These structural and institutional constraints determine the slow pace of privatization in Costa Rica. ■

Political Costs of Privatization

Maura Alejandra Vallejo Acevedo

After the debt crisis of the early 1980s, Latin America's leaders were forced to articulate new economic strategies to check inflation and renew the trust of international creditors. The last decade has seen an intensification of this process of economic readjustment, which led most governments in the region to adopt a neoliberal model of economics. The neoliberal model is based on the idea that through the market there will be a massive reallocation of resources through different sectors and processes. The direct intervention of the state in the economy is the first logical point of discussion within this context.

Analysts of Latin America have tended to ignore the political component of economic readjustment. They expected economic reforms to open the political arena to new actors, who would in turn create new channels of political participation. From the very beginning, however, economic modernization has been a highly centralized process, with decision making concentrated in the hands of the executive branch. Mexico and Peru are examples of countries whose presidents have adopted neoliberalism as a way to court new allies through clientelism, while closing avenues of participation to critics of the regime. The end result has been to reinforce centralist tendencies, limiting any potential progress toward democratization. Reforms implemented in this way may solve fiscal crises in the short term, but the absence of a broader social consensus precludes the creation of participatory mechanisms that could further the process of democratic transition.

Mexico and Peru are examples of countries whose presidents have adopted neoliberalism as a way to court new allies through clientelism, while closing avenues of participation to critics of the regime. The end result has been to reinforce centralist tendencies, limiting any potential progress toward democratization.

This lack of consensus has been most obvious in the case of privatization, one of the most important and controversial components of neoliberal economics. Privatization brings fresh resources and allows the state to balance public finances, but it also leads to a redefinition of the very role of the state. Along with the economic effects of this redefinition, privatization strengthens certain political institutions—most notably, the executive branch—while socially, it eliminates the redistributive role of some state-owned enterprises. The neoliberal agenda has tended to ignore this redistributive function, leaving behind the discussion of the new political and social responsibilities of the state. In this sense, the process of democratization has also been affected by the neoliberal economic agenda.

Reforming the State in Peru: The Institutional Outlook

Peru has implemented one of the most extensive privatization programs in all of Latin America. In just a few years, almost all of the country's state-run companies have passed into private hands. This rapid transformation is especially surprising given the Peruvian state's past record of intervention in the economy. In the 1960s and '70s, state-run companies were the main force behind industrialization, and a bloated public sector was a useful tool for defusing social protest. In the 1980s, however, economic collapse under President Alan García and the outbreak of severe terrorist violence brought about a crisis of legitimacy for the state. When Alberto Fujimori took office in 1990 as a political outsider, he introduced a severe package of economic reforms to rein in hyperinflation and restore the country's credibility with international creditors. Privatization quickly became one of Fujimori's priorities. As of January 1997, he had raised over $6 billion through the sale of public companies to the private sector.

Given the speed of this transformation, it is easy to overlook the political and social costs of privatization in Peru. The program picked

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An Indian woman sells corn on a muddy side street in Cuzco: Fujimori's critics complain that the proceeds of privatization have not addressed the root causes of poverty in Peru.

A tentative answer to the question as to whether privatization furthers the process of democratic transition is: no, it does not. The revenues generated from privatization are a one-time bonus, and unfortunately are not always used to further the construction of democratic institutions.

up pace in 1992 after Fujimori's self-styled coup, or *autogolpe*, which blamed Congress and the judicial system for hindering the course of modernization in Peru. A new constitution passed in 1993 strengthened the executive branch at their expense, in effect making the president the center of decision making. In this context, privatization became one of the most important aspects of Fujimori's agenda. In 1991, his administration established the Comisión para la Promoción de la Inversión Privada (Copri), to oversee the process. Copri's board is composed of five ministries that decide which public enterprises will be privatized. Their decisions are later ratified by the president.

Besides this formal centralization of powers, Fujimori also enhanced his position by cultivating clientelist, or "neopopulist," relationships outside the traditional avenues of political alliance-building. Fujimori funneled public resources (including those gained through privatization) toward social spending programs valued more for their political symbolism than their long-term potential to reduce poverty. An example is the state antipoverty agency, the Fondo de Recursos para el Desarrollo (Foncodes). During Fujimori's reelection campaign in 1994, the state poured over $1 billion into Foncodes programs.

