Latin America: A Way Out

José Piñera

The Latin American paradox has always astonished me. United by geography with two of the world's most successful nations, blessed with natural resources of every kind, lacking racial, religious, or language differences giving rise to serious violence, and with an extraordinary culture characterized by its diversity and by its continuity, Latin America could be a continent of peace, stability, and prosperity. But the region remains mired in underdevelopment and political instability.

The political and economic history of Latin America over the last two centuries is in direct contrast with that of the United States. The consequences speak for themselves, as the historian Claudio Véliz points out: "We are in a New World born at almost the same time to the North and to the South, settled by two great societies, springing from the two greatest empires of modern times. One group began poor, in the North, the other rich, in the South. In 500 years the positions have entirely reversed."

The United States generated a GDP of $12 billion in 1820, by 1900 this had risen to $313 billion, and to $10 trillion by 2000, all measured in current money terms. How was this explosion of wealth achieved? In large measure it is due to the institutions and political philosophy bequeathed to the United States by the Founding Fathers (Jefferson, Madison, Hamilton, Adams, Franklin, and Washington among others). The Declaration of Independence, the Constitution, the Bill of Rights, and the *Federalist Papers* are among the great works that gave such a firm and enduring philosophical, political, moral, and economic foundation to the newborn nation.

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My hypothesis is that the tragedy of Latin America is the result of its having been an "orphan continent." The Liberators—Bolívar, San Martín, O'Higgins, and Sucre among others—fought heroically to free their countries from Spanish political control. But it is one thing to know how to fight and another to govern.

The Liberators (and their successors) did not anchor the young republics in the values of individual liberty, did not establish the rule of law, and did not limit the delegation of authority by the people to their democratic representatives. On the contrary, they maintained—and in some cases, further improved on—the Spanish centralizing tradition. Bolívar's hero, symptomatically, was the authoritarian Napoleon Bonaparte and not a constitutional president like George Washington.

So, Latin America had Founding Generals rather than Founding Fathers. The result is that the region lacks, even today, the institutions and principles of a true democracy in the service of freedom. That is why progress is so unsteady and so fragile. Like Sisyphus, we push the rock to the top of the mountain to see time and time again how it falls back down once more (although not always right back to where it started).

But the pessimism and fatalism of so much public discussion in Latin America is not justifiable. Many people content themselves with (or are resigned to) the mistaken belief that Latin America will never be able to find a road to prosperity. To rationalize that belief, they deploy arguments based on race, climate, terms of trade, Catholicism, and every type of explanation attributing the blame to someone or something external.

Freedom Works

Pessimism over the future, however, ignores three remarkable experiences of the last 30 years—eloquent signs that freedom does work in Latin America and that great steps forward can be made.

The first sign is the great success of the Chilean Revolution. During the 1970s, Chile managed to transform its most severe 20th-century crisis into an extraordinary opportunity to create a market-liberal order. Not only was that revolution the principal cause of the peaceful, gradual, and constitutional nature of Chile's return to democratic rule in 1990, it is also responsible for Chile's remaining today the most competitive and prosperous country in Latin America. A recent comparative study placed Chile ninth in the list of countries enjoying the greatest degree of economic freedom, the same ranking as the United Kingdom and Australia. The new economic model

allowed the Chilean economy to grow at 7 percent per annum for more than 12 years, drastically reducing poverty levels and creating a middle class that has given a remarkable stability to the free-market economy.

The second sign of progress is the recent evolution of Mexico. Only 10 years ago Mario Vargas Llosa characterized Mexico as the "perfect dictatorship." Nevertheless, different presidents and advisers—even within such an imperfect institutional setting—had the vision to start opening the way for greater freedom in economic, social, and political affairs. Entry to NAFTA was an inflexion point with highly positive consequences. Another landmark was the pension reform on the lines of the Chilean model: in no more than three years, 25 million Mexican workers acquired a personal retirement savings account and are becoming owners of financial assets. There is still much to do to realize the potential of a great country such as Mexico, but it has started down the road in the direction of an open society.

