

KEYNOTE ADDRESS

THE POLITICS OF HOPE: FREE POLITICS AND FREE MARKETS IN LATIN AMERICA

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How should citizens and scholars think about free politics and free markets in Latin America? Questions about the relationship between free politics and free markets have a long distinguished intellectual and practical history through time and across countries. How do the forms of the political regime make it possible for human beings to live in concert with each other, govern the economy and society, and enable citizens to govern themselves in purposeful ways? We continue to pose these kinds of questions in many different circumstances, areas, and parts of the world's geography.

In this article, I will argue that Latin Americans in the 1980s and 1990s discovered, to their surprise, the utility of democratic politics to improve the workings of a market economy. Latin American dictatorships failed to provide for economic growth in the 1970s and presided over economic collapse in the early 1980s. Out of the ashes of bankrupt autocracies, Latin Americans found that key elements of democratic political systems could better shape the foundations for market economies and foster prosperity.

THE GENERAL DEBATE ABOUT DEMOCRACY AND MARKETS

Two centuries ago, on the eve of the victory of capitalism, and as democratic forces had begun to spread, very bright people had serious doubts that free politics could ever coexist with free markets because each would undermine the other. The concern about mob rule, for example, is one of the reasons, albeit not the only one, why the American Constitution at the end of the eighteenth century shows such a complexity of federal institutions, that is, the balance of powers or the mutual checking of authority

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between institutions. There was an important and understandable fear that popular majorities through the federal government could override individual liberties and rights as well as the capacity of enterprises to retain their economic autonomy. Similarly, throughout the nineteenth century Karl Marx, Alexis de Tocqueville, John Stuart Mill, and Pius IX, among others, worried whether democracy and markets were inherently good, and whether they would coexist or undermine each other.

Only in relatively recent times have many people, particularly in the countries found on both sides of the North Atlantic, though increasingly in other parts of the world as well, come to think of representative democracy and the market economy as not only capable of coexisting but also as mutually supportive of each other.

Even so, whether free markets and free politics may be mutually supportive remains a contested issue down to our own day. The reason for the change of opinion is clear: the countries that have been able to sustain representative democracy over a long period of time are anchored in market economies. This encompasses the experience of most countries in western Europe, North America, Japan, Australia, and New Zealand for the last six decades. The market economy can be good for democracy, even if some market economies may thrive as well under authoritarian rule (contemporary China, Bismarck's Germany). The market economy deconcentrates economic power. After some lag, such economic deconcentration helps also to deconcentrate aspects of political power, thus providing an underpinning for democracy.

The reason for persisting doubt about the coexistence of free politics and free markets is equally clear: Is democratic politics also good for a market economy? Does democratic politics enhance the support and the possibilities of prosperity associated with capitalism? This doubt helps us to understand much of the last half century of political and economic struggles in many Latin American countries.

LATIN AMERICA IN THE 1970S: IS DICTATORSHIP THE BETTER CHOICE?

Let us focus first on the Latin America of the early 1970s as the starting point for a stylized story of the aggregate of Latin American political and economic trends in the last third of the twentieth century and the start of this century. In the early 1970s, there was genuine active doubt, as both a philosophical concern and a practical matter, whether democratic regimes in Latin America could make it possible for the economy to grow and permit the spread of the prosperity to the citizenry.

The key case at the start of the 1970s occurred in Chile. By 1973, the socialist coalition headed by President Salvador Allende presided over an

economy with an inflation rate that exceeded 600 percent that year.¹ With such an inflation rate, the currency is worthless. The economy loses its capacity to function by almost any standard. Chile was mired in a widespread and dramatic economic crisis that preceded a traumatic political crisis—the military coup of September 1973.

More generally, throughout several of the larger South American countries, similar phenomena occurred. Democratic regimes presided over economic collapse. Consider Argentina. By the mid-1970s Argentine inflation rates systematically exceeded 100 percent per year.² Except for two years, Argentina's annual inflation rate exceeded 100 percent per year between the early 1970s and the beginning of the 1990s.³ By the end of the 1980s, the Argentine annual inflation rate passed 1000 percent.⁴

These facts generated intense debates over political, economic, and moral questions. Countries seemed to face a cruel choice.⁵ There could be free politics or there could be free markets, but there could not be both. There could be liberty or there could be prosperity, but citizens could not have both. Only an authoritarian regime—many came to believe—would make the economy grow.⁶ A democratic regime would permit the exercise of personal liberties and the choice of rulers, but the economy would be condemned to very high inflation rates and malperformance.

