CHALLENGES FOR LATIN AMERICAN STATES AT THE TURN OF THE NEW MILLENNIUM

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Abstract

The last decades of the 20th century have seen the institutions of governance in Latin American countries affected by small macroeconomic achievements and reduced economic growth, and the development of an extremely fragile democracy. The implanting of the new model of neoliberal state consolidation has come at high cost, and has not produced either the expected strengthening in the political, economic and social spheres, or the expected gains in efficiency, equity and freedom. This so-called economic liberalization has generated institutional instability in the structure and functions of the state, limiting the reaches of democracy and legality, and ensuring that the effects of the associated managerial orientation which has transformed public administration are largely negative. Looking forward into the 21st century, a pessimistic prediction is that these tendencies will continue, producing similar unstable mixes of democratic populism and oligarchic pragmatism. More optimistically, the Latin American states may come to see that genuine social development is necessary for sustained economic growth, and introduce policies to achieve that outcome.

Introduction

Simon Bolivar's early 19th century dream of forming a great nation uniting all Ibero-Americans was the first great Latin American utopian vision. The wave of democracy it produced loaded Latin America with the hope of making one part of the dream a reality. However recurring economic crises have thwarted that hope; over two centuries they have hindered the development of the Latin American people and deepened the inequalities and iniquities they suffer.

In the last two decades, Latin America has been passing through a period of multiple transition that affects alike economic, political, social and cultural institutions, all of which are internalizing social costs and the costs of charity, and the values they represent. Decades of external influence in a variety of forms have weakened the institutions associated with the model of the "interventionist state". The outcome has been the conversion of modern institutions into islands that turn out to be inefficient, in part because they are distanced from the society they are supposed to serve and the character and values of that society.

The public enterprise tradition

Two points need to be made immediately about the areas which are of primary concern to this symposium. First, there has been a long public enterprise tradition in Latin America. And second, the nearly world-wide privatization movement has certainly made itself felt in most countries in the region. While the public enterprises have been among the principal targets of the wielders of external influence, it has to be conceded that at least one of the Latin American states needed little persuading to join this movement---indeed, the relevant international literature often points out that the initiatives of the dictator Pinochet in Chile actually preceded those of the Thatcher government in Britain.

In a fairly recent general survey of the pre-privatization public enterprise experience in Latin America, Hopkins records that, viewed across the region, public enterprises have done practically everything---they have been involved, frequently in commanding positions, in every area of economic activity. Mostly they have taken one or other of the two major forms of corporate organization, the autonomous public corporation or the government-owned company. Moreover, while Hopkins found it difficult to make generalizations about them, he indicated that many operated with a high degree of autonomy, their managers behaving in most respects like private enterprise managers. Moreover and significantly, "with some exceptions, there is little evidence that state-owned enterprises have been subsidy-supported parasites. On the contrary, many public enterprises have been extraordinarily productive and successful operations and have functioned as dynamic forces in the development process". So, he asked, why sell them off? His answer: he had reason to believe that "some of the movement for privatization was driven politically and ideologically, with minimal analysis of the actual advantages and disadvantages or the costs and benefits", and that, "in several instances, public enterprises were privatized at unrealistic 'bargain basement' prices". Writing in 1996, Hopkins expressed doubts about the outcome of the selling frenzy: "It remains to be seen whether the widespread privatization of state enterprises in Latin America will lead to the economic growth that has been predicted" (Hopkins, 1996: pp 87, 89, 91, 102; see also Hopkins, 1991).

The history and condition of Latin American public enterprise has attracted many other scholars, and attention is drawn here to the works of just a few: Boneo, 1983; Cleaves & Scurrah, 1980; Colburn, 1990; Escobar, 1982; Larraín & Selowski, 1991; Saravia, 1987; Saulniers, 1984 and 1985; Trebat, 1983. The autonomy of the enterprise managements has been a recurring theme. It was noted by Hopkins and is often connected to notions of cronyism through presidential control of appointments to corporate boards, though it may serve other important purposes. Thus Seidman wrote, at a time when the United Nations was just beginning to note the important role of public enterprises in economic development, that

> The theory of the autonomous corporation was seized upon in Peurto Rico and many Latin American countries as a method for solving a number of practical financial and budgetary problems. The fiction that public enterprises were somehow extragovernmental provided a convenient device for avoiding statutory or constitutional limitations on the government's borrowing authority and restrictive budget laws requiring that revenues and expenditures be balanced in any given fiscal year. In addition, public corporations engaged in revenue-producing enterprises often had a better credit standing than the government itself and could more readily borrow funds from foreign sources at reasonable rates. In return, lenders generally insisted as a

condition of the loan that the corporation be given a high degree of autonomy so as to protect it against "political" interference and any diversion of corporate funds (Seidman, 1954: p.184).

Sometimes profligacy resulted and the activities of the public corporations led to dramatic increases in public debt; also, by Western standards, there may often have been insufficient accountability. But there were also significant achievements: thus a study of the Nicaraguan situation published with the Hopkins survey noted above points to an innovative, society-centred and participatory approach to public enterprise by the Sandanista regime in that country which had some impressive results and deserves further study as we contemplate the future, but which was thwarted by US President Reagan's determination to destroy the Sandinistas (Riposa, 1996).

Through the early 1990s, Ahmed Galal of the World Bank coordinated a project to undertake case studies of privatising action in four countries, and several significant publications resulted (Galal & Shirley, 1994; Galal *et al,* 1994). Mexico and Chile were among the countries studied, and close attention was given to three privatised enterprises in each of them. For Mexico, divestiture was seen here as an instrument to promote stability. But for Chile, the study highlighted the political agenda involved, for the enterprises sold by the Pinochet regime were judged to be efficient *in public ownership* and already operating in well-regulated markets. Generally the case studies demonstrated the great difficulty in measuring outcomes of the public-to-private ownership change: while suggesting that the outcomes were probably beneficial overall to the countries concerned, they highlighted the problem that there were significant losers among the various stakeholder groups.

