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Why Does Latin America Fail?

by Mario Vargas Llosa

When I arrived in Spain in 1958, it was common to hear people say: "The Spanish aren't ready for democracy. If Franco disappeared, there would be chaos, perhaps a new civil war." Of course, that isn't what happened. The dictatorship fell; there was an admirable, you might even say exemplary, transition to democracy; and democracy in Spain has since been very successful. There has been a consensus among the political forces there that has given the country a vital stability that allows Spanish democracy to resist insurrection and coup attempts. Nobody can deny that Spain is one of the happy stories of modern times, in no small part because the immense majority of Spaniards, of quite distinct political convictions, were able to act with mutual civility to establish the common ground that makes institutions work and nations grow.

Why isn't there such a climate in Latin America? Why do our attempts at modernization fail again and again? I think that development, the progress of civilization, must be simultaneously economic, political, cultural, and, yes, ethical or moral. In Latin America, there is a total lack of confidence, on the part of the immense majority of the people, in institutions, and that is one of the reasons our institutions fail. Institutions cannot flourish in a country if the people don't believe in them—if, on the contrary, people have a fundamental distrust of their institutions and see in them not a guarantee of security, or of justice, but precisely the opposite.

Let me share with you a personal anecdote. After living for a time in England, I suddenly became aware that something curious had happened to me. I didn't feel nervous when I passed a police officer. In Peru I had always felt, when in the presence of a policeman, a certain nervousness, as if that policeman in some sense represented a potential danger to me. The police in England never produced in me that feeling of distrust, of secret restlessness. It may be because they weren't armed, or simply because the police in England seemed to be providing a public service. They did not appear to be there to somehow take advantage of the little bit of power they got from wearing a uniform, a baton, or a gun. In Peru, as in most of Latin America, citizens have good reason to feel alarmed, uneasy, when they come across someone in uni-

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Mario Vargas Llosa is a Peruvian novelist who in 1990 was an unsuccessful candidate for the presidency of Peru. This article, translated by Julian Sanchez, is based on a speech delivered at the founding of the Fundación Internacional para la Libertad in Madrid in October 2002. Vargas Llosa serves as president of FIL; Ian Vásquez, director of the Cato Institute's Project on Global Economic Liberty, is a member of the board of directors.

Cato executive vice president David Boaz; John Goodman, president of the National Center for Policy Analysis and author of the Cato book *Patient Power*; and Cato president Ed Crane talk with Cato adjunct scholar and George Mason University economist Vernon Smith at a Mercatus Center reception in Smith's honor after he was awarded the 2002 Nobel Prize in economics.

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"In the majority of Latin American countries the reforms undertaken have been, at bottom, not liberal but a caricature of liberal reforms."

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form, because there's a good chance that the uniform will be used, not to defend their safety, but to shake them down. What holds for the police holds for the other institutions as well. In the end, this creates a state of affairs in which the institutions simply can't function, because they aren't sustained or supported by that which is fundamental to any democratic society: the confidence of the citizenry in them and the conviction that those institutions are there to guarantee security, justice, and civilization. This is one of the reasons that the reforms that have been made in Latin America have failed again and again. Paulo Rabello of Brazil has said that the majority of the millions of people who voted for Lula were not voting for socialism. They were voting for something different from what they had, and that "something different" has thus far manifested itself through charismatic leaders and demagoguery.

It is the same thing that has happened, for example, in Venezuela. That country, with its potential for extraordinary wealth, which ought to have a standard of living among the highest in the world, instead struggles through an atrocious crisis and has at the head of its government a colossal demagogue who could truly destroy the country. Of course, it's no accident that Commandante Chávez is in power. He was put in power by the vote of a large majority of Venezuelans who were totally dissatisfied and disgusted with the democracy they had--a democracy in name only, at the twilight of which corruption reigned in a truly vertiginous manner, eliminating for an immense majority of Venezuelans any possibility of realizing their expectations and dreams and enriching the tiny minority entrenched in power. In that context, how can the liberal reforms that we defend, that we promote, that we know are effective means of developing a country, work?