In general, privatization in Peru has been implemented with an eye toward short-term political gains. Fujimori has used privatization as a panacea to cure fiscal ills and to coopt new bases of support. The problem is that privatization does not represent a permanent source of income. Once the last state company is sold to the private sector (which Copri predicts will happen sometime in 1998), the well will run dry.

The centralization of power in Peru raises doubts about the country's political future. Where is the Peruvian state headed after Fujimori, given that the entire reform process has centered on his person? And, more profoundly, how can a sustainable economic model be built on the basis of political expediency? Peru lacks an institutionalized party system; political and social organizations, such as labor unions, are weak and unresponsive, and Congress is little more than a rubber stamp for the president.

During his State of the Union address in July 1995, Fujimori acknowledged that "modernization can be successful only if it reaches all members of society; this is the only way it can be expected to last into the future." To live up to these words, his administration must define a long-term strategy that takes into account the redistributive aspects of macroeconomic growth.

Mexico: The Political Consequences of Privatization in a Corporatist System

The task of reforming the Mexican state began in the mid-1980s, under the leadership of President Miguel de la Madrid. De la Madrid took office in the midst of a severe economic crisis that called for drastic measures to stabilize public finances. His administration took the first steps toward neoliberal reform by weaning the state away from nonstrategic economic activities, such as the hotel industry.

Despite this limited progress, neoliberalism did not take root in Mexico until Carlos Salinas de Gortari became president in 1988. The Salinas administration set out to complete the transition away from import substitution to an outward-oriented model for economic reform. This plan involved forfeiting the state's regulatory functions to a free market economy.

Salinas encouraged privatization as a key ingredient in transforming the paternalistic role of the Mexican state. Between 1982 and 1993, de la Madrid and Salinas privatized 977 state companies. As in Peru, however, privatization in Mexico sparked tremendous controversy among entrenched interest groups. To push through the reforms deemed necessary for Mexico's economic survival, Salinas determined to dismantle the corporatist structures that for decades had negotiated social demands with the governing Institutional Revolutionary Party (PRI).

Corporatism implies important mechanisms of representation, cooptation and control of key social groups, including workers, bureaucrats, peasants, and civil and military organizations. Since the PRI began its reign over Mexican politics in 1929, the party had consulted these social groups when formulating new policies. De la Madrid himself signed an economic solidarity pact with labor, peasant and business organizations to legitimate the economic reforms of the 1980s. Salinas, in contrast, was determined to weaken the influence of this so-called "revolutionary family" over economic policy. His conflicts with traditional interest groups were reflected in the imprisonment of the oil industry's union leader, the ouster of the long-time head of the teachers' union, and the defection of many members of the PRI to the opposition.

Like Fujimori, Salinas sought legitimacy through social spending projects intimately associated with his name. There is still debate over the degree to which he used privatization funds to finance his pet social program, the Programa Nacional de Solidaridad. This program poured funds into local projects such as clinics, roads and schools in low-income areas where the PRI lacked electoral support.

Salinas' successor, Ernesto Zedillo, took office in December 1994 amid a currency crisis of gigantic proportions. One of his first actions as president was to devalue the peso, and in the chaos that followed Mexico's economic reform program, whose success seemed assured under Salinas, became far less certain. As evidence of corruption and mismanagement mounted, Salinas and many of his programs were discredited, but the broad outlines of neoliberal reform remained. As a result, Zedillo adopted a complicated and contradictory policy toward corporatism. He continued to promote a free market economy, while recognizing that a weakened corporatist structure was essential for maintaining political and social control. Privatization still played an important role in government policy, but Zedillo favored granting concessions for key infrastructure projects (railroads, air- and seaports, electricity and telecommunications). He justified this practice as a means of improving productivity in sectors essential for economic development, although critics pointed to the need for a common criteria for the sales and disincorporation process.

The 1994 economic crisis convinced Mexico's leadership of the need to consolidate the process of economic reform, despite widespread popular discontent. To impose unpopular measures in a climate of political uncertainty and social mobilization, Zedillo and the PRI have become ever more authoritarian, excluding the social sectors affected most from the debate over neoliberalism.

Reform of the State, Privatization and Democratization

Most scholars of economic and political liberalization in Latin America view this process as part of a simultaneous transition to both free markets and democracy, with one of the first steps being the redefinition of the size and role of the state. Privatization figures into this discussion as a key factor in reducing the state apparatus.