Some economic indicators of the scale of the privatising movement in Latin America will be given later in this article, along with comment on its social effects.

The neo-liberal transition

The traditional Latin American state was a beneficent state, seeking to offer protection to its people by designing successive answers to problems arising from the changing requirements of the international capitalist environment. The external hegemonic capitalist interests were powerful in influencing the strategies and policies of development of the Latin American states; these influences were defined in a model of industrial import substitution financed by private investments and public indebtedness, with the local state making much use of the public sector to play its part. The public enterprises thrived in this model of the Latin American state based on political populism, economic commercialism and a dual society formed by the dominant Conquistadores (the Conquerors and their descendents) and the indigenous people, displaced from their land, poor and without possibility of participating in government and economic development. Towards the end of the 20th century, however, this state model was evidencing its exhaustion, its weakness marked by excessive bureaucratization, corruption and inefficiency of the administrative apparatus, deficit budgets and macroeconomic instability. In particular, the subordinate part played by the Latin American state in the emerging globalization processes was producing brutal external indebtedness.

Latin America was subordinated consciously to the politics of the Washington Consensus, to the processes of economic integration and the opening-up of markets under the pressure of foreign debt. Under the ideology of neoliberalism, this Consensus prescribes commercial and financial liberalization, the privatization of public enterprises, balanced budgets, floating exchange rates, etc., all as an assumed base for economic growth. The neoliberal model constrains the state to a new function of facilitating the competitiveness of national economies within the processes of economic globalization. In this context, the economies of the Latin American countries are being integrated, not with each other (which would be a South-South solution), but rather---and with high intensity---with the economic and financial system of the United States of America (being a North-South solution). This integration is of course not on favourable terms for the South.

It is not only economic globalization that is at work, for issues of regional security also reduce the capacity of the Latin American state. Until recently, the traditional interests of the United States in the continent were conceived as much in terms of military security and political solidarity as of economic benefit. When the Latin American countries join with the United States, it is mainly because they share specific and concrete interests with the US, rather than starting from a general supposition about the needs of the whole Pan-American region, or from a natural convergence of interests (Lowenthal, 1999).

Within Latin America, the pernicious effects of adopting neoliberal policy regimes have included constraining the activities of trade unions, generating labour insecurity because of more flexible but also more insecure forms of work and remuneration, and reducing the general sense of the workforce well-being. The enormous reserve of unskilled manpower, previously considered an asset, is now largely unemployed because of lack of opportunity to acquire technological knowledge. Those with access to such knowledge will survive, but those excluded go into deeper misery. In the processes of globalization, the great majority of Latin Americans have simply become consumers and are now manifesting their dissent from having been excluded from the benefits of development. Social cohesion has suffered greatly from this exclusion.

The effect is worsened when an interventionist state acts as substitute for the market when it is unable to complete its function. This happened often enough under the old system, when public enterprises not infrequently emerged as outcomes of missions to rescue failing private firms to the detriment of the public exchequer. Here not much has changed, despite the new reverence for markets: bank rescues in Brazil, Mexico and Venezuela, for example, have simply privatized the utilities and socialized the losses.

In Latin America and the Caribbean in the last two decades, the economic reformation in favour of the market has increased the economic and social levels of inequality to the extent that the region now demonstrates the biggest income disparity of all the world's regions. The statistics are staggering: for example, the richest 20% of the population holds 52.9% of the income earned, while the poorest 20% holds only 4.5% of that income---more than 40% of Latin Americans live on less than $US2 per day (Smith *et al* 2000); poverty now reaches 224 million people in Latin America and, between 1990 and 1998, 50 million who previously belonged to the middle class became poor (Galaz, 2000). In the Mexican case, while the generation of wealth increased over the last six years, the distribution of this wealth became more inequitable, with 10% of the richest households collecting 38% of the national income, and 10% of the poorest households getting just 1.5% of that income (INEGI, 2000). This excess of poverty is caused not only by the high inequality in resource distribution but also by the low rate of growth experienced by most Latin American countries during the 1980s and 1990s (Attanasio & Székely, 1999: p.317).

Institutional modifications which have accompanied this transition have been designed by the local elite; the modifications have affected both the forms and the processes of government. In particular, the forms of democratic governance, designed to bolster the legitimacy of governments and to reinforce the new development model, have been determined by rulers and intellectuals. As Camou (1998) has pointed out, the reforms of the last two decades have been like a "problematic and multifaceted fork" going in several directions and involving a social and cultural transition, an economic transition and a political transition. While the socio-cultural transition has seen a transformation from a model of developmental modernization to a model of global modernization, there has been uncertainty in the whole transition processes because the available institutions lack the capacity to assimilate the effects of the changes and promote economic, social and political stability.

The economic model implanted in Latin America since the 1980s, based on the free market, has left debits in social development and economic growth because, as already noted, it increases levels of underemployment and unemployment and puts more people below the poverty line. The economic dependence of Latin America and the Caribbean on the United States and other developed countries has been heightened during this era of globalization. As the following two sections indicate, this basic late 20th century condition has been influenced both by the strong hold of the system of presidential patrimonialism in Latin American governance and by economic crisis in which the issue of foreign debt has played a dominant part.

The Latin American "presidentialismo patrimonialista"

Presidential patrimonialism has taken root in the political constitutions of Latin American as a cultural adaptation of the American presidential system. In this presidentialism, the executive power assumes meta-constitutional abilities and the power of governing by decree. This is the dominant constitutional form, with extensions in democratic participation usually subordinate to it. However there are variations according to the number of political parties operating effectively in a particular country. Argentina, Uruguay and Venezuela are moving toward a bigger number of parties. Chile has many competing parties, while Colombia and Costa Rica feature just two strong parties. Mexican government was the expression of a single dominant party that stayed in power for 71 years thanks to a strong degree of presidentialism, though finally in 2000 it was displaced by an opposing party. But whether that signifies the end of presidentialism is a moot point.