Economic actors, business executives, political leaders, and many academics came to believe in the reality of such a cruel choice. Many came to such a conclusion with extraordinary sadness, but the result was a general continental turn to authoritarian rule. By the end of the 1970s, authoritarian regimes had spread throughout nearly all of Latin America, except for Venezuela, Colombia, and Costa Rica.

Military rule did not just come out from the barrel of a gun. Rather, civilians provided broad political support for military coups in many countries because they thought that this cruel choice had to be made. They bet that the military would bring order and prosperity, albeit knowingly at the expense of democracy and their liberties.

Soon, however, Latin Americans realized that the military officers who had come to govern them seemed to believe in equal-opportunity ineptitude. These authoritarian governments turned out to be no better at governing the

1. Rudiger Dornbusch & Sebastian Edwards, *Macroeconomic Populism*, 32 J. DEV. ECON. 247, 260 tbl.1 (1990).

2. U.N. Econ. Comm'n for Latin Am. & the Caribbean [CEPAL], *Preliminary Overview of Latin America and the Caribbean 1984*, at tbl.5, U.N. Doc. LC/G.1336 (1984).

3. *Id.*; U.N. Econ. Comm'n for Latin Am. & the Caribbean [CEPAL], *Preliminary Overview of Latin America and the Caribbean 1992*, at 43 tbl.5, U.N. Doc. LC/G.1751 (1992).

4. U.N. Econ. Comm'n for Latin Am. & the Caribbean [CEPAL], *supra* note 3, at 43 tbl.5.

5. See generally DENNIS GOULET, *THE CRUEL CHOICE: A NEW CONCEPT IN THE THEORY OF DEVELOPMENT* 299–309 (1971).

6. See Karen L. Remmer, *Democracy and Economic Crisis: The Latin American Experience*, 42 WORLD POL. 315, 317–18 (1990).

economy than the governments they had overthrown.⁷ Inflation rates in Argentina, as noted, did surpass 100 percent each and every year except two over two decades,⁸ but that awful fact occurred under both civilian and military regimes.⁹ It was under military government that Brazil's inflation rate also zoomed up; its economy ran into severe difficulties in the early 1980s.¹⁰ All of a sudden the notion of a "cruel choice" seemed unreal. Citizens had no choice. Latin Americans were stuck with bad governments no matter who governed them.

Authoritarian regimes caused damages well beyond economic harm. In moral terms, they performed worse than Chilean, Argentine, or Brazilian civilian rulers did in the late 1950s and early 1960s. In the name of public order, many military regimes committed murder. Not all did so to the same extent or to the same degree, but the expression "violations of human rights" does not do justice to the horror of the tens of thousands who were killed, in most instances with no semblance of due process of law.¹¹

Thus many who had been part of the military coup coalition, which provided political support for coups in the hope of bringing about order and therefore reach prosperity, began to back out. They discovered that the governments of the armed forces did a terrible job. In Chile, for example, many of the same Roman Catholic bishops who accepted the 1973 military coup in order to save the country from the Communists had, by the late 1970s, recoiled at the horror of mass murder of political opponents committed by the security forces.¹² Many business executives realized that their businesses might go bankrupt because military rulers were inept.¹³ They came to fear that military rulers might kill their children just because the youngsters were at the wrong place at the wrong time. University students in particular were the targets of this dramatic wave of repression that washed across many countries in the region from the mid-1970s through the beginning of the 1980s.

7. *See id.* at 318, 324–27.

8. U.N. Econ. Comm'n for Latin Am. & the Caribbean [CEPAL], *supra* note 2, at tbl.5; U.N. Econ. Comm'n for Latin Am. & the Caribbean [CEPAL], *supra* note 3, at 43 tbl.5.

9. *See* Remmer, *supra* note 6, at 332.

