EDITOR'S FOREWORD

The last two decades of the twentieth century have been paradoxical for Latin America and the Caribbean. From a macroeconomic perspective, the region has made a remarkable recovery from the near collapse of the debt crisis in 1982. That financial meltdown decisively ended Latin America's half-century of state-led import-substitution industrialization. The region's subsequent shift toward export development, open economies, and reduced state intervention proved to be slow and painful. The 1980s were a "lost decade" economically in which capital flows were negative, growth stagnated, per capita incomes fell, and poverty grew. But in spite of these costs, the pace of economic reform quickened rather than lessened in most of Latin America. Given its bankruptcy, the region had no other options.

The 1982 crisis also terminated the sequence of political regimes associated with state-led development. These experiments had begun with military populism, introduced by Getúlio Vargas in Brazil and Juan Domingo Perón in Argentina, echoed by Marcos Pérez Jiménez in Venezuela, Manuel Odría in Peru, Gustavo Rojas Pinilla in Colombia, and Fulgencio Batista in Cuba, and imitated by lesser figures in other countries. Such populist regimes collapsed in the 1950s, leading to a long and indecisive struggle between the followers of revolutionary Marxism, inspired by the 1959 Cuban Revolution, and those who attempted to establish democratic regimes amid increasingly polarized societies and unstable economies. The final phase of state-led development in Latin America arrived in the 1970s with the imposition of bureaucratic-authoritarian military regimes. They attempted to eliminate the threat of revolution, depoliticize politics, and reestablish capitalist economic growth by military fiat—all at a high cost in human rights.

The bureaucratic-authoritarian juntas succeeded in eliminating guerrillas, but their efforts at political demobilization backfired, generating opposition rather than reducing it. Their efforts to restore economic growth were a resounding failure. Lacking internal checks on their excesses, the military regimes of the 1970s contracted huge loans that fueled unprecedented levels of inefficiency and corruption. This outcome led not only to the economic bankruptcy of Latin America but also to the final collapse of state-led development.

The political agenda of Latin America in the remainder of the 1980s became restoring democracy and redefining the state. Warnings about the fragility of the new democracies were rife: "The new democracies of Latin America are far from robust. They are threatened by the region's crushing economic crisis . . . , the weakness of political institutions . . . , and the danger of military intervention."[1] Yet the new democracies survived even these adverse circumstances, for reasons analogous to the causes of the new economic policies. After the political bankruptcy of the other regimes that Latin America had experienced, no viable alternatives remained except democracy.

Thus Latin America in the 1980s was characterized by economic and political restructuring. An element common to both processes was the shrinking, or *achicamiento*, of the state, accompanied by what might be termed "a revolution of declining expectations" about what the state could provide the citizenry. The elements common to both the economic and political restructuring of Latin America were probably outweighed, however, by symbolic differences. Economic adjustment was painful and depressing. In contrast, the new democracies and their civil liberties represented a source of civic celebration and international recognition.

The 1990s have been a far different decade for Latin America. Although not obvious in the early years of the decade, it is now apparent that Latin America is experiencing an economic turnaround of historic dimensions, which may be the first phase of a period of unprecedented economic growth. Yet widespread doubts persist about the ability of Latin America's public institutions to cope with the consequences of growth.

The demographic transition underway in Latin America is particularly noteworthy. Latin American growth was hampered for decades by high total fertility ratios (TFRs), the number of children born to the average woman. A TFR of 2.1 will maintain a stable population, whereas in 1965–1970, Latin America had a TFR of 5.6. This prodigious rate led to an extremely high child dependency ratio of 79 percent in 1970 (79 children under 15 years of age for every 100 economically active adults between the ages of 15 and 65). This imbalance diverted resources from other investments in attempting to provide for the welfare of a vast population of children.

Total fertility ratios in Latin America have been plummeting. For the years 1985–1990, the average TFR dropped to 3.4 and is projected to

1. *The Americas in 1988, a Time for Choices: A Report of the Inter-American Dialogue* (Boston, Mass: University Press of America, 1988), 75.

fall to 2.5 percent in 2005–2010. As a result, the child dependency ratio fell to 61 percent in 1990 and should fall to 43 percent in 2010 and to 34 percent in 2030. Because elderly dependency ratios in Latin America are very low (8 percent in 1990) and will rise significantly only after 2030, Latin America can anticipate a thirty-year window of falling dependency ratios and slowed population growth.[2] This window of opportunity will require less investment in coping with the population explosion and allow more funding of strategic growth-enhancing activities, such as improving the quality of education rather than constructing new schools.