Independent elections to determine the shape of the executive and legislative branches of government create coordination problems for an authoritarian president accustomed to formulating and implementing public policies. Traditionally political and social relationships have been designed to concentrate all the economic and political power around the president. The high discretionary power of this executive president makes it very difficult to produce an accommodation between the processes of economic liberalization and the wider political legitimacy that comes from increasing democratization. It is strange indeed that divided governments exist at all in Latin America, as in the recent case of Mexico where the president now confronts the legislature. The case of Chile demonstrates continuing legislative weakness: there the president has the power of proposing the budget, and the Congress has no ability to modify taxes and expenses. There is no capacity to deal with situations where the political interests diverge and the president's party doesn't maintain a legislative majority.

For long periods military or civic dictatorships governed most Latin American national societies. Such authoritarian regimes have lacked vision, and under them the achievements in the areas of economic growth and social development have been very questionable. This was one of the causes of serious economic crises. It is most unfortunate that, when the presidents have lost effectiveness, the presidential system itself has prolonged the crises because of its inability to adapt. This has been the case in Brazil, Mexico and Peru, while in Argentina and Bolivia presidents have virtually given up in similar situations. In turn, the economic crises, along with the system itself, have weakened the capacities of the political parties and of the unions to take any leadership role in reconstruction.

Presidential patrimonialism has the further effect of confusing the distinction between private goods and public goods, here too putting dominant power in the hands of those who hold the political and bureaucratic reins in the states of Latin America. This patrimonialism manifests itself in diverse ways: employmentism, favouritism, nepotism and the like, described variously as, for example, "coronelismo" in Brazil and "caudillismo" in Mexico (1).

Economic crisis and foreign debt

The economic and financial crisis of the 1980s deepened the distributive problems and retarded the provision of goods and public services in most of the Latin American countries. The restructuring of foreign debt during the Mexican crisis of 1994-95 has been widely studied to aid understanding of the way in which financial markets, national governments and the multilateral institutions respond to issues of governance arising within an environment of highly mobile international capital. Mexico did not recover because its financial system was further weakened by the intervention of the International Monetary Fund (IMF). But it gained some benefit from the increase in exports to the United States as a result of the North American Free Trade Treaty and from the quick growth of the neighbouring US economy. This had been called the "tequila effect".

The general developing country debt crisis of the 1980s and the Mexican crisis of 1994-95 are the first financial crises really considered as global to have hit the economies of the emergent market. Both are considered to have their roots in the financial imbalances of the public sector, compared with later crises such as those of Asia, Russia, South Africa and Brazil which are seen to be rooted in private sector financial imbalance. The effects of financial crisis such as that which has battered the Mexican peso have been to increase the perversity of transnational capitalism. Argentina seemed to have averted the threat with a policy of strict monetary control based on convertibility of the currency in parity with the US dollar and a rigid fiscal reformation. Nonetheless, it has not been able to create a productive system that guarantees growth.

In the recent first summit of the group of 77 (G-77), which brings together 133 countries with low-functioning economies (notably the developing countries of Latin America, Africa and Asia), the leaders requested the transformation of international economic relationships so that they could be fairer and more equal (*La Jornada,* 2000). This was to be done by focusing on the possible benefits of globalization, and reforming the international financial system so that it is directed generally to supporting development and particularly to reducing the heavy load of foreign debt that consumes up to 40% of public expenditure in some countries. With a reduction in the servicing of the foreign debt of less developed countries, resources can be liberated that can then be dedicated to social betterment and productive investment.

Reforms of the state

The reformation of the state in Latin America has been driven by the recurrent fiscal crises, globalization of the markets and the related economic-financial liberalization, and democratic processes. The result is the establishment of a new "minimum state" model that restricts state power and limits state functions. But it is implemented without any clear vision of what power should remain with the state or of what activities should continue to be performed by public entities. The place of such entities in the reorientation of the public sector is thus highly problematic and the cause of much confusion.

In practice, the reformation of the Latin American state has embraced three phases. The first focused on adjustments to the balance of payments and macroeconomic reform, and the restructuring of incentives and relative prices. The second attacked the prevailing public sector arrangements and, as noted earlier in this article, involved the privatizing or contracting out of a great number of state activities considered to be capable of commercial operation in a market. The third comprised the long-term institutional adjustment needed to consolidate and maintain the others. This last reformation combined two approaches: first, a consensus that the government should only be involved in those areas where the private sector doesn't have a comparative advantage; and second, a selective expansion or invigoration of those government activities required to compensate for the decrease in provision of public goods, including basic services (Rowart 1999).

First generation reforms: structural adjustment and stabilization

The financial crisis of the Latin American states during the 1980s and 1990s, characterized by budget deficits, flexible monetary policies and galloping inflation, produced the interventions of the IMF. Its rescue plan demanded balanced budgets, requiring the Latin American states to clean up and stabilize their public finances by means of fiscal austerity, control of inflation, and rigid monetary and fiscal policies. Re-engineering of governmental processes, general downsizing, privatization of public enterprises and deregulation of economic activity were conditions of this IMF assistance.

Those familiar late 20th century features of aid-giving by international bodies---"structural adjustment" and "stabilization", involving re-negotiation and then payment of foreign debt, and provision of incentives for entrepreneurs---were also much in evidence. Taxes were increased, and economic policy was subjected to financial goals. The most indebted countries, Mexico and Brazil, accepted the conditions, seeing them as indicating ways of overcoming their crises. Driven by a military government, Chile was the first to act. Mexico followed, with the support of a hegemonic party.

Undoubtedly this so-called Washington Consensus brought benefits in the macroeconomic environment. Latin America has experienced reasonable economic growth, but it is not distributed equally, the growth clearly favouring the managerial class (Llorente 1999). The reformations are favouring the economic growth of modern productive sectors that have been linked to the dynamics of international trade. The economic growth is being generated by "new economy" industries linked to high technology, telecommunications and financial services and requiring labour flexibility and a high degree of training in relevant skills; "old economy" industries composed of traditional sectors like construction and transport, which employed so many relatively unskilled people, fall away.