10. *Id.* at 328–30; Eliana Cardoso & Daniel Dantas, *Brazil, in* LATIN AMERICAN ADJUSTMENT: HOW MUCH HAS HAPPENED? 129, 131 tbl.4.4 (John Williamson ed., 1990).

11. For a summary in an international context, see generally KATHRYN SIKKINK, *MIXED SIGNALS: U.S. HUMAN RIGHTS POLICY AND LATIN AMERICA* (2004).

12. BRIAN H. SMITH, *THE CHURCH AND POLITICS IN CHILE: CHALLENGES TO MODERN CATHOLICISM* 283–355 (1982).

13. *See generally* LEIGH A. PAYNE, *BRAZILIAN INDUSTRIALISTS AND DEMOCRATIC CHANGE* 126–51 (1994).

LATIN AMERICA IN THE 1980s: MIGHT DEMOCRACY BE THE
BETTER CHOICE?

In response to this succession of catastrophes, there were changes across the societal spectrum. On the political right, business executives changed their views. It may have seemed reasonable for them at one point to support a military coup, but they had come to witness economic misrule, the tearing apart of the moral fabric of the society, and the killing of young people including many whom those executives knew as relatives or friends of their children. Those outcomes were unacceptable. These business executives began to look for ways to transition to democracy. In Brazil, for example, many business executives took the lead in fostering an opening toward democratic politics.¹⁴

On the political left, many politicians came to a similar realization. Many of their friends, their comrades, and their allies had been killed. The Left had been the principal object of the often-indiscriminate repression that had taken place. In Brazil in 1964 and in Chile in 1973, for example, the respective military coups were aimed at overthrowing a left-wing incumbent government, all in the name of combating communists. The political left knew how catastrophic the consequences of that perceived cruel choice had been. Many on the political left also came to understand that some of their own governments had not served well those whom the Left claimed to represent politically. Nor had the Left governments made the economy grow.

Throughout the 1980s, this process of change led people to reimagine who they were in their roles as politicians, business executives, and citizens on the right and the left. Political parties and international party federations, such as the Socialist International of the Social Democratic parties or the World Federation of Christian Democrats of the Christian Democratic parties, played an important role in facilitating ideological rethinking across the Latin American political spectrum.¹⁵ These national and international processes of rethinking gave new means to political activists to organize and to shape the transition that gradually would take place toward a market economy and democratic politics during the 1980s.¹⁶

Other international factors helped. The European Union promoted Latin American democracy in the 1980s. The U.S. government was a laggard with regard to these trends, but by the second Reagan administration the United States also adopted policies that would support human rights and

14. *Id.* at xiii.

15. Wolf Grabendorff, *International Support for Democracy in Contemporary Latin America: The Role of the Party Internationals*, in *THE INTERNATIONAL DIMENSIONS OF DEMOCRATIZATION: EUROPE AND THE AMERICAS* 201–26 (Laurence Whitehead ed., 2001).

16. *Id.*

foster democratic transitions in the last two South American countries to make the political transition, Chile and Paraguay.¹⁷

THE PINOCHET DICTATORSHIP IN CHILE: WAS IT A GOOD MODEL?

Let us now consider a common objection to the argument regarding the poor economic performance of Latin American authoritarian regimes: Was not the dictatorship of General Augusto Pinochet in Chile good for the economy? Was he not an example of an authoritarian ruler who governed the Chilean economy well, making it possible for Chile's economy to prosper?

First, in general, it is not difficult today or one hundred years ago to find examples where economies grow under authoritarian regimes. Economic growth picked up speed in imperial Germany and in imperial Japan in the late nineteenth century as well as in Tsarist Russia, for example.¹⁸ Similarly, there are worldwide statistical studies about the relationship between the form of a political regime, on the one hand, and economic outcomes, on the other. For the most part, the relationship is either statistically insignificant or democracy has a slight advantage.¹⁹

Thus my argument is not that only democracies make it possible for the economy to grow or that regardless of time and context authoritarian regimes always fail. Rather, I argue that during the last third of the twentieth century Latin Americans discovered that the authoritarian regimes in their countries did not make the economies grow and did not provide for prosperity. Because the economic record of dictatorship in Latin America was so poor, it was easier in this region at this time to shift the course of history toward a future that would be open for the politics of hope. And it is the politics of hope that motivates my work.