Defective Reform in Peru

A reform poorly done is often worse than a total lack of reform; the case of Peru is a good example. We had, during the dictatorships of Fujimori and Montesinos between 1990 and 2000, what appeared to be radically liberal reforms. More government enterprises were privatized than in any other Latin American country. And how was privatization carried out? Public monopolies were turned into private monopolies. Why was privatization carried out? Not for the reasons one ought to privatize. We liberals support privatization because it promotes competition and the power of competition to improve products and services, to lower prices, and to disseminate private property to those who don't have it, as has been done in the more advanced Western democracies. That is what we've seen in the process of privatization as it was carried out in Great Britain, where it served to spread private property enormously among the shareholders and employees of the privatized companies. In Peru it was done to enrich a specific and predetermined set of interests, industrialists, companies, or the holders of power themselves.

How can Peruvians believe us when we tell them that privatization is indispensable to a nation's development if privatization, for Peruvians, meant that the ministers of President Fujimori enriched themselves extraordinarily, that the companies owned by Fujimori's ministers and associates were the only companies to receive extraordinary benefits during the years of that dictatorship? For that reason, when the demagogues say that "the catastrophe of Peru, the catastrophe of Latin America, is the neoliberals," the cheated and exploited people believe them. Because they need a scapegoat, someone to hold responsible for how badly things are going, they hate us, the "neoliberals."

The government of Alejandro Toledo has tried to privatize several companies in Arequipa, the city where I was born. The town came out en masse, ripped up the paving stones and filled the streets with barricades, and halted privatization. If one looks at the numbers on paper, it's foolish, absolutely demented. The companies to be privatized weren't serving any purpose, were not at all fulfilling the functions with which they'd been entrusted, and were parasites on the country and the state—which is to say, on poor Peruvians--whereas the companies that had won the bidding, some Belgian firms, were going to inject fresh capital and install themselves in Arequipa. Moreover, they had offered a series of additional investments; they were going to benefit the town hugely, but none of that was believed by people profoundly deceived during 10 years of supposed radical liberalism under Fujimori.

That's what has happened in the majority of Latin American countries. The reforms undertaken have been, at bottom, not liberal but a caricature of liberal reform. We know that, but it is not known to the misinformed public—a good number of whom are locked in a fierce battle for mere survival, because Latin America, and this is a very sad thing to have to say, has grown tremendously poorer in these last decades. It has gotten poorer, in the case of some countries, to a truly dreadful degree.

At the end of 2001 I was traveling through what's called the "Andean Trapeze" in Peru, a part of Ayachucho, traditionally a very poor region, that was tremendously mistreated in the era of terrorism. I'd passed through there many times between 1987 and 1990 and left genuinely frightened by the impoverishment that region had experienced, because as poor or as miserable as I had remembered it being, it was much, much worse. The region had been impoverished, as the rest of Peru had been impoverished, while a cabal of bandits, gangsters ensconced in power, enriched themselves vertiginously. So when we talk about development, we can't focus on the idea of development as a series of economic reforms that are going to put the productive apparatus of the country on the march, augment our exports, and finally allow our country to enter into a process of modernization. No, the development we need has to be a simultaneous development, a development that, while it improves our indices of growth and production, makes the institutions that today are not working begin to work and earns them the credibility, the confidence, and the solidarity that make such institutions effective in a democratic society. That doesn't exist in Latin America, and it's one of the reasons for the failure of the economic reforms, even when they're well crafted.

Need to Clean Up Politics

Carlos Alberto Montaner has said some-

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thing that to me seems precisely right. We have to clean up politics a bit. It's not possible for countries to develop if those who govern, or those with political responsibilities, are Alemán (Nicaragua), Chávez (Venezuela), Fujimori (Peru), real gangsters, authentic bandits who go into government like thieves go into houses—to rob, to sack, to enrich themselves in the fastest and most cynical way possible. How can politics be an attractive pursuit for idealistic people? The young, naturally, look on politics as robbery. And the only way to clean up politics is to bring decent people into politics, people who don't steal, people who do as they say they will, people who don't lie or who lie only a bit, since some lying is probably inevitable.

