



Populist delusions block Latin America's progress

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>Published: January 16 2006 02:00 | Last updated: January 16 2006 02:00

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Populism is on the rise in Latin America. Disenchantment with democracy and market reforms is growing. Rowdy street protests at November's Summit of the Americas in Argentina and the landslide victory by Evo Morales in Bolivia's presidential elections last month are its most recent expressions. Hugo Chávez, Venezuela's president, routinely conjures up grand visions of a 21st-century socialism and a Latin America defiant of the US. The region's bright future, which 15 years ago seemed to beckon, has receded.

While most Latin Americans oppose military coups, democratic institutions have not gained their confidence. According to the 2005 Latinobarómetro poll, solid majorities lack faith in political parties, legislatures and the courts. Just over one-quarter of those polled considered that the law applied to all citizens equally. Nor have the region's economies delivered: Latin Americans are concerned about jobs, poverty and low wages. Nearly 60 per cent said they had had an unemployed adult living in their household in the past 12 months. Even so, after two years of strong economic growth, expectations are on the rise: 54 per cent believed their children would be better off than they are today.

A majority, nevertheless, holds that democracy and the market provide the best way to make progress. Populism - which disdains the separation of powers and exalts the state as an economic actor - seems far removed from the good sense of most Latin Americans. Yet it can capture people's imagination - as Mr Morales just proved in Bolivia. To deflect it, Latin American elites must redress citizens' discontent within the context of democratic institutions and market economics.

Market reforms have not failed. What did fail was the old state-centred model of import-substitution industrialisation, which replaced imports with domestic production. During the "golden" 1960s and 1970s, Latin America registered respectable growth in gross domestic product per head, although not at as impressive a rate as seen elsewhere in the world. Then the model imploded in the 1980s, bringing runaway inflation, choking debt and plummeting incomes. What else but markets could have brought Latin America back from such depths, which so ravaged the poor?

Still, macroeconomic stability and increased trade offer a platform for progress, not an end point. The modest economic growth of the 1990s resulted in feeble job creation, somewhat higher poverty levels and unremitting inequalities. Latin America's most daunting economic challenge is to grow robustly and steadily while benefiting the poor. That is the way gradually to create a middle class worthy of its name. In the developed world the median income is about 90 per cent of the national average; in most Latin American countries it is 50 per cent or considerably less, which means the "middle class" is very far from reaching the middle. The region will be making real progress when the gap between median and average incomes narrows substantially.

Market reforms pushed the state into the closet and it is time to bring it out. Latin America must increase investment in health, education and infrastructure. To do that, states need resources. But the tax base is woefully inadequate. In most of the countries, the richest 10 per cent pay taxes on less than 10 per cent of their earnings while taking in more than 50 per cent of total income. States must be efficient and curb corruption to promote growth and combat poverty.

Chile is Latin America's success story. Since 1990, its vigorous economic growth and good social policies have cut the poverty rate in half. Now - and both the right and the left agree on this - the urgent challenge is to reduce inequality. The much-vaunted Chilean consensus on market reforms is being extended to address the social consequences of those reforms, which could otherwise stymie the nation's development.

Latin America is facing a stark choice: either it meets the challenges of the 21st-century world economy or it gets left behind. Chile's lessons are obvious: the road to prosperity requires sound political leadership, market economics and a responsible state. Comparable successes in Brazil and Mexico - the two largest economies - would help lift the rest of the region.

If Latin America falls farther behind, today's elites will be responsible, either by failing to act or by giving in to populist delusions. But there is still time to make the future bright. Were it so, populism would lose its allure; if not, there are long, stormy nights ahead.

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