Second, turn now to the specific example of General Pinochet's Chile. He came to power at a terrible time for the Chilean economy. Under his rule in the late 1970s, however, the Chilean economy continued to experience difficulties.²⁰ At the beginning of the 1980s, the so-called Latin American debt crisis broke out. It was much more than a debt crisis—it was a deep recession that hit this region almost as hard as the 1930s worldwide eco-

17. THOMAS CAROTHERS, *IN THE NAME OF DEMOCRACY: U.S. POLICY TOWARD LATIN AMERICA IN THE REAGAN YEARS 1950–66* (1991).

18. See ALEXANDER GERSCHENKRON, *ECONOMIC BACKWARDNESS IN HISTORICAL PERSPECTIVE* 78 (1962).

19. See generally Robert J. Barro, *Inequality and Growth in a Panel of Countries*, 5 *J. ECON. GROWTH* 5, 6–7 (2000); Remmer, *supra* note 6, at 324–26.

20. Sebastian Edwards, *Stabilization with Liberalization: An Evaluation of Ten Years of Chile's Experiment with Free-Market Policies, 1973–1983*, 33 *ECON. DEV. & CULTURAL CHANGE* 223, 224–25 (1985).

conomic depression had.²¹ In 1982, the Chilean economy under General Pinochet plunged further and faster than any other Latin American economy of comparable size. In that year, Chile's gross domestic product fell 14.3 percent, a far steeper one-year drop in the 1981–83 interval than Argentina's, Brazil's, Mexico's, or Peru's.²² Thus General Pinochet turned out to be a worse manager of the economy than his peers, namely, other southern South American dictators.

One may still object that this account is unfair to Pinochet because he had encountered a bankrupt, desperate Chilean economy in the 1970s. What about the second decade of Pinochet's rule?²³ Chilean economic performance in the 1980s was, indeed, better than Chilean economic performance in the 1970s. Between 1981 and 1990, gross domestic product per capita in Chile grew at less than 1 percent per year on average.²⁴ That is better than zero and better than plunging and negative trends but is not an economic miracle, which is how Pinochet's economic performance is often characterized. The only miracle was in public relations. The Pinochet government succeeded in persuading the international press and others that there had been an economic miracle when in fact there had been none. The boom in the Chilean economy does not date back to the seventeen years of the Pinochet dictatorship. Chilean gross domestic product per capita grew over four times faster under the democratic governments in the 1990s than it had in the 1980s under Pinochet.²⁵

WHY MAY DEMOCRACY BE GOOD FOR THE MARKET ECONOMY? A GENERAL ARGUMENT

Why may democracies foster good performance in a market economy? The answer is at the heart of an analysis motivated by the politics of hope. This is, to be sure, not about the politics of certainty; the argument must be framed in terms of likelihood and probabilities, not assurances.

Democracies can do a number of things to improve the operation of the market economy. One has been mentioned: democracies may deconcentrate economic power and thus make it easier to further deconcentrate political power. For example, during the second half of the twentieth century the

21. See Ricardo French-Davis, Oscar Munoz & Jose Gariel Palma, *The Latin American Economies, 1950–1990*, in *THE CAMBRIDGE HISTORY OF LATIN AMERICA: LATIN AMERICA SINCE 1930* 186 (Leslie Bethell ed., 1994).

22. U.N. Econ. Comm'n for Latin Am. & the Caribbean [CEPAL], *supra* note 2, at tbl.2.

23. Pinochet governed between 1973 and 1990. See PAMELA CONSTABLE & ARTURO VALENZUELA, *A NATION OF ENEMIES: CHILE UNDER PINOCHET* (1991).

24. U.N. Econ. Comm'n for Latin Am. & the Caribbean [CEPAL], *Preliminary Overview of the Economy of Latin America and the Caribbean 1990*, at 26 tbl.3, U.N. Doc. LC/G.1646 (1990).

