

BOOK REVIEWS

The Capitalist Revolution in Latin America

Paul Craig Roberts and Karen LaFollette Araujo
New York: Oxford University Press, 1997, 214 pp.

It is an optimistic title for a fine and insightful book on Latin America. It may also be premature to speak of a capitalist revolution in Latin America, because we don't know yet if the counter-reform forces will be successful or not. They have certainly gained ground in countries like Venezuela and Colombia, where the "dinosaurs" are back in power. Even in Chile, the Frei administration has been trying to reduce once again the independence of the central bank, is increasing expenditures on failed social welfare programs, and is backing the unions in their attempts to push back the clock on labor legislation.

It is very encouraging that Oxford University Press decided to publish a book on Latin America. For years, publishers in England would say that, to sell thousands of copies, one should write about Nelson; to sell a few hundreds, one should write about Latin America.

That view is somewhat shared by political leaders and pundits in the United States, who nowadays see Latin America just as a source of drugs and illegal immigration. The "certification" charade is nothing more than a failed attempt to hide the fact that there would be no drug problem without American demand. It is just as silly to try and blame uneducated Mexican peasants for taking advantage of bad welfare laws passed by intelligent American college graduates.

The best part of the book is the chapter on "The Blocked Society," which illustrates how a corporatist-mercantilist-interventionist society destroys itself. For readers who have not lived south of the border, it must be difficult to understand the extent of the damage done to institutions by the extreme politicization of society. It should also serve as a warning in the United States, where the constant extension of government into individuals' personal affairs reminds me of Latin America in the early 1960s.

In the case of Latin America, Big Brother was exacerbated by the evil influence and easy money from the likes of the Economic Commission for Latin America (ECLA), the International Monetary Fund (IMF), the

World Bank, and the Inter-American Development Bank (IBD). The authors write:

If a society does not seek profits, then it will seek something else, such as subsidies and privileges from the government. . . the result of a system based on perverse incentives. Socialism, whether in Mexico or the Soviet Union, inevitably leads to rent-seeking, or lobbying the government for privileges, as it concentrates economic opportunities in the hands of the state. . . . With government hand-outs more attractive than private profits, society came to be organized around maximizing political benefits and not economic efficiency. . . stimulating redistribution of existing resources instead of the production of new ones (p. 53).

That is one of the best descriptions of Mexico under the old PRI, of Peronist Argentina, and of social democrat Venezuela I have read anywhere.

The almost natural dislike most Latins have for capitalism is because it is identified as an unholy alliance between Big Business and Big Government: "Shoddy goods at high prices became the norm The success of firms did not depend on product innovation. . . their success depended on their access to government officials." Wealthy Latin Americans would come to the United States two or three times a year to do their shopping, while the poor became a captive market.

The chapter on "The Economic Transformation of Latin America" does not go far beyond Mexico and Chile. Even there, I think the authors do not stress enough the dissimilarities between the privatization processes carried out in countries such as Mexico, Argentina, and Venezuela vis-à-vis Chile. The former were mainly concerned in getting the highest possible price for the state assets, while Chileans were much more aware that the real goal of privatization is to open markets and bring about real competition. The transformation of public monopolies into private ones brought some benefits insofar as assets are much better cared for by individual owners, but the prices and rates charged for privatized goods and services shot up in the absence of real competition, and thus the reforms often became widely unpopular.

Former Venezuelan President Carlos Andrés Pérez had such contempt for public opinion that he did not even try to sell his reform program. As in Mexico and Argentina, many state enterprises were sold to big corporate groups with solid ties to the presidential palace. Venezuela and Argentina went as far as to "privatize" their international airlines by selling them to Iberia, the state-owned airline from Spain, with disastrous consequences.

Therefore, "the capitalist revolution" has not been as successful as one would have wished. The "dinosaurs" have launched a strong counter-reformation movement with a lot of support from bureaucrats, labor unions, protectionist interests, and the Catholic Church, especially the Jesuits, who have traditionally been very influential in educational circles.

Now the left in Latin America is blaming everything from global warming to the drop in standards of living on so-called neoliberal policies.

In addition, the close connection between reforming technocrats and multilateral agencies like the IMF, agencies that provoke riots everywhere they impose harsh increases in taxes and in the rates charged for public services as prerequisites for new lending, further confuses people. Marxists and assorted leftists point to the multilateral lending institutions as spearheading ugly capitalism, when for decades those institutions have been building up state sectors with billions of dollars collected from American and European taxpayers to be squandered not only in their palatial buildings in Washington, but on unviable government projects in the Third World.

Write the authors: "Even the successes are expensive compared to private sector development. The cost per job created under international development bank projects has been as high as \$900,000 per job, and it is often in excess of \$20,000 per job" (p. 170). They remind the reader of the very appropriate name given to those international bureaucrats by the English journalist Graham Hancock: "The Lords of Poverty."

The chapter on "Outdated International Development Institutions" is eye-opening. "Development ideas had come a full circle, formerly Third World populations were told that they had to live in austerity to finance government investment projects, and now they were informed that they had to further tighten their belts in order to bail out the unsuccessful projects" (p. 171).

As Carlos Rangel and the authors of the recent best-seller—*Manual of the Perfect Latin American Idiot*—have clearly stated, Latin Americans did not need much outside help in creating an economic miracle in reverse in the 1970s and 1980s. Unfortunately, however, Citibank and Chase Manhattan financed, right up to the early 1980s, every government project they could find. In addition, foreign aid from Europe and the United States constantly bailed out irresponsible and corrupt governments in Latin America. One wonders if citizens in developed countries thought that capitalism was good for them but not for Latin Americans.

Bill Clinton is the first U.S. president since the World War II not to visit Latin America in his first term. But now, economic globalization and the cybernetic revolution are liberating Latin Americans from interventionist governments. As brains and skills become the region's main resources, politicians will find it increasingly difficult to nationalize and expropriate private wealth. Instead, they will be forced to create a competitive and attractive environment, with low taxes, few regulations, personal security, respect for property rights and the rule of law. That is the road sketched by Roberts and Araujo in their very good book.

Carlos A. Ball
Agencia Interamericana de Prensa Económica (AIPE)