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# ***Consensus Found, Consensus Lost: Disjunctures in US Policy Toward Latin America at the Turn of the Century***

*Howard J. Wiarda*

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**A**fter the great ideological debates of the 1970s and 1980s and the domestic “war” (there is no better term) over Central America policy, a quite remarkable consensus had emerged in the 1990s regarding United States policy in Latin America. The new consensus was surprisingly bipartisan, having been largely continuous from the Bush to the Clinton administrations and actually having its origins in the even earlier Carter and Reagan administrations. For those who remember the rancorous, divisive battles, stretching back over two decades, over such issues as human rights, El Salvador, and Nicaragua, the emergence of a consensus on US foreign policy towards Latin America was nothing short of astounding. There are three basic elements in this new consensus, usually referred to as the “Washington Consensus,” all interrelated:

- (1) an emphasis on furthering democracy and human rights;
- (2) an emphasis on free (or at least “fair”) trade and economic integration; and
- (3) an emphasis on open markets, state downsizing, and privatization: i.e., on capitalism or neoliberalism.

These three aspects are interrelated in the following ways: democracy and human rights (not authoritarianism or Marxism-Leninism) help provide a stable, long-term climate in which the economy can grow and the middle class can prosper. In turn, economic development, free trade, and privatization help provide a better climate for democracy and human rights to be established and consolidated. The combination of *all*

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of these factors, together, represents the best guarantor of stability throughout the Western Hemisphere, which, in the absence of any post-Cold War external threats, remains the primary goal of US foreign policy. This consensus, with its interrelated parts, sounds remarkably close to the formula set forth four decades ago by, among others, W. W. Rostow in global terms and, with specific regard to Latin America, John J. Johnson and the authors of the Alliance for Progress (Rostow, 1960; Johnson, 1958).

One can appreciate why this agenda is so popular and widespread in policymaking circles and why such a degree of consensus exists:

- (1) The policy incorporates both Wilsonian idealism (democracy, human rights, free markets) and hard-headed national interests (stability, an economic climate that the US can dominate).
- (2) The policy ends the fratricidal and politically costly (to both parties) debates of the 1980s.
- (3) The policy has the support of most think-tanks, the media, the US Congress, the business community, religious groups, and so forth.
- (4) The policy provides unity and coherence to an otherwise fractious, conflictual foreign policymaking bureaucracy and process.
- (5) The policy enjoys support from Latin America as well as from the mainstreams of US foreign policy, ending the conflict that has raged, for the last 40 years, between the United States and Latin America over the US agenda and policy priorities.

At the same time, one can also see why it would be so difficult to alter this consensus. For the policy was only arrived at after two decades of debate and dissension. Once arrived at with so much difficulty, however, policymakers will be reluctant to alter, or reexamine, a consensus that took so long to emerge and was so costly. The logic is: better to continue with what is now widely recognized as a flawed policy than to re-open an interminable debate which had seemingly been settled earlier.

Nevertheless, open it we must. For the policy is not working. Or, it is working only in part, and the policy armature to deal with nuanced situations is lacking. For major problems have developed in all three of the main elements in the consensus: democracy, free trade, and open markets. Either that or the actual practice in Latin America has not lived

up to promises or expectations. Even though the Mexican peso crisis (December 1994), which continues to the present day with severe economic and political consequences, was a major precipitating factor in undermining the earlier consensus, the problems go deeper than that and revolve around basic assumptions of the policy itself. In the following sections, therefore, we shall look at each of the three main elements of “the consensus,” in turn, and at what has been, and is, going wrong. The concluding section will assess the policy implications.

## I. THE DEMOCRACY AGENDA

Let us be clear from the beginning: no one doubts that, since the mid-1970s, Latin America has made enormous strides toward democracy. At that time, depending on how one counts, either 14 or 17 of the 20 Latin American countries were governed either by outright military regimes, entirely authoritarian in nature, or by civilian regimes in which the role of the military was so close to the surface of power as to make the line between civilian and military all but indistinguishable. Only three countries — Colombia, Costa Rica, and Venezuela — remained in the democratic camp, and even they were considered to be under the direction of national elites (Wiarda, 1977).