The redefinition of the state's role in the economy is also a step toward political transformation. In this context, the reform of the state has become a central part of the debate over the process of democratic transition in the region. However, there is a lack of discussion about the political effects of economic policies. Mexico and Peru are examples of states that have become leaner yet stronger due to neoliberal reforms, allowing the executive to reassert authoritarian tendencies.

The dismantling of public enterprises in Mexico and Peru has led to an increasingly exclusionary decision making process, an outcome that supports the thesis proposed by Stephan Haggard and Robert Kaufman in their book, *The Politics of Economic Adjustment.* These authors argue that the net political effect of economic adjustment packages is to concentrate power in the hands of the executive. The main difference between Mexico and Peru lies in the institutional aspects of their respective political systems. Fujimori faced the challenge of creating an institutional structure that would enable the deadlocked Peruvian state to function effectively; in contrast, three successive Mexican presidents struggled with the political consequences of economic liberalization for the country's corporatist system.

A comparison of Mexico and Peru brings important insights into the debate over the political effects of privatization in Latin America, especially as it concerns the construction of democratic institutions. In light of the evidence presented above, a tentative answer to the question as to whether privatization furthers the process of democratic transition is: no, it does not. Privatization is a finite process that will end once all the state-run companies in a particular country have been sold and infrastructure projects concessioned to the private sector. The revenues generated from privatization are a one-time bonus, and unfortunately are not always used to further the construction of democratic institutions. Instead, in Mexico and Peru these funds have been exploited to subsidize and promote clientelist relationships. Programs such as Foncodes in Peru and Pronasol in Mexico have been presented as cornerstones of social policy, whereas they are in fact mechanisms to coopt voters in key social or geographical areas. In addition to being tools of political patronage, these programs are short-term measures that have little impact on the larger structural problems of poverty.

In conclusion, privatization as it has been implemented in Mexico and Peru seems to support the argument that neoliberal reform in Latin America has strengthened the presidency at the expense of democratic institutions. At least in the two countries in question, true reform of the state is far from complete; in fact, it has barely begun. ■

Contemporary "Slavery" in Brazil

Photos and Text by Ricardo Funari

Slave labor remains one of the leading social calamities of the later twentieth century. So many are the victims and the countries that violate international conventions prohibiting slavery that the UN has created a special group to study contemporary forms of slavery around the world.

Recently, the group listed Brazil among the few countries practicing every form of modern slavery, including child labor, debt bondage and the trade in women through international prostitution rings. The chief means of enslavement in Brazil is debt—the physical immobilization of workers on estates until they pay off debts incurred through their very working conditions. Workers in areas affected by recession or drought are lured into verbal contracts and transported thousands of miles. Upon arrival at the plantation or factory, the wages promised them are forfeited to pay for transport costs, food and tools. As time passes, the workers' debt grows, making it impossible for them to pay their way back home.

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E S S A Y

Brazil abolished slavery in 1888, but labor exploitation persists

Mute testimony of the dangers of the sisal defibering process.

Sisal is produced through an arduous defibering process. The machinery used for this task is rudimentary and dangerous; by some estimates, 1,500 workers have lost a finger, hand or arm in the defibering process in the state of Bahia alone.

Left: Workers load bales of sisal onto a waiting truck.

The sisal, or agave, plant was introduced to Brazil from Mexico early in this century. It was well suited to Brazil's arid northeast, and the country soon became the world's largest sisal producer. The sisal leaf produces a tough, resilient fiber used in the thread industry and by cattle breeders to tie hay bales. In recent decades, however, synthetic fibers have come to dominate the international market. Synthetic fiber production requires more energy, employs fewer workers, and leaves behind toxic chemical residues.

Workers tie sisal into bales. Cloth masks protect them from inhaling minute particles and fibers.

After defibering, sisal is sold to a "mixer" to be softened. This process also involves many dangers for workers, who can claim few labor rights and rarely earn even half the minimum wage (the equivalent of $100 a month in Brazil).

Former rubber tappers, driven out of the rainforest by economic hardship, earn a few reais loading rubber onto a truck.

Brazil experienced its first rubber boom in the late nineteenth and early twentieth centuries, when European factories discovered the industrial uses of rubber. Brazilian rubber fell into decline shortly before World War I, when cheaper goods from Malaysia flooded the market, but Allied demand during World War II revitalized production.