I've been asked many times, "Whom do you admire in Latin America?" I always cite the same person, whose name I fear many of you haven't heard or have forgotten: President Alfredo Cristiani of El Salvador (1989–94). He's someone I admire a great deal, and he's not a politician; he's an entrepreneur. Cristiani, a businessman, decided to enter politics during a terrible, tragic time when the military and the guerrillas were killing each other in the streets of San Salvador, and the dead, the disappeared, and the tortured were innumerable. It was at that point that Cristiani, a fundamentally decent man, not at all charismatic, not at all the typical Latin American strongman, and a bad speaker, decided to go into politics. He won the election and control of the government. And he governed prudently, not at all charismatically, and he left his nation better than he found it. That may not seem like much, but in reality it was a virtually unique achievement. When Cristiani went into government, people were killing each other in the streets of San Salvador and there were too many bodies to count, and when he left, the guerrillas and the government had finally signed off on a peace, and the guerrilla fighters offered themselves as candidates on the ballot, asked the people for their votes, went into the parliament, and there's been peace in El Salvador ever since. It's now a country that, as was so well said by Montaner, makes slow progress, but makes real progress, which is to say, makes progress in many directions at once. Well, that's what we need in Latin America. We need decent people like Cristiani—businessmen, professionals—to decide to go into politics to clean up the fundamentally dirty, immoral, corrupt activity that, unfortunately, has passed as politics for us.

The October 14 launch of the Fundación Internacional Para la Libertad (International Foundation for Liberty) in Madrid, Spain, brought together Gerardo Bongiovanni of Argentina's Fundación Libertad, director of Cato's Project on Global Economic Liberty Ian Vásquez, Gonzalo Torrico Flores, renowned author Mario Vargas Llosa, Cato adjunct scholar Lorenzo Bernaldo de Quirós of Spain's Fundación Iberoamérica Europa, adjunct scholar Enrique Ghersi of Peru's Citel, Cato financial services analyst Jacobo Rodríguez, and José María Marco of Spain's FAES.

Culture and Liberalism

Another aspect of development that's fundamental is cultural development. Culture in Latin America is, unfortunately and with few exceptions, a privilege of minorities, and in some places of quite tiny minorities. Latin America is possessed of great creativity: it has produced musicians, artists, poets, writers, and thinkers, but the truth is that in the majority of our countries culture is the monopoly of an insignificant minority and is in practice out of the reach of the majority of society. On that foundation, it is not possible to build a genuine democracy and working institutions, nor is it possible to enact liberal reforms that give the creative and productive the results that they ought to get. There has, unfortunately, been a terrible lack of awareness of this in Latin America. Culture is still considered, by those who are aware of its existence, as a separate world, as a pastime, as an elevated form of leisure, and not as what it is: a tool fundamental to the ability of men and women to make sound decisions in their personal lives, in their family lives, in their professional lives, and above all, in politics when the time comes to make a momentous decision.

Culture is a defense against demagoguery, a defense against the terrible error of a poor electoral choice. On that front, unfortunately, almost nothing is done. Perhaps, in a more self-critical spirit, I should say that we are doing almost nothing, by which I mean we liberals. For our useful and idealistic liberal institutes and think tanks, culture is the lowest priority, and that is an error, a most grave error. Culture is fundamental because it helps to create the sort of consensus that has made possible, for example, the often-exemplary cases of Spain and Chile.