By now that unhappy situation has been reversed: 19 of the 20 countries are said to be in the democratic camp (only Cuba lies outside the democratic fold). US policymakers, especially those who, in earlier decades, had to deal with all the difficulties, grief, and trials connected with the Pinochets of this world, or with the Salvadoran colonels on the one hand and/or the *Sandinistas* and their supporters on the other, are endlessly, and quite understandably, lauding the democratic progress that has been made. Nor is there any doubt that the political conditions throughout Latin America are far better at present than they were previously. Even the Latin American Left, which repeatedly used to denounce “mere bourgeois democracy,” has now discovered living under the rule of law is far better than living under a dictatorship. A sea change in both institutions and attitudes has, by now, ushered the old authoritarians out of power and paved the way for democracy, or at least partial democracy.

However the glass of democracy in Latin America is still only half full. The architecture of democracy (regular elections, political parties, constitution) has been put in place, but it has not been fully implemented. It is not yet clear if attitudes, political culture, and social

structure have altered sufficiently to match the political-institutional changes. The process is still incomplete; democracy is still not fully consolidated. While democracy still represents a lofty goal and has major accomplishments to its credit, many problems remain. Most policymakers, upon reflection, acknowledge the incompleteness of the process but believe the remaining problems can gradually be overcome. For understandable reasons, they also tend to emphasize the accomplishments: the part of the glass that is half full. Scholars, on the other hand, have an obligation to look at the part that is still half empty, or, in some cases, maybe more than half empty. More than that, scholars have an obligation to examine, more closely and critically than policymakers are inclined to do, the fundamental assumptions of the policy itself.

When these latter tasks are undertaken, a number of disturbing trends become evident, few of which augur well for democracy or for its full consolidation, either now or in the future.

*First*, public opinion surveys tell us that, along with democracy, Latin America is showing an increasing preference for “strong government” (Fundación Pensamiento y Acción, 1996; Duarte *et al.*, 1995; Wiarda, 1990; Falcoff, 1996; and FBIS, 1995: 54 and 1996: 3). In country after country, surveys reveal overwhelming support (80% or more) for representative government on the one hand but, and at the same time, for a strong, statist, paternalistic regime on the other. These are the two forks in the trail — democracy *versus* authoritarianism — that Latin America has always faced, are they not? But, can you have both at the same time? Surely those who favor democracy must be disturbed by the nearly equal percentages of those who favor strong government. The surveys also mean that those Latin American leaders that have often been criticized, at least in the United States, for being too statist, too authoritarian, or too behind the times — Alberto Fujimori in Peru, Rafael Caldera in Venezuela, or Joaquín Balaguer in the Dominican Republic — may be closer to the political mainstreams in their own countries than most democrats outside those countries would like to believe.

*Second*, these same surveys indicate that while there is strong support for democracy as an *idea*, there is much less support for what we think of as democracy’s necessary supporting institutions. Thus, while up to 80% (or more) of the public in almost all countries express their support for democracy, that same public expresses much less support (often less than 20%) for institutions that comprise a democratic infrastructure, like political parties or labor unions (any party, any union). Nor do the other elements that are usually associated with a

functioning, pluralist democracy — a congress, judiciary, organized business groups, etc. — rank much higher. In most countries, only the armed forces and the Catholic Church come close to having majority support. The obvious question is: can democracy long stay healthy if support for its key underlying principles — pluralism, parties, separation of powers — is so low?

A *third* problem is that democracy has not been performing adequately in delivering goods and services. Consequently, there is considerable disillusionment with democracy. In most countries, even those where the economy has been performing well, the gap between rich and poor has been widening, rather than narrowing. Social services and safety nets have been shrinking. Virtually all public services — hospital care, education, social welfare — have been declining throughout the Hemisphere. People are starting to blame not just individual governments, but democracy itself, for their problems. The threat of food riots, looting, crime, and anomic violence seems to be rising, indeed, has already occurred in such countries as Brazil, Colombia, El Salvador, Mexico, Panama, Venezuela, and the Dominican Republic.

*Fourth*, even though democracy may appear to be established, it is being defined in ways that must seem strange to serious students of that form of government. The same public opinion surveys cited earlier show the following: that, in Uruguay, democracy often is defined as welfarism; in Brazil, as patronage; and in Argentina, the Dominican Republic, Peru, and Venezuela, as strong, statist, Perón-style, nationalistic, and top-down leadership. A preference has clearly emerged for organic, paternalistic, integrated, corporately-organized democracy. While such preferences are frequently consonant with long-established Latin American traditions, they are still a source of concern to any true supporter of pluralist democracy.