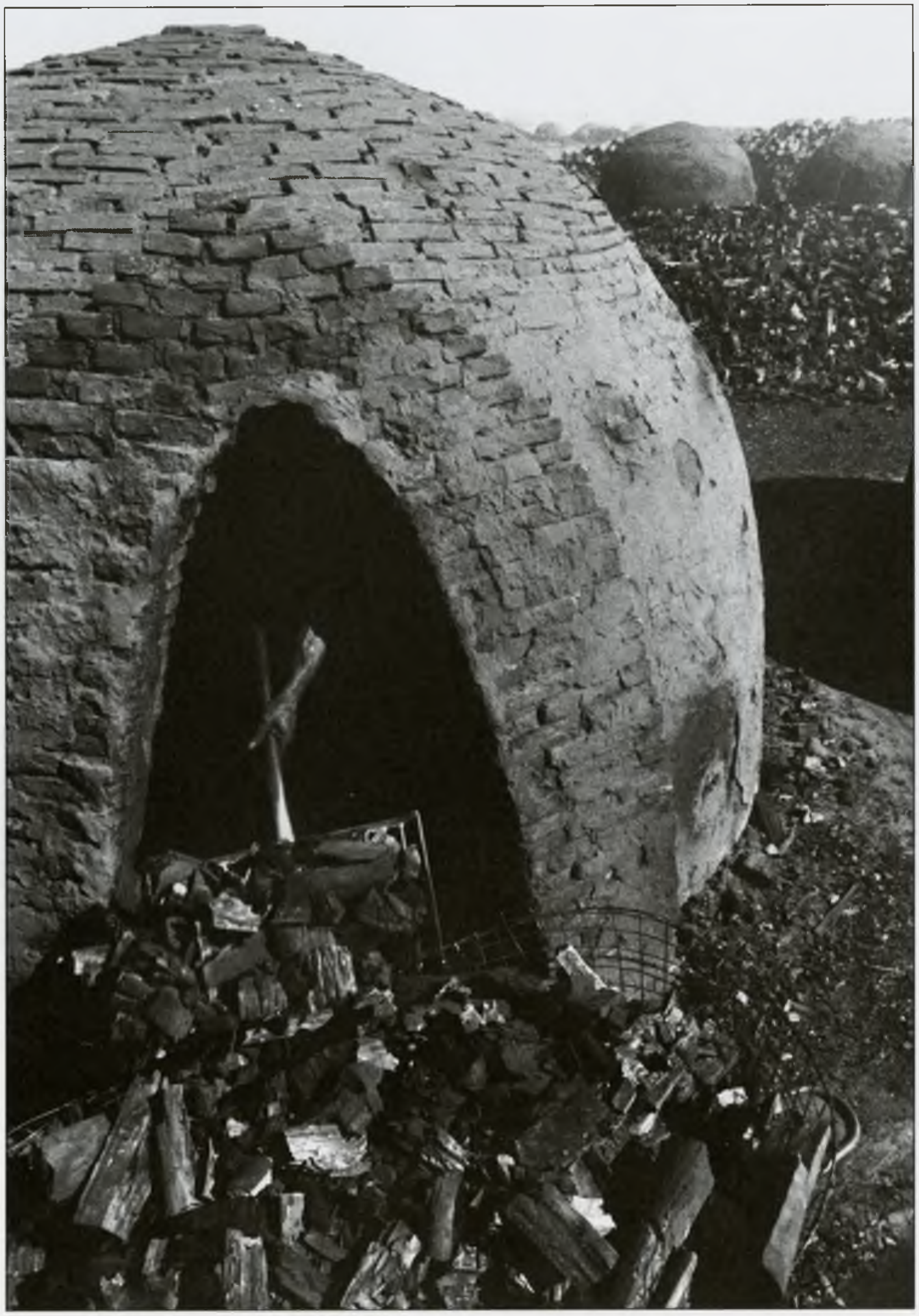
Since the 1970s, Brazil's rubber tappers have attracted international attention for their efforts to protest exploitative working conditions. According to a 1992 study by Alison Sutton—*Slavery in Brazil: A Link in the Chain of Modernisation*—the owners of rubber plantations commonly claim exclusive rights over the sale of rubber produced on their lands. Sale of rubber to purchasers other than the plantation owner is grounds for eviction. Owners also require tappers to pay rent in kind for the right to work on their properties, and may confiscate a worker's possessions in return for unpaid debts.