25. See U.N. Econ. Comm'n for Latin Am. & the Caribbean [CEPAL], *Current Conditions and Outlook: Economic Survey of Latin America and the Caribbean 2000–2001*, at 33 tbl.A.3, U.N. Doc. LC/G.2142-P, U.N. Sales No. E.01.II.G.121 (2001); *cf.* U.N. Econ. Comm'n for Latin Am. & the Caribbean [CEPAL], *supra* note 24, at 26 tbl.3.

growth in the number of Brazil's state enterprises was most pronounced during the years of military rule—not under civilian rule.²⁶ Brazilian military rulers sought to use state enterprises to consolidate their political power over the strategic sectors of the economy.²⁷ One way, therefore, to reintroduce the possibilities of sustained democratic politics in Brazil was to deconcentrate economic power so that the state would not own and operate such a large fraction of the means of production. Deconcentrating power was good for democratization itself, and it also rendered democratization effective in fostering market competition.

Democracy may also be good for the market economy because democracy provides a means to get rid of bad rulers without resorting to violence. That is what elections enable citizens to do and what Latin Americans did in elections again and again at the end of the 1980s. Even in the countries that had democratized already, citizens were unhappy with their governments and with so many presidents who served them badly during the 1980s. In the early to mid-1980s, the first Latin American civilian governments that followed the end of several dictatorships did not govern the economy well; inflation and unemployment rose but economic growth did not—this was the experience of Argentina under President Raúl Alfonsín, Brazil under President José Sarney, and Peru under President Fernando Belaúnde, among others. Democracies provide a peaceful way to dislodge ineffective rulers without recourse to military coup, insurgency, or revolution.

Democracies may also help market economies because democracies may lower what economists call transaction costs, in this case, the cost of the procedures, exogenous to the economic activity in question, that are necessary to accomplish a specific outcome, including the cost of the lack of procedures to accomplish a desired outcome. For example, a business firm that produces widgets incurs direct costs in making those widgets. Suppose that the workers who make the widgets join a general strike in opposition to the government. For reasons entirely unrelated to the widget-making firm, the widget factory shuts down; the cost of doing business rises. Revolutions, military coups, and similar political events are other examples of such transaction costs.

Citizens in democracies may oppose a government by creating political parties, nongovernmental organizations, or social movements. Citizens need not pick up a gun and become revolutionaries, insurgents, or military coup plotters. In lowering transaction costs, democracies also provide for alternative means to address problems. Democracy exemplifies alternative dispute resolution, above all, providing alternatives to overthrowing the government by violence.

26. See THOMAS TREBAT, *BRAZIL'S STATE-OWNED ENTERPRISES: A CASE STUDY OF THE STATE AS ENTREPRENEUR* 43–55 (1983).

27. *Id.*

Finally, democracies are better than authoritarian regimes at creating procedures to make credible commitments regarding the future. How does this work and why is it important? Suppose we live in an authoritarian regime and I am the president. I can promise you that circumstances will be ideal, perfect, and flawless for your investments whether you are a citizen of my country or an international investor. But I can only do so until the day when I stop being dictator. I cannot commit the day after I stop being a dictator because I would have died or been overthrown. Alternatively, if I am the central bank president in an authoritarian regime or the economy minister of an authoritarian regime, I can only promise a policy outcome during my time in office.

Democracies can make credible commitments regarding the future by creating or fashioning long-term fundamental rules to govern the economy. This is achieved through reliance on political supermajorities that engage government and opposition parties to set the overarching framework of rule of law necessary for the market economy. As different politicians win elections and various political parties come to govern, there would be, of course, short-term changes in many specific policies. New incumbents could alter expenditure patterns and tax rates but law-abiding democratic politicians would not violate the fundamental framework of the rule of law to govern the economy. That is the key to a happy marriage between democracy and markets in the North Atlantic democracies. And that is the process that Latin American leaders in politics, business, labor, and the professions gradually began to learn in the 1980s.