A *fifth* issue has to do with the role of the military. Although the armed forces have generally been content to stay behind the scenes in recent years, nowhere in Latin America has the North American model of a non-political, non-deliberative military, one that is entirely subordinated to civilian authority, been institutionalized (see excellent study by Loveman, 1993). Even in Chile, now considered as one of Latin America's strongest democracies and as a model of military professionalism, the recent tension between the civil and military spheres has been both palpable and nerve-racking. I may experience this more than most scholars because my recent position at the National War College has brought me into frequent contact with high-level Chilean officers,

whose frank and unapologetic *pinochetismo* is stunning. The consensus among Latin American military officers seems to be that (a) the US model of civil-military relations is inappropriate in their own home contexts, and (b) they are every bit as professional as their US counterparts, only that their definitions of professionalism are different, i.e., they are neither inferior to, nor “less developed” than, those of North America. Similarly, these attitudes do not augur well for the future of democratic politics being cast in an Anglo-American mold.

A *sixth* concern is a disturbing trend toward what Guillermo O’Donnell has termed “delegative democracy” (O’Donnell, 1994). By this, he means that the people observe the outward manifestations of democracy, such as holding elections and voting, but then, between elections, “delegate” all decisionmaking functions to an all-powerful executive, such as has happened with Menem in Argentina, perhaps the best example, but also with Fujimori in Peru, Zedillo in Mexico, and Balaguer in the Dominican Republic. Meanwhile, others are following, or have followed, similar paths. Courts, congress, federalism (where that exists), civil liberties, and local government tend to lose power in the process; the system of checks-and-balances gives way to reliance on a powerful president — an imperious, if not “imperial,” presidency such as Nixon never dreamed of. In some cases, it is not just the separation of powers, but also societal and political pluralism, that is being sacrificed as well. In these situations, pluralism becomes limited and coöpted, which is precisely what characterized the authoritarian regimes that these new “democrats” have supposedly replaced (for the concept of limited pluralism, see Linz, 1964).

*Seventh*, it is important to note that corporatism has also made a comeback in many countries. This is neither the traditional corporatism of the past, nor is it a modern, social-democratic neocorporatism. Instead it can either be termed “everyday corporatism,” or else plain old patronage politics (see Wiarda, 1997, for a recent summary). While most of Latin America has now repudiated much of the formal corporatism once prevalent in its labor laws, social welfare programs, and structure of relations binding the labor, state, and business sectors, corporatism frequently continues to exist in a more informal guise. In observing several recent elections and their aftermaths in Latin America, I have been struck by how every group — military, business, labor, state-owned enterprises, journalists, even film-producers — lines up to protect, enhance, or guarantee its *verba*, its special privileges and budgets, its entitlements and patronage positions. This is not a progres-

sive, socially just, modern, Scandinavian-style neocorporatism, towards which some Latin American intellectuals would like to move, but a corrupt, patronage-based politics in which every group has its “hooks” into the treasury and patronage system and is determined to protect its own special position at all costs (the best study is by Bustamante, 1989).

Another, *eighth*, worrisome aspect of Latin America’s recent march toward democracy actually resides in the whole electoral process itself and the holding of elections. In the past, under authoritarian regimes, the principal concern was with the absence of elections. Now, on the other hand, there are an abundance of elections, but these have often been so divisive and crisis-prone as to come close to near-national breakdowns, rather than leading to stable, democratic outcomes. Countries in which elections have served more as agents of division and fragmentation than as agents in fostering consensus and producing a sense of national unity include Brazil, Ecuador, the Dominican Republic, Haiti, Mexico, and Venezuela, among others. The Dominican Republic, for example, has held 10 elections since authoritarianism ended there in 1961. Ordinarily, this would certainly be enough for the country to be considered as a safely democratic one. However, only 4 of the 10 have been both fair and competitive, while the run-ups to, or outcomes of, the others have produced crises, *coup d’état*, revolution, renewed authoritarianism, civil war, intervention by the US military, or near-national breakdowns. In democracies that are well established, elections are usually viewed as ways to build consensus or shift the direction of policy. In Latin America, however, some elections have proved so divisive that they almost tore the country apart or, at the least, threatened national stability — precisely the opposite of what the US strategy of democracy-*via*-elections was designed to achieve.