Structural adjustment also created uncertainty in Latin American economic institutions, contributing to a financial crisis in the markets, deepening the levels of poverty, and bringing more inequality and social exclusion, making the conditions of life more precarious for large parts of the population and increasing the levels of social and institutional violence. The social cost of the application of these new policies was registered also in reduction of public expenditure on education, health, housing, etc. Notionally the changes were accompanied by compensatory social policies. But programs such as the Emergency Social Fund in Bolivia and the National Program of Solidarity (Pronasol) in Mexico were designed with dual and probably incompatible objectives---they were not only to combat poverty but also to affirm the program of structural adjustment and stability.

The old protective policy had ended, but there was no clear design of a substitute policy that would allow Latin American organizations to be inserted fully into the processes of globalization under conditions of genuine national competitiveness. The policies of structural adjustment have a political logic rather that economic rationality, for their benefits are so lop-sided. The argument that the state has to pay a high social cost to reach the required levels of economic efficiency, and that inequality is necessary to achieve capital accumulation and economic growth, is not completely valid. The programs of structural adjustment applied in Latin America simply did not give satisfactory results.

The capacity of the state to satisfy social demands has decreased substantially, and familiar economic, political and social structures have been swept away. The outcome is a social dualism characterized by a bad distribution of the wealth benefits: a minority has all the resources, while the majority lives in inferior circumstances near or below the poverty line. The international organisations that design and formulate these structural adjustment policies and the national rulers that implement them are insensitive to the true causes of the poverty and have a blind faith that market forces provide the true solution.

The countries which experienced the East Asian "economic miracle" of the 1970s, '80s and early '90s stood out against this trend. However the World Bank has itself reported that the "institutional conditions" which contributed to their economic success at that time "are lacking" in Latin America, where "active government involvement in the economy has usually gone astray" (World Bank 1993: 26). Clearly an effective state apparatus is necessarey to balance all relevant factors, but such a state has rarely emerged in Latin America.

Focusing on the Central American countries, North (1998: p.165) concludes that the implementation of structural adjustment policies, far from achieving its goals, has inclined the balance of power towards the private and military sectors and thus actually enhanced underdevelopment and political violence.

Second generation reforms: institutional reforms

These reforms sought to create the necessary state institutions for the new development model, with its base in the efficient operation of the private sector and the efficient assignment of private property rights. So new institutions were built and old ones reconstructed. The intention always was to strengthen the market through the reduction of state functions, including the privatization of public enterprises, and the improvement of the bureaucratic efficiency of what remained with the state---for which it was assumed that external recruiting was necessary for the provision of public services. Techniques and methods of private management were imported into public administration, seeking to optimize public expenditure and combat corruption, fraud and waste of public resources.

There was wide consensus throughout the region that public administration had to be reformed to deepen the political and economic changes taking place, and there were big rehabilitation efforts in most countries of the region. The bureaucratic public administration that was introduced, long after its similar introduction in Western European countries, sought to eradicate the bad habits of the previous presidentialist-patrimonialist system. But soon, in almost all the Latin American countries, it produced bureaucratic rigidity with diverse manifestations of the "buropathologies" well known to bureaucracy-watchers everywhere. There were both successes and failures, but generally the bureaucratic form of organisation reinforced patrimonialism and corruption.

Reformation of the career civil service to provide good incentives for public administrators was widely attempted. The Brazilian reform seeks to strengthen the strategic nucleus of the state by means of professional development of the public servant but, as in the case of President Menem's reform of the Argentinian career civil service system, it has not given the promised results. Chile may have done better, having adopted through the 1990s a number of New Public Management (NPM) techniques, such as strategic planning, output (or results-based) budgeting and performance evaluation of programs. It has achieved important advances, making more flexible the previously rigid authoritarian structures. Some of these techniques, such as performance evaluation and results-based budgeting, have spread to others such as Argentina, Colombia and Costa Rica. In keeping with these changes, a Public Administration Modernization Program began in Mexico in 1995, focused primarily on the up-grading and invigoration of administrative capacity, on the elimination of corruption, on decentralization of public functions, and on the reorganization of intergovernmental relationships inside the federal system.

As another illustration: beginning with Pinochet's Chile in 1980, several Latin American countries granted formal independence to their central banks. However it is very doubtful whether (especially in a still highly centralized presidentialist system such as that of Mexico) such autonomy can be effective.

Whether the pattern of this sweeping reform effort was well thought-out is very doubtful. It is clear, for example, that institutional and cultural traditions often have stronger influence on degrees of corruption than state policies, and for this reason anti-corruption programs like those of Mexican President De La Madrid (the "Moral Renovation") or the Mayor of La Paz in Bolivia have failed. In general terms, the results are not satisfactory because they are displayed as technocratic, and because they are not seen to take into account the economic, political, social and cultural conditions of the environment in which they are implemented.

So the Latin American countries enter a new century with a new organizational and managerial orientation designed to attend to problems posed by the changing environment of the globalization processes---such institutional reformation is intended to accompany and be compatible with the reformations of the market. Nonetheless, the institutional and political mechanisms needed to confront the big challenges of economic growth, social development and governance are still little developed, and much more work needs to be done before it can be said that they represent an effective conversion from the old system.

The state and society

Popular participation and political decentralization are relatively new in the context of Latin American governance. Informal as well as formal relationships need to be reformed. Thus, in the government of Fried Ruiz-Tagle in Chile, the demand to modernize the state under a more democratic constitution seeks to transform the administration from a culture of dealing with "subjects" to one of dealing with "citizens". As part of their program to professionalize the civil service, the Brazilian reforms seek to reorient that service towards a culture of assisting citizens. All this becomes possible when there is more emphasis on the relationship of the state with civil society. The public sector then implements processes of service quality and programs of civic participation, becoming sensitive to the demands, necessities and interests of the people.

Such efforts face multiple problems in a complex environment in which reformative action seeks to satisfy a mix of economic, political and social concerns. However it must now be conceded that the reform effort aimed not only at facilitating political processes that would guarantee efficiency and accountability in the processes of government, but also allow for democratic participation in those processes. Here decentralization was a prominent feature, introducing questions about the relationship between the design of an effective apparatus of public administration and its legitimization through wide popular acceptance.