A displaced rubber tapper flexes muscles acquired from lifting and stacking rubber slabs.

In the 1970s and 1980s, leaders such as Wilson Pinheiro de Souza and Chico Mendes helped form labor unions and other organizations to protect rubber tappers; both were assassinated in the violent battle for control of the Brazilian rainforest. The livelihood of rubber tappers in the states of Acre and Amazonas is further threatened by deforestation, timber companies and cattle ranching, which have had devastating effects on the environment and Brazil's indigenous peoples.

Although a variety of health problems and diseases are associated with the job, charcoal workers typically lack protective gear such as masks, boots or gloves.

Charcoal production is probably one of the hardest and dirtiest jobs on the planet. In addition to these hazards, charcoal workers may be cheated of their pay by bosses who plead financial hardships or accounting problems. Workers in this situation have few legal resources; unions advise hiring a lawyer, but most workers cannot even afford the bus fare into town. Complicating the situation further is the fact that many rural workers are illiterate, and in some cases sign documents they do not understand.



The characteristic round brick ovens used in charcoal production dot an arid landscape in Mato Grosso do Sul.

Charcoal is produced by burning wood inside walk-in brick ovens. The sharp variations in temperature inside and outside the ovens, as well as the hazards of inhaling charcoal dust, produce a high incidence of pneumonia among charcoal workers.

Dwarfed by his burden, a worker loads charcoal onto a truck.

Charcoal production is a long, exhausting task. Adults and children alike work 12-14 hour days an average of six days a week. They usually start two hours before daybreak and continue through dusk.

Workers arriving at a cane field in the state of Bahia. For the next six months, they will be effectively imprisoned on the plantation through debt to its owner.

Conditions on Brazil's sugar cane plantations are reminiscent of an earlier era in Latin American history, when slaves and peons labored in the fields of the great *fazendas.* Nowadays, labor contractors, or *gatos,* recruit workers from other states with promises of good working conditions and high wages. The gato pays for travel expenses and food (usually bread and soft drinks) along the way, so that the worker arrives at the plantation already in debt.

Harvesting sugar cane is backbreaking work. Each stalk is cut by hand with a machete.

Once workers arrive on the cane plantation, they slide deeper and deeper into debt. They pay to sleep in filthy barracks, the only shelter available, and for the machetes and sharpening stones used to harvest the cane.

Workers line up for the only meal of the day. The price of these meager rations is deducted from their salaries.

The company deducts the only meal served daily from the workers' pay. Other provisions, available only from the company store, are sold at inflated prices.

The long stalks of cane are gathered into bundles and transported by truck to the mills where they will be processed into sugar.

Indebted workers are effectively trapped on the plantations, since they cannot afford the trip back home. The company provides transportation only at the end of the cutting period, which runs from September through March. Workers leave their identity papers at the company office, which won't release them until all outstanding debts have been paid.

A Capitalist Revolution?

Eduardo A. Gamarra

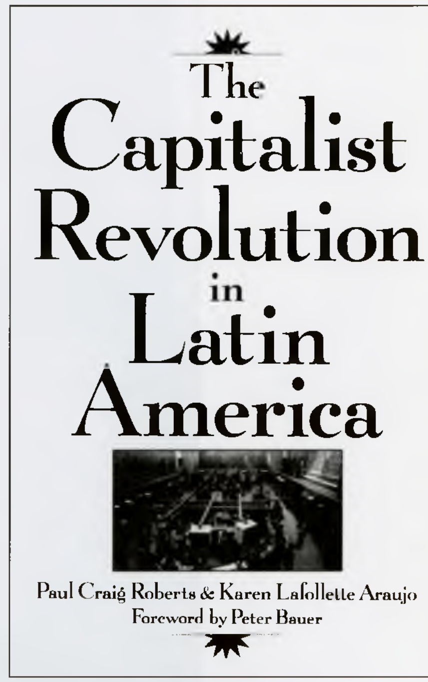
The Capitalist Revolution in Latin America
by Paul Craig Roberts and Karen LaFollette Araujo
New York: Oxford University Press, 1997. 213 pages. $25.