If, therefore, elections are divisive (the *ninth* point of the analysis), then that problem can be “resolved” by instituting governments of national unity. Argentina, Brazil, Colombia, Haiti, Mexico, Peru, and Venezuela (not unimportant countries) have all shown signs in recent years of opting for, or moving towards, coalition governments, one-party governments, or governments of national unity. This is a familiar, and very traditional, tactic in Latin America: moving towards coalition, national front, or national unity governments as a way of overcoming the divisiveness and fragmentation produced by liberalism, democracy, and elections (see, in particular, the writings of Dealy, 1977). Colombia, for example, has been practicing this tactic, more-or-less successfully, for decades. However, though these strategies may be very traditional,



they are also profoundly anti-democratic: they deny real choice; they leave politics almost exclusively in the hands of the elites; and they largely exclude the electorate (who may vote, but are not involved in the negotiating and patronage trade-offs inherent in coalition) from effective participation. Thus, it is necessary to decide: should the US favor democracy (and the instability to which it often leads)? or should the US favor coalition arrangements (despite their being often anti-democratic)? or is it possible to have both (as democracy with “strong government”)? It is a theme to which we return in the conclusion.

*Tenth*, let me focus on a philosophical issue: the nature of elections themselves, the way US policy has advanced them, and the web of agencies that have been established to promote this elections policy (Republican International Institute, Democrat International Institute, Agency for International Development (AID), the Carter Center, election observer teams, etc.). The type of elections that the United States has advanced are based on Lockean, Jeffersonian, individualistic principles of one-person/one-vote. An entire cottage industry of election observers, computer and voting technicians, and government officials has now emerged to lend support to such elections. However, Latin America has long been organized along more organic, centralized, integralist, corporatist, and Rousseau-ian lines. Its most thoughtful leaders are not entirely convinced that their countries can be governed, or held together, on the basis of inorganic principles and organizations. So, once again, the dilemma arises that, though US policy has succeeded in establishing US-style democracy and elections as the only legitimate route to power, that strategy may not have produced the happy stability which is at the core of that policy, but has produced, instead, the potential for much greater upheaval, unraveling, and instability in the future (the point is elaborated in Wiarda, 1996).

To respond to these problems, *eleventh*, the US government, through its AID programs, has sought to develop what I call “civil society.” “Civil society” is the latest AID panacea in a long list of AID panaceas to “solve” Latin America’s problems going back to “agrarian reform” and “community development” in the 1960s. Now, everyone since Alexis d’Tocqueville has understood that a lively civil society of intermediance between the individual and the state is necessary for a functioning pluralist democracy; and to the extent that Latin America develops such a functioning civil society, democracy will be strengthened. But (1) does the United States government or AID know what it’s doing sufficiently that we should have confidence in their efforts? The

record so far is less than inspiring. (2) While we may *hope* that liberal pluralism and stronger democracy result from these efforts, the more likely outcome is greater corporatism, patronage, and coöptation extended to new groups. (3) Most of the new “civil society” groups that AID brags about to Congress to justify its existence and budget are in fact mainly AID creations and absolutely dependent on it for funding. When a group gets 90-95% of its budget from AID, it is an AID “front;” moreover, as soon as the funding dries up, the group funded also usually disappears and, with it, the efforts to build civil society. (4) My experience recently in Central America and the Caribbean is that the groups now funded by AID and other US agencies as part of the effort to build civil society are often the same groups and individuals who have been milking AID dry for decades. They know the US goes through successive waves of panaceas of which “civil society” is only the latest; hence, they have latched onto this program as they have milked others in the past for their own private purposes. Thus, while the goal of building a genuine civil society is a good one, present policies seem to offer slim hope that will be the actual outcome.

Here, then, are eleven worrisome features about Latin America’s recent, and highly-celebrated, transitions to democracy. All of these features suggest that Latin American democracy may be more precarious than had been thought, that the journey has yet to be completed, that the glass of democracy is still half empty. They also point toward the conclusion that the Latin American governments now in place might better be described as “democracy with adjectives:” limited democracy, guided democracy, controlled democracy, “tutelary democracy” (Oropeza, 1983), “delegative democracy” (O’Donnell, 1994), “Rousseauian democracy” (Wiarda, 1992). This conclusion holds important implications for students of Latin America: a new nomenclature, or set of categories, is needed to describe these still partial democracies, these “half-way houses.” There are also implications for policymakers: the need to take a more nuanced approach which recognizes gradations and crazy-quilt patterns *en route* to democracy, rather than relying on the much too simple dichotomy of *either* dictatorship *or* democracy. In fact, most, if not all, Latin American regimes are strung out somewhere along a continuum that stretches between these two poles, a fact that now needs to be recognized, both intellectually and on a policy level.