The third key experience is the global pensions revolution originating in Latin America. An experience born in Chile has become a model for the rest of the world. Today, there are eight countries in Latin America following this experience, and 50 million workers have accumulated $100 billion in their pension accounts. Three former Iron Curtain countries (including Poland) have adopted the system of individual retirement accounts, benefiting an additional 20 million workers. The idea has now begun to make inroads into developed countries threatened by serious problems in their state pension systems. President Bush has said publicly that he wants to introduce the Chilean system. And recently Sweden, the model welfare state, adopted personal mini-accounts for retirement savings. Hong Kong, one of the world's most competitive economies, already has a similar system in place. If the Swedish and Hong Kong experiments can be extended in their respective regions (Europe and Asia), and if President Bush can implement his proposal, then this revolution will become worldwide. As *The Economist* stated, "Radical reform of social security is the next great liberal reform, easily as significant a change as privatization of state-owned enterprises—also dismissed in its time as Utopian. On pensions, Latin America has led the way. Let the world follow" (June 12, 1999).

Limited Democracy and the Rule of Law

These three successful experiences have had a positive impact throughout Latin America. In the decade of the 1990s, countries of all

kinds began to implement free-market economic reforms and made undeniable progress, generating a better quality of life for their citizens. During the 1990s, the region's GDP grew at an average of 3.2 percent per annum, 2.2 percent higher than was achieved during the 1980s. But these reforms were tarnished by original sin: they were not fully consistent with each other or with the domestic institutional and political structures. In my view, this explains the greater part of the recent setbacks in Latin America.

Every lover of freedom values democracy, but not every form of democracy is the same. As Alexis de Tocqueville's great work *Democracy in America* maintains, democracy must always be on its guard against popular despotism. In Latin America a kind of "tyranny of the majority," sustained by demagogy and populism, has led again and again to excessive government, interventionism, and invasive policies and actions. The result has been to impoverish civil society and turn government—in the best of cases—into what Octavio Paz called a "philanthropic ogre," and—in the worst—into an ogre at once corrupt, inefficient, and oppressive.

Unfortunately, Latin America has followed the opposite course to that of the United States, as Mariano Grondona has explained in his book *Los Pensadores de la Libertad*. In the case of the United States, the economy did not come first. At the beginning there came men who prized moral independence. Then those same men demanded a political structure. Finally, within the framework that structure created for them, prosperity sprang forth. This is not just a sequence of historical events, it is the logical progression—for when prosperity happens first, without a moral or institutional framework, it cannot be sustained.

So it seems to me to be essential that a democracy should exist to serve freedom, and that government should have its powers limited. Democracy is a means of adopting decisions in those areas where it is necessary to adopt collective decisions—in effect, a system for deciding "how" a government should be conducted, not a method for deciding "what" a government should do.

To hand over a blank check to inherently unstable majorities concerning virtually all the major economic, social, and political issues of a society is to institutionalize instability, open the way to more serious abuses, and condemn a country to underdevelopment. As Frederic Bastiat, the great 19th-century French liberal, would say, the law in those circumstances is but a step from legalized theft.

How is anyone to make rational decisions about work, savings, and investment if key variables—such as taxes, labor legislation, and regulations—can be altered by 50.01 percent of the citizens through a vote

that, in countries with low levels of education, can almost never be said to show the characteristics of an "informed vote"? In Latin America, we see how one day President Hugo Chávez enjoys 80 percent support—and with it changes the Constitution and legislation—and the next year his support is halved. In Argentina, President Fernando De la Rúa triumphs one year, is deeply unpopular the next, and is removed from office before the end of his constitutional term. Can these manic-depressive expressions of the "vox populi" be described as the "vox Dei"? Of course not!

To be legitimate, majority rule must be limited by a constitutional framework that protects life, liberty, and property. Democracy and freedom can then be mutually consistent. The United States has been successful largely because it has adhered to limited government and the rule of law, or what the visionary F. A. Hayek has called "the constitution of liberty."

Some might argue that U.S. voters are also volatile in their opinions, given that President Bush won office by the narrowest of margins but now enjoys much higher approval ratings. That argument is correct, of course, since human nature is universal. But the crucial difference is that, even with a high level of popularity, a president or a governing party cannot alter the U. S. Constitution or the key laws, as a result of the wise and complex balance of power developed and institutionalized by the Founding Fathers. The U. S. Constitution is more than 200 years old and is acknowledged by all with enthusiasm and respect. It begins, "We, the people…" and proceeds to delegate certain powers to the government in order for it to be able to protect the freedom, the property, and the safety of the citizens. Madison, Hamilton, and Jay explain in the *Federalist Papers* how and why the federal Constitution provides a sophisticated mechanism to balance powers between the three branches of government, between the government and civil society, and between the government and individuals.

We should be realistic enough in Latin America to recognize how far we still are from such a philosophy of limited democracy. Constitutions are frequently altered in Latin America by means of opaque negotiations among a clique of leading politicians, who present the final draft as enjoying popular support. Latin American practice, from the right to the left, is that those constituting the government, with their temporary majority, reject the imposition of any limits to their powers. The economic teams in the Chilean government of the 1970s and 1980s, and in the Mexican administration in the 1990s, were exceptions to the Latin American rule.