Neoliberalism's impact on Latin America and the Caribbean has been widely debated. As this issue of *Hemisphere* shows, however, critics have proposed few viable alternatives to the market reforms of the past two decades. Even the left, with a few caveats about social costs, has accepted the basic premises of neoliberal reform *(see Andrés Oppenheimer's commentary in this issue).*

A whole library of significant case studies and theoretical discussions about neoliberalism is now available. Among this vast collection, a few works aim less to improve scholarship on the issue and more to raise polemic and controversy. The main objective of such works appears to be to rewrite Latin American history within a simplistic framework that gloats over the demise of the left and blames the region's ills on its cultural legacy. The best known example is *El manual del perfecto idiota latinoamericano* (Barcelona: Plaza y Janés, 1996), the Latin American bestseller which derides the left and obscures any negative consequences of market-oriented reforms. In the same genre is *The Capitalist Revolution in Latin America*, by Paul Craig Roberts and Karen LaFollette Araujo.

The basic premise of this book is that in the late twentieth century, Latin America—guided by Chile's enlightened generals—woke up and discovered capitalism. The adoption of capitalism in the past decade thrust Latin America into the modern world, and only higher and higher doses of neoliberalism will compel it to abandon its "rent-seeking" past. To achieve the final goals of the capitalist revolution, the authors argue, Latin America must also undergo a fundamental cultural shift, abandoning the Catholic and Spanish heritage responsible for the region's socialist/protectionist legacy. Finally, Roberts and Araujo advocate the elimination of development banks, such as the World Bank, based on the rationale that the only financing that should be allowed in a capitalist global economy is the "kind that relates to risk and reward" (p. 182).

Three ideas put forth by Roberts and Araujo merit further discussion: first, the notion that Latin America is experiencing capitalism for the first time; second, the pervasive view that military dictatorships were necessary stages in the capitalist revolution; and finally, the idea that all neoliberal reformers were/are unimpeachable revolutionaries.



Discovering Capitalism in the Late Twentieth Century?

One of the least theoretically sound arguments in *The Capitalist Revolution in Latin America* is the notion that Latin America discovered capitalism in the late twentieth century. According to this view, all of the economic experiments of the past hundred years were not capitalist. Instead, Latin America was characterized by the active presence of the state and the ubiquitous "rent seekers," who behaved in precapitalist ways.

This argument ignores the fact that capitalism has taken many different forms and shapes around the world. In the case of Latin America, capitalist market forces have been at work since at least the late 1800s. That domestic policy makers were unfit managers and that Latin American businesses were not risk takers is probably true, but capitalism undeniably had a great impact on the region well before the second half of the twentieth century.

If capitalism only reached Latin America in the 1970s, with the aid of General Augusto Pinochet, then US policy goals in the region since at least the end of World War II seem

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A controversial take on the origins of neoliberalism

The authors repeat the simplistic dogma that any state intervention is negative and that only markets driven by private sector ingenuity will rescue Latin America from itself. They fail to recognize that the capitalist revolution itself.was state-driven.

downright puzzling. Were the military-authoritarian regimes of the 1970s anticapitalist? What about US policies that aimed to promote import substitution strategies, or foreign (and especially US) businesses that bolstered precisely those "rent seekers" whom the authors loathe?

Roberts and Araujo would have us believe that any degree of state involvement in the economy can be equated with anticapitalism. If that is the case, then the capitalist revolution must also have bypassed the US until the end of the New Deal and the onset of the Reagan Revolution. The authors repeat the simplistic dogma that any state intervention is negative, and that only markets driven by private sector ingenuity will rescue Latin America from itself. They fail to recognize that the capitalist revolution itself was state-driven; in many instances, the move toward more open economies and major structural reforms went against the wishes of the private sector. Even today, the private sector in Latin America fears competition and often calls for a return to state protection. Moreover, as the current Asian crisis shows, when neoliberalism or any other form of capitalist experiment fails, the private sector always turns to the public sector—in the form of state or multilateral agencies—to bail it out. All the talk about deregulation and market forces seems superfluous at a time when massive loans from Washington and international financial institutions are bolstering neoliberal economies in countries like Mexico and Korea.

Were Dictators Really that Bad?