This discussion leads to two conclusions: (1) that democracy in Latin America is less secure, and in more trouble, than had been hoped; and (2) that it is not just Latin American democracy that is troubled, but

the assumptions of US policy that undergird much of the thrust towards democracy as well.

## II. FREE TRADE AND ECONOMIC INTEGRATION

The second pillar upon which the 1990s consensus was based was that of free trade and economic integration. Among most policymakers and serious scholars, this element of the consensus still holds true: (a) that free trade and economic integration should go forward, and (b) that, despite some disruptions in the short term, free trade generally benefits all parties over the longer run. The assumption is still that free trade carries a multiplier effect of 1:2, i.e., that, for every dollar invested in trade, two dollars is produced in benefits. Hence the argument that free trade is a rising tide that lifts all boats (Baer and Weintraub, 1994) even though the ongoing crisis in Mexico has severely shaken the earlier faith.

In the United States, free trade and economic integration of the Hemisphere were justified on political and strategic, as well as economic, grounds. In the post-Cold War, early 1990s, the perception was widespread among US policy elites that, since Western Europe was moving toward greater economic integration and Japan was perceived to be organizing its own common market in Asia, the United States should organize a trade/strategic bloc of its own in the Western Hemisphere. The two parts of the Americas, North and South, were seen as complementing one another: an industrial, developed, highly educated, technological America in the North, and a resource-rich, developing, agricultural America, with expanding markets, in the South. A number of other factors — geographical proximity, immigration, trade patterns, investment, tourism, communications — served only to add to the logic of US-Latin American integration. In addition, and at a time of declining foreign aid and post-Cold War interest in foreign policy, the United States also viewed an increase in trade and economic integration as a low-cost way to bolster the Latin American economies, strengthen nascent democracies, and, thus, stabilize an area of importance and proximity to itself.

Strategic issues were of particular importance to the United States in the case of Mexico. Here, on the US doorstep, sharing a 2,000-mile and very porous border, was a Third World nation with a population of a hundred million persons, whose stability had long been taken for granted. Then, suddenly, this picture changed. First, Mexico had triggered a debt crisis in the Third World with its announcement (in

1982) that it could not meet its obligations. Then, in the late-1980s, this was compounded by a severe political crisis that was brought on by continued one-party rule, fraudulent elections, massive corruption, and a number of high-level assassinations. All of this combined to make Mexico appear to be potentially unstable, both economically and politically. Although the issue was mainly argued on economic grounds (jobs, the benefits of trade, etc.), which came to overwhelm all others, the initial US purpose behind the North American Free Trade Agreement (NAFTA) was political/strategic: to help stabilize a neighboring country of major strategic importance to the United States, in terms of both US international policy and of Mexico's domestic politics and society, whose stability could no longer be assumed.

However, passage of the NAFTA, which may have been President Clinton's finest moment, proved to be enormously costly, from a political standpoint, to his Democratic administration. The NAFTA was particularly unpopular among labor groups, who saw it as costing them jobs. For a president seeking reelection (and whose electoral plurality in 1992 was only 40%), no further loss of support from this important constituency could be permitted. Hence, without ever admitting it publicly, the United States shelved the issue of extending membership in the NAFTA to Chile, who was viewed, all but universally, as the next, and most qualified, candidate. Although this was initially a decision of a Democratic White House, after 1994, the Republican majority in the US Congress also acceded to the postponement because they, too, were eager to avoid the political costs of another NAFTA-like debate. Even though leaders in both parties recognized that Chile was a country very different from Mexico, one whose accession would have almost no domestic political consequences (as had Mexico's), they were unwilling to risk any political costs in an election year by advancing the cause of Chile. Thus, there was a gentleman's agreement, encompassing both parties, to postpone any further progress on Chile's accession to NAFTA until after the US presidential election in November 1996. Meanwhile, Chile has not only diversified its trade, but it has also joined MERCOSUR (the Southern Cone common market), which has been touted in some quarters as a complement to, and (more recently) in others as a counterbalance to, the NAFTA.