Decentralization

Reflecting the new wisdom that the competitive advantage of nations now stems from clever and innovative use of knowledge, information and communication, and that this is an area where the central state has no monopoly, serious attempts are being made to disperse authority throughout the Latin American organizational world. This is in part a corrective to the developing view that excessive centralism was a leading cause of the economic crisis of the 1970s and 1980s. Moreover it has become understood that the monopoly of power and its discretionary use by leading politicians and officials are major sources of corrupt behaviour, so the reform program seeks to develop mechanisms not only for more responsibility, accountability and rendition of results to the people for the administration of public services, but also to ensure more readiness to establish associations with non-governmental organizations.

To this end, the practice of contracting out various functions of government to non-governmental service-providers, long known in Western countries but much expanded under NPM regimes, has made headway in Latin America. Thus Brazil has introduced a system of contracts for the provision of services between the government and other social organizations, bringing a third sector into play. Peru, Chile and Ecuador are others to have developed such contractual systems, but the Ecuadorian administrative reform based on contractual relationships is believed to have failed.

There is decentralization also within the public sector itself, representing a new version of the older system of “hiving off” of various activities to autonomous corporations. In Brazil, the administrative reformation of 1995 formalizes “executive agencies” to carry out certain public functions, and “social organizations” for scientific and social activities, both under contracts to the central state (Pimenta, 1994).

Other forms of decentralization are visualized, and to a degree practised, within a strong debate about “New Federalism” which began around 1995. Argentina, Brazil, Mexico and Venezuela have long seen themselves as federations, but their federal systems malfunctioned because of the need to maintain intact the sovereignty and integrity of the nascent independent republics that adopted this system---strong central power squeezed out any semblance of real power in the constituent federal states. Now there is some attempt to reverse that situation, and reposition significant public functions at the level of state and local governments.

The transfer of planning responsibilities, administration and assignment of central government resources to state and municipal governments has made important advances in countries where the federal system already existed, particularly Argentina and Brazil where the state governments have traditionally held significant power, but also in smaller measure in Mexico and Venezuela. Some decentralization to municipalities has also occurred in countries with unitary systems such as Chile, Bolivia, Colombia and some of the Central American republics. Transfers of this sort have occurred particularly in the fields of education and health, where the change has been towards both sub-national governments and private provision of services.

The transfer of these responsibilities has not been free from jurisdictional conflict, and there has therefore been pressure to design institutional arrangements to facilitate the regulation of intergovernmental relationships. Where central governments maintain sufficient control, they are able to distribute larger resources and services to areas where needs are greatest, but this has electoral consequences. Moreover, the capacity of state and municipal governments to administer the public services of education and health is frequently questioned, both because the lower orders of government have to pick up much of the financial responsibility, and because these services are subject to the cooptation of economic elites and local politicians whose power increases as they come to command access to significant resources.

Until to now, the results obtained by the processes of decentralization have not been convincing in terms of efficiency, quality, participation or equity. These processes have not taken advantage of the structures and relationship networks that have developed among the social and non-governmental organizations which offer potential for the self-management of resources for diverse ends. The possibility of harnessing such organizations, and so dramatically increasing the population's participation in the administration of social services and the self-administering capacities of towns, is an important issue to be taken into account in reconsidering the decentralization program.

Privatization

Latin America has embraced the idea of privatization with considerable enthusiasm. Indeed, Chile under Pinochet from 1974 and Argentina under military governments from 1976 to 1983 and under Menem from 1989 are sometimes acknowledged as world leaders, along with Margaret Thatcher's Britain, in the mass sell-off of public enterprises that has occurred in the last decades of the 20th century (see eg Glade, 1990; Andrieu, 1999). According to World Bank data (Notimex, 2000: 27), between 1990 and 1998 the countries of Latin America and the Caribbean earned income of $US154,225 million from transfers of productive enterprises from the state to private investors.

OECD data suggest that the process of privatization throughout the world had a value of $US145,000 million in 1999, 10% more than in 1998. That year the biggest privatizer in Latin America was Brazil, with a total of $US66,729 million. While privatization transactions around the world declined in the last years of the 20th century, they continued apace in Latin America and the Caribbean, which together captured 77% of the world privatization revenues in 1998 (Visco, 1999, 2000; OECD, 2000).

According to a World Bank study (reported in González Amador, 2000), Mexico was the second largest Latin American privatizer in the decade of the 1990s: in this period, the government transferred to private owners assets worth $US31,458 million, representing 20.4% of the total sale of public enterprise property in Latin America. The biggest year for sales was 1991, with total sales revenue of $US11,289 million; in 1998, the total was $US999 million. Mexico has further plans to privatize assets in airports, railroads, oil and electricity. These privatizations reduce the sphere of operation of the state and weaken government control over the entrepreneurial sector, in accordance with the logic of the free market.

A study by La Porta and López-de-Silanes (1997) showed that, in 1982, public enterprises produced 14% of Mexico's gross national product. They received net transfers and subsidies equal to 12.7% of GNP, and represented 38% of investment in fixed capital. By June 1992, the government had privatized 361 of around 1200 public enterprises. The previously noted World Bank report recorded that the revenue received by the government from these sales between 1990 and 1998 ($US154,225 million) was hardly less than the total external debt of Mexico ($US159,959 million) in 1998 (González Amador, 2000).

Latin America figured prominently in the initiation of one privatization mechanism that is not well known outside the developing countries---the debt-for-equity exchange system. The stimulus was the desire to reverse the massive international borrowing by these countries in the 1960s and 1970s and to alleviate the fiscal burden created by these debts which was threatening many developing countries with bankruptcy. World Bank estimates suggested that at least 60% of the overall external debt of Latin American countries was owed by public enterprises which, because of their adverse performance, were mostly unable to meet their obligations to repay (2). So the need to arrest this problem came to coincide with the international push to privatise, and local citizens (this was said to constitute Chile's "unique popular capitalism") and foreign firms alike were given opportunities to buy up public enterprise debt and so acquire equity in those enterprises. Much privatising in Argentina, Costa Rica, Mexico, Brazil and Jamaica (also, outside the Americas, the Philippines) proceeded in this way (Basile, 1990; see also Milman & Lundstedt, 1994).