The last decade has seen a general acceptance of the qualified statement that General Pinochet and the Chilean generals violated human rights but left behind a successful economic experiment worthy of emulation. Most analysts on the left and the right agree that neoliberalism's principal reforms are necessary, but must be carried out by democratic governments. Roberts' and Araujo's endorsement of the Pinochet model suggests that the relationship between neoliberalism and democracy is not necessarily positive. After all, authoritarian regimes do not have to deal with unruly labor unions or undisciplined political parties, or negotiate with a disruptive legislature. In fact, in the past decade, many countries that adopted market reforms opted for authoritarian-like decision making mechanisms to implement these measures. Unions were busted, union leaders jailed, and, in some cases, states of siege imposed to control dissenting voices. Lest we forget, with the exception of Pinochet, Latin America's military-authoritarian experiments were largely responsible for the economic collapse of the 1980s.

The most objectionable aspect of *The Capitalist Revolution in Latin America* is its unqualified endorsement of General Pinochet and the Chilean path to neoliberalism. According to the authors: *The anticapitalist left has demonized General Augusto Pinochet, whose government ruled Chile for almost seventeen years, and left as its legacy a constitutional democracy. During his reign, Pinochet had to confront organized terrorists. Repressions were moderate compared to those that Castro inflicted on Cuba for example, or that characterized political violence in Argentina and Peru...We believe that Pinochet was singled out because he doubly sinned, adding marketization to political repression of the left (p. 9).*

Even the most recalcitrant Chilean leftist recognizes that neoliberal reforms in Chile were successful and have served as a model for the rest of the region. But few, even those on the extreme right, would justify the large-scale repression as a necessary cleansing process to eliminate "terrorists." Have Roberts and Araujo forgotten that Pinochet overthrew a constitutional democracy and carried out a systematic pattern of repression that included former government officials, such as Orlando Letelier, who was murdered on the streets of Washington, D.C. by the military regime's henchmen? To credit Pinochet for the democratization of Chile is also ludicrous. Even a cursory survey of Chilean politics in the late 1980s reveals that the military regime resisted any democratic opening. The still-restricted nature of Chilean democracy, including built-in military prerogatives and occasional coup threats, suggests that the transition is far from complete.

All Neoliberal Reformers are Good

A final simplistic view furthered by *The Capitalist Revolution in Latin America* is its unqualified praise for civilian capitalist revolutionaries. Few would deny the merits of the reform programs carried out in Carlos Menem's Argentina, Carlos Salinas de Gortari's Mexico or Alberto Fujimori's Peru. These reforms ended hyperinflation, restored economic growth and implemented necessary structural adjustment measures. Neoliberal ideologues, however, conveniently gloss over the excesses of such reforms.

Serious examination of the privatization experiments in Argentina, for example, reveals the extremely high levels of corruption that characterized the sale of state enterprises. Those who have studied the privatization process in Mexico have reached similar conclusions. Yet, Roberts and Araujo seem to insist that only public sector officials who solicit bribes are corrupt; they have little to say about the private sector—both foreign and domestic—that pays up. When privatized industries face turmoil, their new owners do not hesitate to run to the state for protection.

In the final analysis, *The Capitalist Revolution in Latin America,* like all good polemics, is filled with simplistic statements, ideological axes to grind and unfeasible proposals. Beyond the rhetorical appeal to those who agree that General Pinochet is an honorable Latin American revolutionary, this book provides no significant contribution to a better understanding of the history of the region in the past decade. ■

Neoliberalism in Latin America

Marian Goslinga

Neoliberalism has been the dominant ideology governing Latin American economics, politics and society in the latter part of the twentieth century. Yet, as most sources agree, the neoliberal model has lost support or, at the very least, been subtly modified by the social realities of the hemisphere.

Some of the larger countries in the region, including Brazil, Argentina and Mexico, have been experimenting with their own brands of neoliberalism and have, as the literature will testify, found a fairly successful formula. Smaller countries, such as Bolivia, Peru and Paraguay, have also developed their own versions of neoliberal strategies.

The following is a list of titles dealing with neoliberalism—including monographs and periodical articles—published within the last few years. Many of these works focus on the controversial relationship between neoliberalism and democracy. Economic reforms have strained newly elected democratic governments across Latin America, severely testing the viability of the neoliberal doctrine.

A good source of articles on this topic is volume 24, number 1 of *Latin American Perspectives* (January 1997), which is devoted in its entirety to a discussion of neoliberalism.

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El neoliberalismo hoy: debate y realidades. *Revista Economía Informa* (March 1997): 3-53. [Presents various viewpoints on neoliberal economic theory and practice and its effects, with a specific focus on Mexico. Includes a selected bibliography.]