At the same time, and in both parts of the Hemisphere, there is increasing skepticism regarding the value of free trade agreements such as the NAFTA. The smaller Latin American countries are often fearful that a free trade regime may be "too rich" (as one Caribbean ambassador put it) for their fragile economies. In virtually all countries, there is fear

that small, and less efficient, firms (the majority!) will not be able to compete in a tariff-free global economy; hence almost everywhere there is renewed pressure, particularly hard for newly-democratic governments to resist, for an increase, rather than decrease, in protectionism. Some countries are fed up with the US temporizing on, and postponing, the expansion of the NAFTA on domestic political grounds; in fact, a number of countries are beginning to view MERCOSUR, on nationalistic grounds, as the South American competitor to NAFTA. These fears are compounded by the growing realization in Latin America that a free-trade regime tends to benefit mainly the strongest economy (in this case, the US) in that regime, and that steps need to be taken (protectionism) to offset the US advantages.

The effects of NAFTA, or its perceived effects, on Mexico's domestic society and politics have also been severe. The subject is treated at greater length in the next section; here let me only say that, for many Mexicans, NAFTA is viewed mainly as the vehicle for ushering in austerity, sacrifices, devaluation, economic crisis, a lower standard of living, greater social inequality, the loss of jobs, a severe drop in the gross national product (GDP), widespread public disillusionment, a reversion to a 1970s economic level, and the increased potential for political instability — all of which was precisely what NAFTA was meant to avoid. Of course, not all of these setbacks can actually be blamed on NAFTA, and the Mexican leadership has remained committed, at least rhetorically, to the NAFTA agenda. Nevertheless, under severe domestic pressure, the government has backpedaled on many of its earlier initiatives involving both free trade and integration, fearing, again in a more democratic context, both the economic and the political costs of a too pro-NAFTA stance.

On the US side as well, enthusiasm for NAFTA has waned. Few of the promises accompanying the original proposal have been fulfilled. Immigration from Mexico has not appreciably slowed; the Mexican economy had declined, rather than grown; few jobs are being created in both Mexico and the US; Mexico is no more democratic (and may be less stable) than before; corruption and drug-trafficking may be greater than ever; and there are few signs of transparency, accountability, or responsibility in the Mexican political system. The immense bailout of the Mexican economy that followed the peso crisis has failed to stabilize either the Mexican economy or its political system. Despite official reassurances that Mexico is recovering and paying back the "loans," the public perception is not only that this is money down a "rathole," but

that it is only the first of many installments which may be needed to keep Mexico afloat. Faced with this kind of taxpayer sentiment, politicians of both the US political parties will have a hard time justifying additional loans to Mexico. Meanwhile, in both countries, we have seen a reneging on the promises that accompanied the passage of NAFTA: on the Mexican side, a slowing of austerity and privatization; on the US side, bellicose language and unilateral action (e.g., on the issue of allowing Mexican trucks that had not been inspected for safety on US highways). Thus, at present, the modest US efforts toward integration are going forward at lower, non-political levels and largely through private, rather than public, efforts. However, if private investment is also frightened away by the threat of either Latin American economic mismanagement or guerrilla challenges, as in Mexico and Colombia, then there will be no flesh left on the NAFTA skeleton at all.

The Mexican peso crisis has reverberated strongly throughout Latin America and in the posh corridors of the international lending agencies, still staffed mainly by out-of-office cabinet ministers, who were among the chief architects of the earlier strategy of import-substitution industrialization (ISI) through mercantilism and protectionism. Throughout Latin America, the sense is strong (though not very accurate) that NAFTA is the cause of Mexico's troubles and all the trauma, instability, loss of jobs, and decline in living standards, etc., that Mexico is now experiencing. Therefore, no Latin American president can afford, politically, to say that he is following the Mexico formula at this stage. NAFTA is viewed as poisonous, an instrument of ruin. Even if the charges against NAFTA prove to be wrong, or blown way out of proportion, people still believe they are true. Moreover, Mexico's troubles provide a convenient rationalization for governments who wish to avoid a painful, but necessary, austerity, besides strengthening those still influential groups — including the World Bank, International Monetary Fund (IMF), and Inter-American Development Bank (IDB) — who were never convinced of the wisdom of the NAFTA package.

