

THE SOCIAL CHALLENGE TO DEMOCRACY IN LATIN AMERICA

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Since the nineties, Latin America has been making only a few appearances in the headlines. Its democratization and economic growth were indeed successful, but it is exactly this fact which masked the signs of defective sustainability. In many countries of the region, social disparity was not repaired – a problem that is still acute, threatening both democracy and social development in Latin America.

After the demise of the left and right-wing dictatorships of the seventies and eighties, the retreat of the state, privatization, and the influence of the Bretton Woods institutions came to the fore in Latin America. In Chile, for instance, the top dogs were the 'Chicago Boys', Chilean economic experts trained in the USA who followed the ideas of neo-liberal theorists like Milton Friedman. Pinochet wanted a new economic structure, so the privatization of state enterprises, the reform of the pension system, and the opening of the domestic market to foreign trade were put on the agenda.

The consequences were disastrous: in 1982, Chile's GDP slumped by 13.4 percent, while unemployment rose to 19.6 percent. The social progress that everyone had been hoping for failed to materialize in Chile as well as elsewhere on the continent. From 1999 to 2006, economic growth ranged between 1.5 and 4.2 percent, while the per-capita GDP rose from 3,877 to 4,384 US dollars. At the same time, the Gini coefficient which measures social inequality hardly changed at all, varying between 53.6 and 53.4 throughout the period from 1990 to 2005.

Poverty shows in many ways in Latin America's everyday life. Visitors from overseas cannot fail to note the endless shanty towns that extend right next to rich quarters, like parallel worlds whose inhabitants only come into contact with the privileged segments of the population through menial services, if at all. And this typifies the social situation in the region: the bulk of the economically active population works in the informal sectors, lacking protection and social security but paying no direct taxes, either. This class, which includes micro-entrepreneurs, has remained entirely unaffected by the blessings of previous reforms of the social insurance system.

And yet – in many countries of the region, the poor contribute more towards financing the polity by way of indirect taxation than the rich. In Brazil, for example, the poorest ten percent of the population spend nearly 33 percent of their income on taxes, while the richest pay no more than 23 percent. It is true that, according to CEPAL, the poverty ratio in the region declined

slightly between 1980 and 2007, going down from 40.5 to 35.1 percent. Yet even today, 190 million people have a disposable income of less than two US dollars a day, and 69 million have even less than one.

Next to the prevailing lack of jobs, this dilemma is caused by defects in public health care and by desolation in the education system. Investment in human capital is urgently needed. Among other things, the UN Millennium Declaration aims to secure primary schooling for all children worldwide by 2015. It is true that the literacy rate has risen by three to 98.5 percent since 1990, but this is hardly any reason for euphoria, especially considering the length of the period.

Education quality differs widely across Latin America. While the probability of obtaining a school-leaving certificate in Chile is 98.3 percent, it is 92.6 percent in Brazil and 58.3 percent in Guatemala. In the early nineties, unemployment among young adults was seven percent; today, it is 16 percent. Brazil has been approaching relatively closely to the goal of cutting extreme poverty in half. In less developed countries, on the other hand, poverty rates may still be as high as 50 percent. Moreover, the inability to satisfy essential needs is a more serious matter in countries like Bolivia, Guatemala, and Honduras where the proportion of extremely poor people is higher than in others with a lower extreme poverty rate, such as Chile, Costa Rica, or Uruguay.

There can be no doubt that there has been a change of elites in Latin America, although not in all countries. When Evo Morales was elected in Bolivia, numerous government jobs were given to citizens of indigenous origin. Similar things have been happening in Mexico, Ecuador, Venezuela, and Paraguay. One of the problems confronting these 'new elite functionaries' is that it is out of the question to re-start an entire administrative machine after dismissing the entire body of experts employed by the previous government. In Bolivia, decision-making hierarchies have changed drastically. Running counter to the policy pursued so far, rigorous taxation as well as the nationalization of the country's natural resources, its infrastructure, and its agricultural sector are supposed to secure greater revenues for the new 'productive state'.

Shifts in the economic elites tended to be rather more pragmatic. The concept of entrepreneurial social responsibility is being bandied about increasingly, following the western trend towards corporate social responsibility. However, this responsibility is often confined to purely charitable measures or sponsoring cultural events, while urgent reforms are being blockaded or ignored.

Extensive suburban slums and irregular quarters called *barrios* or *favelas* stand out in almost all major Latin American cities, indicating the absence of the state. Many city maps do not show these quarters at all, and thousands of inhabitants go unregistered. Basic municipal services are not provided – power supply, refuse collection, police protection, medical or legal care. In such a vacuum, other powers such as drug cartels usurp the role of the state. People are paying 'alternative taxes': they keep silent and quiet in the face of everyday violence, not least in the form of brutal police assaults that additionally harm the reputation of the quarter they are living in. Given such a climate, it is not surprising that the inhabitants of the suburbs should think little of their right to vote which serves to safeguard a democracy of which only the rich can benefit.

A number of governmental social programmes instituted under the heading of conditional cash transfers have not only brought rapid success but also given rise to hopes for positive long-range effects. They include the 'Bolsa Familia' programme mounted by the Brazilian government which provides for transfer payments of between 18 and 112 reals per child and month as well as for extra payments for the poorest of the poor. In 2006, 11.1 million families were registered which received a total of 8.2 million reals, about 0.4 per cent of the GDP. To receive income support, families have to furnish evidence that their children regularly attend school and present a vaccination schedule. Working along similar lines in Mexico, 'Oportunidades' reaches five million households. In Chile, there is 'Chile Solidario' whose beneficiaries include 225000 families. At the same time, 'Bolsa Familia', for one, is being criticized because it might reduce the motivation to search for an independent income and because it is hardly enough to pave the way to sustainable independence beyond poverty for its beneficiaries, which would mean creating new jobs. On the other hand, the programme is praised for its potential positive effect on the labour market because its transfer payments are tantamount to a microcredit for microentrepreneurs. It is beyond doubt that all the programmes named above have already contributed towards poverty mitigation, and 'Bolsa Familia' has even become an export bestseller.

Now that the days of economic liberalism are over in Latin America, government-centred thinking associated with leftwing populism appears to be on the advance. Disappointment with democracy is rife particularly among those citizens with a secondary-school certificate who failed to make the social grade. Populists who criticize neo-liberalism and globalization and launch rhetorical attacks on the USA are still being listened to, not only in Venezuela and Bolivia. However, it is also becoming evident that what Mr Chavez and Mr Morales are doing cannot solve the social problems of the Latin American countries. A large proportion of the funds invested simply drain away because checks and balances are lacking, or else it reaches only the fellow-

travellers of the current leaders because distribution strategies are paternalistic.

All this does not nothing to stabilize democratic structures. Not only does the Bertelsmann Transformation Index show disillusioning performance figures for countries where socialist theories rule, enthusiasm for the once-celebrated alternative state is declining in general. Poverty indicators have gone to the bad in Bolivia, and perceived corruption is growing there as well as in Venezuela according to Transparency International. The governments of both countries are getting ever deeper into a crisis of legitimacy.

All democratic players, certainly including those in Europe and the Federal Republic, now have an opportunity to formulate a long-range policy to help solve the social problems of the Latin American countries and strengthen their democracy at the same time. It would make sense to establish an international dialogue on the principles of social market economy, promote social and tax reforms, actively support the education sector, contribute towards reducing the informal sector, and assist in enhancing domestic security. Conditions now are favourable: the citizens of Latin America are becoming increasingly aware that economic growth alone is as incapable of safeguarding social development as the policies pursued by the two populists, Mr Chavez and Mr Morales.

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