The most obvious general result of the Latin American privatizations has been a reduction in the size of the state and a decrease in its involvement in the economy, which are seen as important gains by all those with neoliberal sentiments. Whether they have been of benefit for the people of these countries is, however, very doubtful---although of course their defenders try to demonstrate the opposite. Thus, according to data of the Mexican privatizer Salinas Gortari (1999), they have opened a budget space to finance social expenditure without needing to create or enlarge a fiscal deficit. One effect in the Mexican case has been to increase production by 54.3% despite a significant reduction in investment; but another has been to cut the number of people in employment by 50%. An earlier study which analyzes the performance after privatization of twelve enterprises in different countries including Mexico (Galal *et al* ,1994) shows that there was a 26% increment in enterprise earnings in eleven cases, but an increment in benefits to the workers in only three cases.

Some measures of economic, social and political malfunctioning

The globalization processes surprised Latin American countries because they didn't have the political-economic mechanisms and the necessary institutions to assimilate its effects in such a way as to achieve social justice in the distribution of the wealth that was created. The challenges posed for Latin America by globalization require a further revision of the romantic utopias that came first with the Bolivarian independence of the early 1800s and subsequently with several popular revolutions in various parts of the region.

Whatever its benefits, globalization clearly has perverse effects. The 100 biggest transnational companies now control 70% of world trade, although a significant relationship does not exist between the growth of world trade and world gross product. The volume of the financial economy is 50 times more than that of the real economy. Most significantly for present purposes, the market value of the 1000 biggest companies ($US23,942,986 million) is equivalent to 11.8 times the gross internal product of all the Latin American countries, and the market value of General Electric alone ($US520,250 million) is equivalent to the gross internal product of Mexico. Any one of the 23 most powerful multinationals has superior sales to what Mexico exports. Again, the value of 9,240 commercial coalitions and acquisitions throughout the world in 1999 reached $US2,963,000 million, compared with the annual gross internal product of all the countries of Latin America and the Caribbean calculated by the World Bank to be $US1,769,000 million (3).

A brief survey by Lazcano (2000) of the impact of globalization on the pattern of development in Latin American countries identifies several other outcomes:

* economic dependence on the exterior, particularly the United States and the European Union, has deepened;
* financial crises, devaluations and bank rescues have concentrated the wealth in less than 10% of the population;
* economic growth has slowed, productive plant has been destroyed, and underemployment and unemployment have increased;
* the northwards flow of Mexican (and other Latin American) workers (ie to the United States) has increased;
* privileges have been granted to foreign capital in relation to the financial system and the servicing of the external and internal debt;
* economic integration has been towards the outside, with economic disintegration internally;
* the possibility of a sustainable development pattern and the range of options in economic policy-making has been reduced.

In all these ways the social fabric of Latin American countries has been disrupted, the income of the general population reduced, local wealth transferred to the exterior, poverty levels expanded, and indigenous inhabitants excluded from the social pact.

Key challenges for the future?

The role of the state, and of the public sector which most directly supports and serves that role, is central to each of the three big challenges Latin America faces as it enters the new millennium. These challenges affect the economic, the social and the political spheres respectively, although of course there are many connections between them. The first is to achieve sustainable economic growth within the market economy; the second, to achieve fair and equal distribution of available income; and the third, to remove the obstacles that block development of state institutions that will allow a higher degree of democratic participation in governance.

Economic policy and social development

Sadly, it seems that the implementation of policies that reduce social inequalities enters into conflict with the logic of capital accumulation. Thus the privatization of public enterprises and the associated destruction of productive chains have together resulted in a growth of unemployment and an increase in numbers below the poverty line. The lack of appropriate employment opportunities is one of the main concerns of Latin Americans at the turn of the century (Duryea & Székely, 1998). Not enough employment is generated, and only a few individuals have access to well remunerated work.

The economic cycles of Latin America in the 1990s have allowed an average growth rate of 3.2% that has achieved little for the poorest sections of the population. The growth rate has slowed in the last few years, and this is likely to continue into the new century due to the pressures of globalization as described above. Financial crises continue, making it difficult to maintain macroeconomic stability. These negative results widen social dissatisfaction and lead to social protest demonstrating wide dissent against the newly adopted economic policies

The inability of governments to overcome such problems points to the lack of appropriate governance arrangements. In some areas, the rule of government is virtually absent, and chaotic situations have arisen marked by mass illegality and barbarism. Governance, in terms of the capacity of the state to solve the problems of society, is reduced to arrangements among different political-elite groups.

Poverty and inequality are of course not new in Latin America, and their earlier manifestations have been explained as the result of a pattern of Iberian colonization (Pinto & Di Fillipo, 1979). While this doesn't explain why the former colonies of the British, French and others in the Caribbean and Latin America also have much poverty, Yañez (2000) discerns an Iberian institutional plot that favoured the formation of economies with high transaction costs, ill-defined property rights and incomplete markets where inequality and exclusion are the norm. As former Spanish President Felipe González put it, the first challenge for the prevailing Latin American economic pattern is to put an end to poverty, whose continuing existence explodes the neoliberal economic model (Sosa Flores, 2000).

It is broadly acknowledged by academics and intellectuals that the Latin American social structure is a "pigmentocracy" whose peak is represented by the direct descendants of the Spanish aristocrats, of tall stature and clear skin, well educated and owners of the production factors of earth and capital. At its base are placed the direct descendants of the indigenous population, lower in stature and with dark skin. Between these two strata is the big band of mestizos or mixed-bloods. The Spanish settlers used military force and the powers of the state to assure their economic and political dominance over the lower-strata majorities (Chua, 1998: 17-18).

