Economic failure, stagnation, social unrest

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By Mark Weisbrot

The winds of political and economic change are reaching severe storm levels in Latin America, and it's not difficult to see why: The region has suffered a 25-year economic failure, unprecedented in its modern history.

At a recent conference in Bogota, José Serra -- the mayor of Brazil's mega-city of Sao Paulo -- argued that "the Washington Consensus" had failed in Latin America, and that a new economic model needed to be created.

Serra served as health minister in the previous (centrist) Brazilian government and is currently polling close to President Luiz Inácio Lula da Silva for the 2006 election. He pointed out that Brazil in the 1960s and '70s had one of the fastest-growing economies in the world. Since 1980, Brazil's income per person has grown by less than one-half percent annually.

Serra is right. Brazil would have European living standards today if its economy had continued to grow as it did prior to 1980. The story is similar for Mexico, which doubled its income per person from 1960 to 1980 but has seen lackluster growth since then.

For the region as a whole, growth in GDP (or income) per person -- the most basic measure of economic success or failure -- was about 80 percent from 1960 to 1979, but only 11 percent for the 1980-1999 period and a mere 3 percent for 2000-2004.

Higher interest rates

There is no way to hide a collapse like this. A generation and a half has lost out on a chance to improve their living standards. The failure occurred during a period in which Latin American governments adopted a number of economic reforms that were supposed to promote economic growth**.** These reforms were strongly advocated by the United States, as well as Washington-dominated institutions such as the IMF and World Bank, sometimes with considerable economic and political pressure.

Trade was liberalized, and average tariffs cut by half since the '70s. Restrictions on international investment flows were abolished or drastically reduced in most countries. In the 1990s alone, more than $178 billion of state-owned industries were privatized -- more than 20 times the value of privatization in Russia after the collapse of the Soviet Union.

Governments also adopted higher interest rates and tighter fiscal policies. The short-term interest rate set by Brazil's central bank is currently at 19.5 percent, as compared with 3.75 percent in the United States. The resulting long-term failure has produced a popular and electoral backlash against the reforms, which are often labeled "neoliberalism" in Latin America.

In the last seven years, left-populist candidates running against "neoliberal" policies have taken the presidency in Argentina, Brazil, Ecuador, Uruguay and Venezuela. Bolivia is possibly next. And in Mexico, former Mexico City Mayor Andrés Manuel López Obrador of the left opposition Democratic Revolutionary Party, who has denounced "25 years of economic failure" in Mexico, is in the lead for next year's presidential election.

The electoral revolt has already produced some positive results. Argentina, after engaging in the largest sovereign debt default ever, rejected the IMF's economic prescriptions, took a hard line with foreign creditors, and -- without any outside assistance -- has grown by about 9 percent annually for the last two and a half years.

Venezuela's government has kept its promise to share the country's oil wealth with its poor majority, providing free healthcare, subsidized food and much improved access to education and literacy programs.

For its part, Washington has yet to accept the new reality. Given the importance of Florida-based Cuban Americans in our national elections, it is politically more convenient here to blame Venezuelan President Hugo Chávez -- or even Fidel Castro -- for the growing political and social unrest in the region. But these revolts are very much home-grown and the predictable result of a prolonged, failed economic experiment.

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