Capital inflows have been expanding at the same time that population growth has been falling. Between 1982 and 1990, Latin America was a net exporter of capital to the developed world as it struggled with debt, transferring $221.5 billion more to the rest of the world than it received in net capital inflows.[3] But in the 1990s, resources have flowed into Latin America. Net foreign investment in Latin America has grown from $10.7 billion in 1991 to $23.6 billion in 1994 to $44.7 billion in 1997. Capital flows from international bond issues to Latin America rose from $7.2 billion in 1991 to $18.1 billion in 1994 to $53.5 billion in the first ten months of 1997. Thus capital flows to Latin America, not including foreign equity investment in stock markets, have grown from $18 billion in 1991 to a probable $100 billion in 1997, over a span of only six years. Moreover, the external debt burden of Latin America has been considerably reduced and is now similar to the pre-debt crisis levels of the 1970s. If access to capital is a precursor of economic growth, Latin America is well situated.[4]

Trade figures are equally impressive for Latin America. Intra-zonal exports in the various free-trade areas of Latin America and the Caribbean tripled from $16.2 billion in 1991 to $45.5 billion in 1996. Total exports from the same countries doubled from $120.7 billion in 1990 to $246.1 billion in 1996.[5]

Another interesting figure is the relatively small size of the government sector in the new Latin America of the 1990s. Central government expenditures averaged 20.7 percent of gross domestic product in the Southeast Asian countries during the 1990–1996 period. For the developed countries of the Organisation for Economic Cooperation and Development (OECD), the figure was 35.9 percent. For Latin America, the fig-

2. These demographic data are taken from José Alberto Magno de Carvalho, "The Demographics of Poverty and Welfare in Latin America," in *Poverty and Inequality in Latin America*, edited by Víctor Tokman and Guillermo O'Donnell (Notre Dame, Ind.: University of Notre Dame Press, 1998), 40–47, especially tables 2.1 and 2.3.

3. *Cepal News* 16, no. 11 (Nov. 1996):2.

4. All these economic figures and the reference to the debt burden are taken from *Cepal News* 17, no. 3 (Mar. 1998):2–3.

5. "Linkages of Latin America and the Caribbean with the Global Economy: The Panorama in 1997," *Cepal: Notas sobre la economía y el desarrollo*, no. 611 (Mar. 1988), t. 1, p. 2.

ure was only 17.8 percent, about one-half the OECD average.[6] These figures suggest that an oversized and inefficient state sector is a thing of the past in Latin America. If anything, there is now room for an expansion of the state sector in the region.

The political culture of Latin America in the 1990s also diverges markedly from the past. Threats from revolutionaries and the military are no longer credible in most Latin American countries. Collective action is increasingly channeled into NGOs rather than into partisan politics. In contrast to the past, traditional parties of both the Left and the Right now engage in what might be termed a discourse of moderation, in which the basic assumptions of current economic policy and democratic practice are no longer challenged. This less-polarized atmosphere reinforces the new international image of Latin America as a safe and stable region for investment.

While the fundamental elements seem to be in place for an extended period of economic growth, one problematic issue remains that Latin America cannot control: the state of the world economy. Latin America's economic successes of the 1990s have been premised on its integration with the world economy. In the long run, the world economy can be expected to continue to grow as it has for the last five centuries. But in the short run, the world economy faces volatility and even reversals, unsettling reminders of the Great Depression of the 1930s. A new world depression would be devastating for Latin America's export-led development model.

There also are reasons for concern about social and institutional problems that may eventually undermine the bases of economic development and political stability. Latin America continues to suffer from steep levels of poverty that have responded only minimally to recent economic growth. Income inequality has increased throughout the region.[7] These inequities have been accompanied by sharp increases in street violence, organized crime, narcotics trafficking, and institutional corruption. State institutions in many cases cannot cope effectively with the challenges posed by the new economic model, such as the increased need for regulation, revenue collection, social services, and educational modernization. Perhaps most worrisome of all for the long term is Latin America's failure to come to terms with environmental damage and the accelerating exhaustion of its natural resource base. If the paradox of the 1980s was that democratic institutions thrived in a context of economic austerity, the paradox of the 1990s may be that the economic successes of the decade have accentuated the challenges facing Latin American democracies.

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6. *Cepal News* 17, no. 6 (June 1988):1.

7. "In Latin America and the Caribbean: The Equity Gap," *Cepal: Notas sobre la Economía y el Desarrollo*, no. 602 (Apr. 1997):2–3.

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