The persistence of this social stratification until the present time is one of the causes of social exclusion and it constitutes a serious problem for good governance: the dominant social stratum owns the major corporations and the main means of production. But the market is n:ot the source of its dominance, and so the new competitive atmosphere of globalization could be its tomb. Equally, marketization can open up opportunities for the disadvantaged groups that previously had no opportunity to participate actively in the economy.

Globalization certainly imposes pressures, but many of the sources of poverty are internal to Latin American society: lack of knowledge, education and science, lack of capital equipment of all types, lack of incentives for individual action (except for those in big government or big corporations), lack of institutions that protect people's lives and their property, generally absence of the "rule of law", and often predatory governments. Public policies are needed to address all these issues.

Latin American countries require with urgency and with anguish a new development paradigm, and it is most likely to come by means of alliances among public and private sectors. Positive government is essential, but the companies that have benefited from privatization must participate in full measure. This new paradigm should allow and measure increments in wealth that are not disassociated from measures of monetary growth, population growth and debt. The systems and practices that fail in the current hegemonic paradigm point the way to eventual change and the instituting of the new paradigm.

The low efficiency of public administration in the social arena in the last two decades must be overcome. While priority was given to macroeconomic reform, social expenditure did rise by almost 25%---but the return on that investment was very low, due to diverse factors such as corruption. Investment in human capital through attention to the education and health systems has provided only temporary relief because it has not been appropriately institutionalized: through Latin America the real expense per capita in education and health in 1995 hardly reached the levels of 1980, because there were no increments in the per capita income (Ocampo, 1998: p.34). The "welfare state" was never deeply entrenched in any Latin American country, and what little of it there was is being dismantled by the neoliberal economic model. Existing programs to combat poverty offer only a temporary palliative through the provision of social security nets: they are focused on the consequences of poverty and not its causes.

All this must be changed. The proposal of Attanasio and Székely (1999: p.361) for a dynamic attack on poverty involves abandoning the focus on the family income and its distribution. The focus must instead be on the access of the poor to property, on the better use of asset-generating revenues, and on the accumulation and use of those assets to generate income-earning production. These investigators argue convincingly that the process of human capital formation is decisive for the development of Latin America and for the elimination of its poverty.

Participation and democratic governance

The demand for democratic participation in Latin American countries is at the same time a demand for transparent public administration. In its attempt to move away from authoritarian government, it represents a search for a way of providing the new development model with a genuine social identity.

The monetarist and neoliberal economic policies which have driven the changes to the Latin American state over the last two decades hold the expectation that those changes will make it more efficient and more effective. They have certainly made it smaller and thinner; and the globalization processes they are associated with reduce its sovereignty. That is the external attack; it is also being attacked from within by the economic and political malfunctioning that results. The fact is that, despite the efforts to democratize, most of these states continue to be strongly centralized, their governments permeated by anti-democratic traditions and controlled by the political elites which perpetuate existing relationships and the socio-economic and regional inequalities (Schönwalder, 1997). In an atmosphere of neopatrimonial clienteles, these political elites benefit from the economic inefficiency. This situation is aided by the disconnection between the budgeting, planning and procurement systems which govern the application of financial resources---high levels of technocracy operate here---and evaluation of results; the latter already shows up many limitations and deficiencies, but the evaluation process is still in its infancy. All this must change too if there is to be genuine political and social reform.

There has been some reform of electoral processes. But more than that is needed in the new century: legitimacy of government requires that the reformers must enhance the democratic participation of citizens in the processes of government itself. They must be enabled to exercise their citizen rights, to inspect and criticize the public function, and to participate in the design of policies and programs affecting their communities. Norms of reciprocity between governments and citizens must be established, such as are envisaged in Putnam's (1993a, 1993b, 1995) nomination of institutions to develop social capital---nets of civic commitment---such as neighbourhood associations, cooperatives, sports clubs and mass political parties.

Even as their capacities to make these changes have been diminished by two decades of neoliberalism, Latin American governments are being required to alleviate the imbalances caused by the market, to deepen the processes of economic restructuring and to redefine property relationships (Adelman, 1998). The processes of transition to democracy have had some successes. Thus democratization of Latin American society recovered where it had been eliminated, as for example in Argentina, Brazil and Guatemala, and has been deepened where certain democratic manifestations already existed, as in Colombia, Costa Rica, Mexico, the Dominican Republic and Venezuela. However, the advance and consolidation of Latin American democracy will occur only when it is thoroughly thought through and implemented as a regional strategy of development.

One significant analysis (Cavarozzi, 1992) leads to the conclusion that the dominant theoretical perspective during this period saw the installation and consolidation of the institutions of political democracy as an isolated process separate from the main causes and effects of the transition that was taking place. This analysis suggests that what is now needed is to move consciousness of this political reform to central stage, so that the continuation of authoritarian management systems is reversed and a new womb of political-social and economic relationships constructed. The democratizing wave must not be allowed to be blunted by recurring economic crisis.

This will involve a recognition that the capacities of the state have been weakened to such a degree that the military are presently increasing their activities to provide emergency services, and that this tendency must be reversed before provision of the full range of assistance programs required for civil society can make headway (Franck, 1999). The military have been called in or they have themselves volunteered, importantly to control the explosive violence, but also to fill the vacuum left by the weakening of the traditional state. The economic elites must be brought to support instead the participatory democracy, which they too often perceive as a threat to their own interests.

The main challenge is to make the state responsible to the society, the social groups and the citizenry in general. The society will support a government that attends to its necessities, but it will oppose and even rebel if these necessities are not satisfied. The globalization processes that have weakened the Latin American state in their pursuit of modernization must be turned to support social development. They must understand that the political and civil conscience of those who suffer the effects of the application of regressive economic policies will seek to find refuge in the territorial base of democracy, and that these people need to be assisted to develop their own autonomy and promote actions of self-management (Almeyra, 1999).

Into the 21st century: The dilemma of governance in Latin America

The low level of governance in Latin America has its antecedents in the weaknesses of the economic, social, cultural and educational policies which existed despite the past strong presence of the authoritarian state and its governing institutions. Sadly, as we have seen, the new economic policies associated with the neoliberal transition of the late 20th century, which weakened that state, did nothing to remove these governance deficits.