So, what is a poor Latin American government to do at this stage? Many countries in South America are backpedalling on their earlier commitment to a free-trade regime. Others, especially those in the Caribbean and Central America who are heavily dependent on the United States, decided to await the end of the US election campaign in hopes that, after November 1996, the US would return to serious consideration of expanding the NAFTA. Meanwhile, many of these same countries are continuing with their preliminary, and low-profile, negotiations with the United States, so that they will be prepared to move

quickly toward NAFTA (or a NAFTA-like arrangement) should the US post-election climate prove propitious. Since its admission to NAFTA was postponed, Chile, one of the region's strongest economies, has moved effectively to diversify its international trade: approximately a third with Asia, a third with Europe, and a third with the Americas (including the United States). The other major economies of Argentina and Brazil, sensing that NAFTA may be a long time in coming for them (and may not be all that attractive if and when it does arrive), are similarly seeking to diversify, while also strengthening MERCOSUR. Chile's admission to MERCOSUR may be interpreted as a further strengthening of that institution, a further diversifying of its economy, and as a way of hedging its bets against any further US procrastination on NAFTA.

Throughout the Hemisphere, therefore, the situation is extremely fluid with regard to trade integration. However, there is no doubt that (1) the bloom is off both the NAFTA rose and the notion of Hemisphere-wide integration; (2) the Mexican crisis has generated widespread, negative reverberations, and not just in that country; and (3) many Latin American countries are now moving to diversify their trade, not only because that is seen as a good in itself, but as a hedge against the fickleness and uncertainty of US policy.

### III. OPEN MARKETS, STATE-DOWNSIZING, PRIVATIZATION

The slippage that we have seen on the two pillars of democratization and free trade/integration has also been occurring in the third leg of the 1990s US policy consensus as well: that of open markets, state downsizing, and privatization.

*First*, it needs to be said that a good part of what was earlier presented as a movement toward open markets, state downsizing, and privatization was either exaggerated or based on elaborate shell games. For example, Mexico would announce, with loud fanfare for the benefit of the US and international lending agencies, that it was shaving several thousand public employees from government payrolls, only to add, very quietly, even more persons to the public payroll the following week. Or it would consolidate several state-owned firms into one, even larger, firm; or it would "sell" one state-owned company to another state-directed agency (e.g., to the official trade union organization); or, it has recently been revealed, it would pass these firms off, *via* immensely corrupt practices, to friends, family members, or cronies of those in

power — and then present “glowing” statistics to the international community regarding reductions in the number of state-owned enterprises. In other words, even before the great peso crisis of 1994 and certainly thereafter, there was considerably less to the privatization and state-downsizing than meets the eye. And Mexico was by no means alone in exaggerating its efforts at privatization.

*Second*, after the Mexican peso crisis, these trends toward non-compliance, fudging, or reversals of the open market, state-downsizing, privatization agenda quickly accelerated throughout the Hemisphere. A variety of factors were involved. To begin, many Latin American leaders had never been convinced that this was the correct agenda to begin with; they often preferred a statist approach to the levers of control. *Third* (and parallel to the ripples over NAFTA), the populations of these countries, particularly after the Mexico crisis, viewed the privatization agenda as leading to loss of jobs, increased pauperization, crisis, possible violence, and lowered standards of living. Hence, privatization became less acceptable politically. *Fourth*, Latin America’s business community recognized they were not prepared to compete on a global basis and moved to scuttle the program while preserving, at the same time, their special, inside access and protected status. *Fifth*, there was a genuine issue of social justice: the fear that, in a climate of unbridled capitalism and free markets, the situation of Latin America’s poor could only get worse. Not only did many people continue to look to the government for social programs but, *sixth*, they also looked to the state as an arbiter of social and political conflict, in quasi-corporatist fashion, arguing that the state needed to be strengthened, not weakened.

A *seventh* factor involved habit and tradition: rather like France, the tradition of looking to a powerful, centralized, guiding, directing, *dirigiste*, semi-mercantilist state was so strong and lasting that the notion of reducing it, or functioning under any other kind of system, would likely take decades to be imbued. *Eighth* was patronage politics: while reducing the size of the state may have constituted good economic logic, it was terrible political logic. Particularly at a time when democratic elections were being held on a regular basis, the idea of shrinking the number of patronage positions (and thus of political support) was anathema to politicians who were seeking either election or reelection. *Ninth*, as the economies of many Latin American countries struggled to recover from the “lost decade” of the 1980s or, in some cases (like Mexico, Venezuela, Nicaragua, Haiti, and others) even slipped backwards, pressures for the state to take on an even stronger



role in economic policy began to mount and became intense. A *tenth* factor was, again, all those officials in the IMF, World Bank, or IDB who remained committed statist and were not about to allow the private sector to emerge as the dominant force in the economy.