Progress and Civilization

I want to talk about Chile for a moment because of some things said by Hernán Büchi, who is a friend of mine, an intelligent person, and someone who as a minister in Chile made some admirable, effective reforms. Chile is a unique case in Latin American history, and it is a unique case because a military dictatorship, as Pinochet's regime was, had some economic successes. Pinochet allowed liberal economists to make well thought out, functional reforms. I felt happy for Chile, which is a country that I always mention, but it's an example that we need to cite with all sorts of disclaimers,

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Scenes from the 20th Annual Monetary Conference in New York: adjunct scholar Roberto Salinas-León, Ian Vásquez of Cato's Project on Global Economic Liberty, and senior fellow Steve Hanke discuss the Latin American financial news; conference organizer and Cato vice president James A. Dorn with Zanny Minton-Beddoes of *The Economist*, which cosponsored the conference, and Jeffrey Sachs of Columbia University; Allan Meltzer and Steve Hanke compare notes; William J. McDonough, president of the Federal Reserve Bank of New York.

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Argentina's former finance minister Ricardo López-Murphy, Allan H. Meltzer of Carnegie Mellon University, Johns Hopkins University economist Steve H. Hanke, Columbia University economist Charles Calomiris, and Cato scholar Brink Lindsey. López-Murphy expressed incredulity at the IMF view that tax rates aren't excessive in Argentina, and all disapproved of IMF bailouts.

The day's third panel, with TV Azteca's Roberto Salinas-León at the helm, centered on the relative merits of currency unification and competition between currencies and featured *Financial Times* columnist Samuel Brittan; Cato chairman William A. Niskanen; and Lawrence H. White, an economic historian at the University of Missouri, St. Louis. White argued that no top-down planning was necessary to dictate a particular monetary regime. Instead of "dollarization," for example, White suggested that citizens be allowed to use whatever currency they preferred, with a favorite emerging over time. Niskanen looked at the destabilizing effects of rules that give the Federal Reserve excessive discretion.

The Economist's business editor, Matthew Bishop, led the day's closing panel, on which sat Robert D. McTeer Jr., president and CEO of the Federal Reserve Bank of Dallas; David Malpass of Bear Stearns; David Hale of Zurich Global Asset Management; and Cato financial services analyst Jacobo Rodríguez. The panel focused on the revised Basel Accord on banking stability rules, which are currently being hashed out. Three of the four panelists were highly critical of Basel II's extreme complexity, which may actually add to banking instability and regulatory uncertainty.

The papers presented at the conference will be published in a forthcoming issue of the *Cato Journal*. ■

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the first and most fundamental of which is that, for a liberal, a dictatorship is never, in any case, justifiable. This is very important to say and repeat. There occurred in Chile a kind of beneficent accident, and what luck for Chile. But there are many Latin Americans who want to make that accident their model, and they still repeat the notion that what we need in order to achieve development is another Pinochet. To a fair extent, the popularity of Fujimori was due to the fact that many Peruvians saw in him the Peruvian Pinochet. This is misguided: there are historical accidents, but if there is a constant in Latin American history, it is that dictatorships have never been a solution for Latin America's problems. All of them, without a single exception save Chile's, have contributed to the aggravation of the problems that they said they had come to solve: the corruption, the stagnation, the debilitation, or the collapse of institutions. They have contributed more than anything else to the political cynicism that is perhaps one of the most prominent general characteristics of Latin America. Politics is the art of enriching oneself, the art of robbery; that is the definition of politics for an immense majority of Latin Americans. They believe that because it has been the truth for a good part of our history, and that is the fault of the dictatorships. They made corruption a natural form of government and so created, with respect to politics, that terribly cynical feeling that impedes the great majority of Latin American countries.

I think that it's very important for us liberals, which I presume that we all are, to coordinate our actions, to exchange information at this time in history when, curiously, liberalism is the victim of many who misunderstand it and has come for many people, some of very good faith, to represent the enemy of progress and of justice. It has come to be synonymous with exploitation, with covetousness, with indifference or cynicism in the face of the spectacle of misery and discrimination. We know that to be not merely inaccurate but a monstrous injustice to a doctrine, a philosophy, that is in reality behind every political, economic, and cultural advance that humanity has experienced. Liberalism is a tradition that must be defended, not merely out of homage to truth, but because we live in a difficult time in history, when progress and civilization are threatened. ■