What is now required is to develop a critical appreciation that the prevailing international economic system, which mortgages the future of big sections of the population, needs to change. Latin America cannot effect this change alone, but it can exert much more pressure on the levers which have designed and presently perpetuate that system if it now begins consciously to reform its governance along the lines indicated here. The centre of this debate on governance involves questioning the global economic pattern implemented in the last two decades that has given dominance to the market, and recognising the imperative need to correct the social imbalances it has generated.

Quality governance certainly favours economic growth, but it also demands sustained social development. Economic development needs to be seen as a step towards a higher level of life, to be taken in the smallest possible time and at the smallest possible cost. It is thus a means, not an end in itself. If it has any validity as a process, it must be accompanied by social development, which involves better distribution of income. More generally, it involves an increase in the good of mankind, facilitating constructive coexistence of each member of the population with every other member. Imperatives are participation in community activities and the mutual help that insists on the validity of law and the democratic way of life; to achieve these standards, the horizons of education and culture must be opened and enlarged (Servitje, 1999). In these terms, the results obtained in Latin America over the last 20 years must be seen as very disappointing, and they point clearly to what needs to be done to improve standards of governance in the future.

There are many governance weaknesses to be overcome. Why were public and private investments in Mexico in 1996 less than the annual levels of the 1970s and 1980s? A serious study of the Mexican case (Glen & Sumlinski, 1998; also Standard & Poor's, 1997) points to several main problems: official and private corruption, the traffic of influence, the corruption and inefficiency of judicial organs, the influence of drug cartels, deficiencies in internal security in the form of guerilla groups operating in rural areas, violence in the big cities. Another study (Brunetti *et al* ,1998a), based on a survey of private sector views of the governments of Central American states (including Mexico, Costa Rica and Jamaica), sought to evaluate the institutional quality of the various countries and located significant obstacles to business opportunity in the rate of crime and robbery, inadequate infrastructure, inflation, corruption and poor financing. All this points to a high degree of risk associated with a government's capacity to establish macroeconomic stability (cf Malvin, 1985; also Brunetti *et al,* 1998b). Removing sociopolitical uncertainty must be an important component of all efforts to reduce the burden of these existing problems, and central to that cause must be the strengthening of education and health programs and basic social services to support the reduction of poverty. Such policies are essential to modify the economic environment so that a diverse range of individuals will be able to take advantage of opportunities to behave entrepreneurially and contribute broadly to the combined objective of economic growth and social development.

Is the process of selling strategic public enterprises to the private sector likely to be reversed? In their privatization programs, Latin American governments have destroyed the assets of nations, gambling on an assumed prosperity expected to come from globalization processes. Now, it would seem, a better future rests in the possibility that the provision of social welfare and other essential collective goods for a stable democracy may come from state actors and institutions forging close and mutually constructive links with private actors whose cooperation will be essential if political stability is to be achieved and economic growth restored.

A non-partisan strategy will be required. It must be recognized that all will benefit from such privileged connections between the actors of the state and those of the private sector, and this will not happen unless and until there is developed and entrenched a theory and a policy that stresses the importance of a sense of community identity and yet is tolerant of differences among the diverse members of that community.

The paradox is that, contrary to the principles of neoliberalism that postulate the free market, democracy and individual freedom, the recent reformations of the Latin American state have been implemented under practices of authoritarian government. Also, the interventions that have taken place (such as those under the authoritarians Salinas in Mexico and Menem in Argentina, dictator Pinochet in Chile or the delegate democracy of Fujimori in Peru) have accentuated the practices of a strong presidentialism, cronyism, corporatism and populism. The delegate democracy is a perverse form of democratic governance, maintaining existing iniquities. In the Latin American states at the turn of the century, tendencies sprout toward a system of public administration characterized by an oligarchic pragmatism that still personalizes presidential power. However, the resurgence of populism is another present possibility in Latin America, as in the recent case of Venezuela.

The processes of economic liberalization do not bring the benefits expected in economic growth, distribution of wealth or depression of poverty, and the advance of the processes of democratization is slow. The results appear in the tensions and social and political conflicts which have such serious implications for governance. Moreover, in the resolution of the various conflicts, the Latin American states are losing efficiency and effectiveness because they have fewer resources, insufficient and inadequate means, and reduced autonomy for the formulation and implementation of policies.

The hope for the future is that the causes of this decline will be clearly recognised, and that governments will turn towards the strengthening of social development and social cohesion, which will then surely promote also the cause of economic growth. To do this, they will need to be far more selective in choosing which components of the globalizing process they wish to support; they will need to be stronger in standing against components which restrict their own developmental opportunities. A future in which these things happen may restore for Latin Americans the dream of a democratic Bolivarian utopia.

Notes

1. "Coronelismo" comes from the Portuguese version of the military rank of colonel. Most of the military officers on the winning side of the revolutionary wars in Latin America lacked formal military education; nonetheless, when they won, they held power over a region and controlled most of the political, social and economic activities within it, so that the lives of ordinary people depended on their decisions. "Caudillismo", from the Spanish word Caudillo, is a spontaneous political leader emerging from the aristocracy---mainly descendents of the Spanish or Portuguese conquerors---and rewarded with political power after the various Latin American wars of independence and revolutions. Both groups exercised authoritarian power and frequently abused ordinary people and their properties.

2. This finding needs to be read in the light of Hopkins's conclusions, summarized above.

3. Not surprisingly these relativities, being so unfavourable to Latin America, have attracted a large literature in that region. These comparisons drawn from eg Barros, 2000; Brito, 1999; Castillo & Romero, 1990; Contreras, 2000; Cason & Brooks, 2000; Daniels, 2000; Enriques Cabot, 2000; González Amador, 2000; Peón Solís, 1999; Rugman & Hodgetts, 1997: pp.44-45. See also EFTA, 1995.

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[Note: Unless otherwise stated, the newspapers, magazines, journals and reviews cited are Mexxican publications.]

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