In addition to constraining the powers of government, it is essential

to limit the terms of those in office and to create a culture of alternation in power. Politicians, in general, do not like giving up their power. But, in Latin America, leaving office is treated as equivalent to the death penalty. President Carlos Menem, whose first administration was a real success in Argentina, increased public spending and introduced populist measures during his second term because he aspired to an unconstitutional third term. The first administration of President Alberto Fujimori in Peru was also successful in some key aspects (like defeating the twin evils of inflation and terrorism), but when he tried to exercise his mandate for a third time he corrupted almost all institutions, produced a dramatic crisis, and ended up a fugitive in exile. President Fernando Henrique Cardoso spent the last year of his first administration changing the Brazilian Constitution to allow him to run again, instead of introducing the pension reform that Brazil so badly needs (the deficit of its pension system will be equivalent to 5.5 percent of GDP in 2003).

Because there is no real commitment to the alternation of power, every presidential election in Latin America is conducted at the expense of the future. The unhealthy addiction to power leads to a desire to govern with the aim of staying in office rather than leave a legacy of lasting achievements.

The conditions have to be created for a strong and independent civil society to develop and consolidate. Governments have to create a framework of freedom and equity within which individuals can attain happiness in their own ways. It is not government's role to try to micromanage people's lives. Citizens should enjoy an open playing field in which to seek an unlimited number of voluntary arrangements and associations to help them in their quest for happiness. A free, strong, and independent press is a gauge of the vigor of civil society. Regrettably, in almost every country in Latin America, the press is too close to power; this takes many forms, both open and discrete, but generally the press is not an effective counterbalance to power.

The lesson of history is that a free economy and civil society cannot prosper without limited government and the rule of law. In Latin America, inefficiency, politicization, excessive laws and regulations, and—in some countries—corruption have undermined the principle of freedom under the law. The rule of men has repressed the rule of law. The Chinese wall that should exist between government and the judiciary is lacking. Even presidents who are trained jurists forget their principles once in power and fail to resist the temptation to interfere in judgments—whether on grounds of political expediency or of personal ambition.

Education, Education, Education

A further key element in the road to freedom is the pending educational reform in Latin America. As I have proposed repeatedly elsewhere, the right way forward is the school choice solution—with competition, private initiatives, and transparency in supply—not the current government-educator model. Without a radical improvement in the quality of education, it will be difficult to attain a constitutional democracy in the service of freedom.

Especially serious is the fact that citizens have an abysmal lack of understanding of economics. Opinion polls show that most people do not grasp the link between less flexible labor markets and higher unemployment, nor do they understand the important role of free markets in creating prosperity. Consequently, legislators continue to cater to special interests and take a short-run perspective.

With widespread ignorance of how a free-market economy works, elections will always be won by those who propose increased legal privileges for workers, higher taxes on companies and on "the rich," higher public spending, and more subsidies and welfare for interest groups. Perhaps the undertaking with the highest social returns in Latin America today would be to create a "Citizen's Prosperity Foundation" whose mission would be to educate citizens in the fundamental principles of economics.

Toward an American Community

A closer relationship between the United States and Latin America would help considerably in addressing all these challenges. Let me be clear: I love my own heritage and way of life. But I also greatly admire the Founding Fathers who bequeathed to the United States a combination of free political institutions and a market-liberal economic system that have created great wealth and a vibrant open society. We do not need to sacrifice our essential core in order to learn from the U.S. experience with a constitution of liberty.

The relationship between the United States and Latin America is changing. NAFTA has been a spectacular success for Mexico and now Chile has signed a Free Trade Agreement with the United States. Rather than being the conclusion of an exercise in becoming closer, I hope it will only be "the end of the beginning." There are innumerable initiatives that could spring from greater trade integration. By a kind of intellectual osmosis, we can integrate into our own reality a number of basic economic and political concepts—just as the North Americans will benefit from learning about our culture and way of

life. With 37 million people of Hispanic origin in the United States, the process is already under way.

My dream is an "American Community" of independent nations, cherishing their own cultural identities but joined together in a common market for trade and investment, and with free movement of people and of ideas. An American Community would comprise 830 million people and a gross domestic product of $13 trillion.

We have to dare to dream once more. As the poet Carl Sandburg said at another critical moment, "The republic is a dream. But nothing happens unless first a dream."