CHILE AFTER 1990

Chile played an important part in the Latin American story of the last third of the twentieth century. The Pinochet government ended in 1990, succeeded by a coalition headed by a Christian Democratic president.²⁸ That coalition had won a large majority mandate in the 1990 election.²⁹ The new incumbents wanted to change laws, budget expenditures, and taxes. In particular, they wanted to raise taxes to invest more in education, health care, and poverty reduction.³⁰

Chile has performed well over the last decade and a half. It has improved the quality of education and health care and reduced poverty rates. It has done less well in affecting the relative distribution of income. The good outcomes began in the early 1990s. The key strategic decision of the Christian Democratic-led coalition was to avoid trying to use its electoral majority as a means to impose a tax rate increase and a new expenditure pattern

28. CONSTABLE & VALENZUELA, *supra* note 23, at 313–16.

29. *Id.* at 316.

30. See Jeanne Kinney Giraldo, *Development and Democracy in Chile: Finance Minister Alejandro Foxley and the Concertación's Project for the 1990s*, in *TECHNOPOLS: FREEING POLITICS AND MARKETS IN LATIN AMERICA IN THE 1990s* 229, 231 (Jorge I. Domínguez ed., 1997).

on society.³¹ Instead, the governing coalition decided to proceed only through a legislative supermajority.³² The opposition coalition, once Pinochet supporters, had two political parties. The government made an agreement with one of those two parties in the Pinochet coalition, deliberately and consciously lowering expectations among core government supporters and cutting back on the government's goals.³³

The new democratic government curtailed its ambitions because it needed a partner from the opposition to set the rules to govern the future. It increased taxes at a lower rate than it had wanted and targeted expenditures more narrowly in order to create a lasting framework that elicited broad national support, not just support in the governing coalition.³⁴ If these new incumbents were to lose the next election and the opposition would come back to power, the fundamental rules would not change. Promises would not be broken. Instead, the democratic government and one of the large parties of the opposition fashioned a set of rules that would endure across coalitions, parties, and time.³⁵ They committed to the future by relying upon supermajorities. It worked.

ARGENTINA AFTER 1990

Next, consider Argentina again. It had been the Olympic champion of inflation rates in the 1970s and 1980s—the Latin American country that invented underdevelopment. As the twentieth century began, Argentina had been performing like a European country located on the other side of the Atlantic Ocean, yet it would manage to become underdeveloped through much of the twentieth century.³⁶ Its politicians seemed to believe in equal-opportunity ineptitude.

In the late 1980s, Argentina experimented with a variant of the hypothesis that only dictators could set the economy right. Carlos Menem, the elected president of Argentina, behaved as if all powers were concentrated in the office of the president; in this view, only he could make the strong decisions to set the economy right.³⁷ Menem tried to order the economy to work by decree; he failed just as badly as his predecessors had. In the early 1990s, his economy minister, Domingo Cavallo, had an important insight. The problems of the Argentine economy were not all that complicated; any-

31. *Id.* at 258.

32. *Id.* at 265–68.

33. *Id.*

34. Delia M. Boylan, *Taxation and Transition: The Politics of the 1990 Chilean Tax Reform*, 31 *LATIN AM. RES. REV.* 7, 12–15 (1996).

35. See Peter M. Siavelis, *Chile: The End of the Unfinished Transition*, in *CONSTRUCTING DEMOCRATIC GOVERNANCE IN LATIN AMERICA* 177, 177–208 (Jorge I. Domínguez & Michael Shifter eds., 3d ed. 2008).

36. This section relies on JAVIER CORRALES, *PRESIDENTS WITHOUT PARTIES: THE POLITICS OF ECONOMIC REFORM IN ARGENTINA AND VENEZUELA IN THE 1990s* (2002).

37. *Id.* at 218–20.

one could go into a regular bookstore and take out the textbook of Economics 101 to see the various things that Argentina did wrong.³⁸

The problem with Argentina's economy was that its citizens, for very good reasons based on decades of experience, did not trust or believe those who governed them. In response to that insight, Menem and Cavallo opted to try to bind the hands of the government so that even they would not engage in destructive economic policies. They did so through the so-called convertibility law, which constrained exchange rate and monetary policies.³⁹ That particular rule should have been changed during the 1990s for technical reasons beyond these remarks. Yet, let me emphasize that the key to their approach was their reliance on law, not merely on decrees.