Social Power and the Inflation of Discourse: The Failure of Popular Hegemony in Nicaragua. B.L. Artz. *Latin American Perspectives*, v. 24, no. 1 (January 1997): 92-113. [Criticizes poststructuralism and the idea of the "end of ideology" in the works of Ernesto Laclau, Chantal Mouffe and leading Nicaraguan theorists.]

Neoliberalism and Income Distribution in Latin America. W. Baer, W. Maloney. *World Development*, v. 25, no. 3 (March 1997): 311-327. [Reviews the principal neoliberal policy measures instituted in Latin America in the last decade and their impact on economic inequality.]

The Reconquest of Central America: Latin American Studies and the Transition to Democracy, 1979-1990. M.T. Berger. *Latin American Perspectives*, v. 24, no. 1 (January 1997): 7-72. [An effort to trace the relationship between the Latin American Studies profession, United States hegemony and neoliberalism's resurgence in Latin America. Includes an extensive bibliography.]

Can Neoliberalism Survive in Latin America? G. Bird, A. Helvege. *Millennium*, v. 26, no. 1 (1997): 31-56. [Investigates the factors leading to the adoption of neoliberal policies and identifies the threats to their continued implementation. Predicts that the interaction between balance of payments problems, income distribution and economic growth will create significant difficulties for Latin American economies over the next few years, and that neoliberalism, if it is to survive, must address key issues such as the role of the state.]

Nicaragua and Guyana: Conflicts and Reforms. F.J. Carroll. *Forum for Applied Research and Public Policy*, v. 12 (Spring 1997): 79-86.

Tilting at Neoliberalism. L. Conger. *The Institutional Investor*, v. 31, no. 5 (May 1997): 91-103. [A group of Latin American leftists gather in Mexico City in February 1996, claiming to have a better alternative to the economic model that has dominated the region during the last decade.]

Neoliberalismo, diálogos y otros temas. José Consuegra Higgins. Barranquilla, Colombia: Universidad Simón Bolívar, 1996. 107 pp.

Haiti in the New World Order: The Limits of the Democratic Revolution. Alex Dupuy. Boulder, CO: Westview Press, 1997. 220 pp. [Includes a chapter entitled, "A Neoliberal Model for Post-Duvalier Haiti."]

Shipwreck and Survival: The Left in Central America. C. Figueroa Ibarra. Translated by John F. Uggen. *Latin American Perspectives*,

v. 24 (January 1997): 114-129. [Guatemalan sociologist analyzes the results of neoliberal policies on the Central American left.]

Relocating Class: Ex-Miners and Neoliberalism in Bolivia. L. Gill. *Critique of Anthropology*, v. 17, no. 3 (1997): 293-312.

Democracy and Neoliberalism in the Developing World: Lessons from the Anglophone Caribbean. Clifford E. Griffin. Brookfield, VT: Ashgate Publishing, 1997. 239 pp.

Post-1982 Effects of Neoliberalism on Latin American Development and Poverty: Two Conflicting Views. Huddle D.L. *Economic Development and Cultural Change*, v. 45, no. 4 (1997): 881-897. [Review article of Sebastian Edwards' *Crisis and Reform in Latin America: From Despair to Hope* (New York: Oxford University Press, 1995) and Duncan Green's *Silent Revolution: The Rise of Market Economies in Latin America* (London: Latin American Bureau, 1995).]

"Fujipopulism" and the Liberal State in Peru, 1990-1995. B.H. Kay. *Journal of Interamerican Studies and World Affairs*, v. 38 (Winter 1996-1997): 55-98.

Globalization and Neoliberalism: The Caribbean Context. Thomas Klak. Lanham, MD: Rowman & Littlefield, 1997.

Fast Forward: Latin America on the Edge of the Twenty-First Century. Scott B. MacDonald, Georges A. Fauriol. New Brunswick, NJ: Transaction Publishers, 1997. 318 pp.

Alternatives to Neoliberalism in Latin America. J. Petras. *Latin American Perspectives*, v. 24, no. 1 (January 1997): 80-91. [Discusses neoliberalism's inability to contain and influence popular struggles, given the gap between the electoral process and popular socio-economic interests.]

The Third Wave of Modernization in Latin America: Cultural Perspectives on Neoliberalism. Lynne Phillips. Wilmington, DE: Scholarly Resources, 1997. [Vol. 16 in the popular series, "Jaguar Books on Latin America."]

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