The result is that a program that had only a modest claim to success before the Mexican crisis has, since the crisis, been slowed still further. Some countries are continuing to downsize and privatize; but without great enthusiasm, at immense political risk, and often without the support of the United States government. The Mexico crisis of 1994 continues to resonate today, both politically and economically, not only in that country but up and down the Hemisphere. Almost everyone now views the Mexican “model” as a failure, and there is little enthusiasm for following Mexico’s lead. The result has been a major slowing and second-guessing of the neoliberal agenda, including on the part of its earlier adherents. Indeed, in many countries the program of open markets, state downsizing, and privatization — except for rhetorical purposes or to please international donor agencies — is all but off the agenda. Perhaps it will return in some distant future, but, for now, protectionism and a strong state role (in both the United States and Latin America) seems to be back in control.

#### IV. CONCLUSIONS AND POLICY IMPLICATIONS

**A**fter the Mexico peso crisis, and needing to shore up a policy that looked increasingly precarious, US officials were insistent in claiming — correctly — that the NAFTA was not the cause of Mexico’s problems. Indeed, the most striking feature was how strongly the United States hewed to the position that its hard-won policy consensus on democracy, free trade, and open markets was correct and needed to be continued. On both the political (democracy) and the economic (free trade, open markets) fronts, the United States stood by its policy, and not just with rhetoric (Garten, 1995; Watson, 1995). One major reason why the rhetoric was so strong was that the United States just could not conceive that any other agenda besides that based on democracy, free trade, and open markets could be correct or find public, congressional, or bureaucratic consensus.

However, by now it has become clear that earlier forecasts regarding the inevitable, progressive march toward democracy and open markets were overstated and oversold. The glass is both half full and half (or more) empty. The Mexican “model” is widely viewed in Washington and in Latin America as a failure, not to be followed

elsewhere. Expectations about Latin America's progress toward democracy and free markets need to be tempered and scaled back. It has since become apparent that the euphoria and enthusiastic rhetoric which accompanied the Miami Summit (in December 1994, less than two weeks before the Mexico crash) was too strong and too optimistic. At the same time, the post-peso crisis pessimism and depression that followed were also excessive.

Not only are more modest and realistic expectations required, but also new ways of thinking about, and conceptualizing, the issues. Latin America (and here it is important to distinguish between the countries) has made important progress toward democracy and economic growth, but has not yet finally achieved that goal. The United States does both Latin America and its own policy a disservice by exaggerating the claims made, for not only do such claims give rise to unrealistic expectations, but they also serve to lock in policy options in such a way that little allowance is made for nuance or flexibility.

The United States has a tendency to dichotomize the issues in either/or fashion: either authoritarianism or democracy, either mercantilism or free markets. However, it is only rarely that the realities of development and of Latin America are that clear or neat. Rather than resorting to either/or propositions, the United States needs to recognize that various intermediary positions can exist along a continuum, located somewhere between authoritarianism and democracy and/or somewhere between mercantilism and open markets. Moreover, the United States needs to be prepared to accept that some nations will never bridge these transitions completely; indeed, not only can many not realistically do so, but many may not even want to emulate the US model of democratic capitalism. There needs to be an acknowledgment that a variety of patterns, of the "half-way house" or "crazy-quilt" model, may exist, patterns which Latin America has a certain genius for improvising.

My sense is that US policy often does manage to accommodate such less-than-complete transitions quite realistically, as demonstrated by its acceptance of something less than full democracy in Mexico, Haiti, the Dominican Republic, or even Peru. However, this frequently occurs only after major internal, if not intense, ideological battles, which are accompanied by recriminations, bitterness, and division. Hence, it would be useful (though perhaps hard to explain to the public and the Congress) to develop a new nomenclature to describe these various half-way houses (partial democracy, controlled democracy, delegative democracy, etc. in the political realm; degrees of statism in

the economic realm) to differentiate among the variety of points along the spectrum. Not only would these new categories be more reflective of Latin American realities, but they would also help the United States to avoid becoming trapped in a policy straightjacket, with all the conflict and recriminations that now, in the absence of such categories, accompany almost every policy debate on Latin America. Realism is always a useful ingredient in a US foreign policy that is often dominated by emotionalism and Wilsonian idealism. Having such a set of categories at its disposal would not only enable the United States to render a more accurate assessment of the possibilities open to it in dealing with Latin America, but it would also provide the means and the criteria by which the region could be nudged toward new, more democratic, levels.

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