In the early 1990s, the Argentine governments—though scholars writing at the time did not recognize the change⁴⁰—moved away from trying to govern by decree or ordering the economy somehow to behave rightly. Instead, the incumbents realized that they could only govern well by creating large legislative majorities in Congress.⁴¹ The goal was to ensure that, if the opposition were to win, citizens and national and international investors could be confident that the fundamental rules for politics and the economy would persist. Thus the Argentine Congress had to vote on each and every major decision to privatize any state enterprise.⁴² Key decisions about economic policy would not be just the whim of the president and his ministers but of the National Congress enacting legislation. This capacity to bind the future through law demonstrated the utility of democracy to create confidence in the continuation of fundamental policies in the future, which became one of the keys to open the Argentine economy's recovery. Argentina's economy would later collapse for other reasons at the beginning of this century's first decade, but many of those reforms enacted in the 1990s through this broad-based legislative process made it possible, in part, for the Argentine economy to grow again as this decade unfolded.

BRAZIL FACES FINANCIAL CRISES: 1997–1999

Let us now examine Brazil's responses to comparable difficulties. In 1997, a worldwide financial crisis broke in East Asia. It affected Thailand, Indonesia, and South Korea, among others. Its effects spread beyond the region, affecting the circumstances of other countries. International investors fled from capital markets in emerging economies. Brazil was one of these countries adversely affected by this financial tsunami.

The president of Brazil at the time, Fernando Henrique Cardoso, had also learned lessons from his neighbors. He knew that he could not build

38. *Id.* at 173–74.

39. *Id.* at 190–91.

40. *See, e.g.,* Guillermo O'Donnell, *Delegative Democracy*, 5 J. DEMOCRACY 55 (1994).

41. CORRALES, *supra* note 36, at 176–78.

42. *Id.*

credibility merely by evoking all the majesty of his powers as Brazil's president, hoping somehow to set right what was going wrong.⁴³ Credibility depended on working through supermajorities to give concrete meaning to that important but often vague concept, "political will." To protect Brazil from the adverse impact of the 1997 financial crisis, the president went to Congress to build a supermajority to curtail expenditures, raise taxes, and cut the budget deficit. There had to be broad political support to enact tough economic measures in order to shield Brazil from the worst of that financial crisis.⁴⁴

In 1998, another financial crisis broke out in Russia. There was again worry whether Brazil could cope. In 1998, Cardoso was up for reelection; he delivered a Churchillian speech on national radio and television. He asked Brazilians to vote for him, but he warned them that Brazil faced the equivalent of toil, tears, and sweat—as British Prime Minister Winston Churchill informed his fellow citizens at the darkest moment in World War II. In Brazil in 1998, President Cardoso wanted it to be known that Congress had to raise taxes and cut expenditures. He asked for public trust that he would bear the public interest at heart. He won reelection and proceeded again to work with supermajorities to convey credibly the commitment to sound policies.

Brazil did face a financial panic in January of 1999 when the governor of one of its largest states refused to pay its financial debt obligations. The pattern of this crisis on a chart looked like the letter V. Brazil's economy declined sharply but bounced back quickly because President Cardoso again fashioned a supermajority in Congress to create credibility to stabilize markets and enable the economy to recover.⁴⁵

These examples show evidence consistent with the argument about the instrumental utility of democracy for the market economy. The good news is that democracy may also be useful to make the market economy work and generate prosperity.

LATIN AMERICA TODAY

Why are so many Latin Americans unhappy with their circumstances and why do so many believe that there is no happy marriage between free politics and free markets? The reasons vary; many are particular to individual countries. But there is a large number of Latin Americans in many countries who are dissatisfied with how they live under these representative

43. See generally Riordan Roett, *Brazilian Politics at Century's End*, in *BRAZIL UNDER CARDOSO* 19, 19–41 (Susan Kaufman Purcell & Riordan Roett eds., 1997).

44. *Lagniappe Letter: Biweekly Report of Issues Affecting Business in Latin America*, Dec. 12, 1997, at 3.

45. For a general discussion about these issues in Brazil, see generally Juan Martínez & Javier Santiso, *Financial Markets and Politics: The Confidence Game in Latin American Emerging Economies*, 24 *INT'L POL. SCI. REV.* 363 (2003).

democracies. Even so, characteristically across the region, fewer than one out of five Latin Americans in public opinion polls express a preference for authoritarian rule.⁴⁶ Latin Americans still prefer representative democracy, but they also are unhappy about how it has performed governing them.⁴⁷

Latin America as a whole is the leader in income inequality. World Bank figures on income inequality are difficult to gather and their validity is often difficult to ascertain. Yet, observations over time and across countries show that Latin American countries constitute the most unequal region in the world, with the least change at that high level of inequality over a long time. Mexico, for example, has some of the oldest statistical records about inequality over time. Its so-called Gini index of inequality has basically not changed. It shows an almost identical distribution of income inequality in this decade as it did when the first professional measurement was made in 1950.⁴⁸

Thus Latin Americans for the most part, not just Mexicans, are unhappy about economic performance, growth, and the insufficient decline in poverty. In elections, these themes have manifested strongly as voters defeat incumbents whom they believe have served them poorly. This dynamic has emerged most clearly in Venezuela, led by President Hugo Chávez.

Venezuela did not suffer the traumatic circumstances described earlier in discussing Latin America in the 1970s. Venezuela had been governed by civilian democratic regimes in a highly competitive political system.⁴⁹ It depended principally on petroleum revenues; its non-oil economy did not grow much. Therefore, Venezuela did not go through the learning process described for the 1980s elsewhere in the region. Venezuelans did not discover the utility of free politics and free markets at the same time as their neighbors. By the end of the 1980s, Venezuela was at a juncture: change was needed but not enough Venezuelans believed that to be the case.⁵⁰ One Venezuelan government attempted but did not succeed in reforming the economy and enacting political changes.⁵¹ From that failure to learn and change, Hugo Chávez's political support emerged. Chávez's rise corresponded to real problems in Venezuela's politics and economics. He became the spokesman for those who were understandably dissatisfied with the performance of democratic politics in Venezuela. He has now become a spokesman for discontent worldwide.

46. Marta Lagos, *Public Opinion*, in *CONSTRUCTING DEMOCRATIC GOVERNANCE IN LATIN AMERICA* 137, 151 tbl.7.4 (Jorge I. Domínguez & Michael Shifter eds., 2d ed. 2003).

47. *Id.* at 155 tbl.7.5.

48. World Bank, *2004 World Development Indicators*, at 61 tbl.2–7, Report No. 28969 (Jan. 1, 2004).

49. See generally David J. Myers, *Venezuela: Delegative Democracy or Electoral Autocracy?*, in *CONSTRUCTING DEMOCRATIC GOVERNANCE IN LATIN AMERICA*, *supra* note 35, at 285, 287.

50. *Id.* at 294.

51. *Id.*

CONCLUSION

Notwithstanding many insufficiently addressed problems and setbacks for democratic change or the wide sharing of prosperity, I remain reassured by the line of analysis described in these remarks. Democratic governments can work. Democratic political systems can combine liberties, representation, and economic growth, as evident in countries as different as Chile, Brazil, and Mexico.

The success of the politics of hope requires political action to make individuals conscious that the challenges before all of the countries of this region remain deep and troubling. It is good news that poverty rates have finally dropped in Chile, Brazil, and Mexico, yet they remain high in most countries.⁵² The human capital of ordinary Latin Americans—their skill and educational levels—remains too low by world standards and surely too low to fulfill the hopes that parents have for their children.

Latin America has had in many respects a terrible history. Relative to that terrible history, in the 1990s and early 2000s, much was done that has been successful and creative. It made life better for millions of Latin Americans. The challenge now is to recognize the legitimate complaints of so many citizens who remain unhappy that their democratic governments have not governed effectively enough and have not empowered them to be free and prosperous in a just society, as they wish.

52. NANCY BIRDSALL, AUGUSTO DE LA TORRE & RACHEL MENEZES, FAIR GROWTH: ECONOMIC POLICIES FOR LATIN AMERICA'S POOR AND MIDDLE-INCOME MAJORITY 23 tbl.1 (2008).