

STATE DECAY AND DEMOCRATIC DECADENCE IN LATIN AMERICA

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The debate about the scope and promise of capitalist democracy has been reignited by the Latin American experience of democratization in the 1980s. This could hardly be more welcome in a continent where the authoritarian imprint of capitalism has very deep roots and where bourgeois revolutions have been an exception. The authoritarian features of Latin American societies can be traced back to both their colonial heritage and to their dependent and reactionary mode of capitalist development, by and large based upon latifundia and servitude and not, as in the United States, on the impulses stemming from a myriad of free farmers (Boron, 1989). Little wonder that in her almost two centuries of independent political life Latin America did not have a single capitalist revolution culminating in the implantation of a democratic regime: neither Mexico between 1910 and 1917, nor Guatemala in 1944, nor Bolivia in 1952, let alone Brazil in 1964, concluded their 'unresolved questions' by establishing a democratic regime. These 'revolutions' had as their overriding concern making room for the development of capitalism, not the construction of a democratic order.

Yet, despite the legacy of its traumatic history, in the early 1980s Latin America seemed ready to try democracy again. This trend was reinforced by the world-wide democratic thrust that started to gain momentum in an unprecedented manner. Impressed by these events, Samuel P. Huntington argued that the world was surfing on a 'third democratic wave' (Huntington, 1991). Others, like Francis Fukuyama, saw in these developments the clear signs of a victorious capitalism that, hand in hand with a no less triumphant liberal democracy, was heralding the 'end of history' (Fukuyama, 1992). In face of this supposedly definitive victory and the unchallenged hegemony of neoliberalism, as well as of what Norberto Bobbio called 'the harsh

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rebuttals of history' (Bobbio, 1976) – including the resounding failure of 'really existing socialisms' and the inability of social democracy to transcend capitalism – a significant section of the left has accepted a mistaken conception of democracy that rests on two premises. On the one hand, the supposedly linear and irreversible nature of democratic progress; on the other hand, the belief, both historically false and theoretically wrong, that democracy is a project that is coterminous with the mere establishment of adequate representative and governmental institutions. The heroic enterprise of creating a democratic state is reduced to the establishment of a system of rules and procedures unrelated to the ethical and social context proper to democracy and indifferent to the implications that deep-seated social contradictions and class inequalities have for the political process. Thus **(mis)understood, democracy is completely 'depoliticized'**, becoming a set of abstract rules and procedures that **only** pose 'technical' problems.

It is rather puzzling that democracy, being such a simple and reasonable political programme, has been able to arouse throughout history fierce passions and dogged resistance, bringing about revolutions and counter-revolutions, **bloody** civil wars, protracted popular struggles and brutal repressions of all sorts. Was all this drama – the drama of the West since the time of Pericles – just the result of a simple malentendu? Wouldn't it be more reasonable to think instead that the implantation of democracy reflects a peculiar outcome of class conflicts, something that goes beyond an innocent procedural arrangement? Looking at the historical experience of Brazil, for instance, how could we possibly account for the fact that it was much easier to abolish slavery – and the Empire that rested on slave labour – than to democratize Brazilian capitalism?

Capitalist Democracy or Democratic Capitalism? A Short Theoretical Note.

A substantive caveat is in order before going on. Throughout these notes the expression 'democratic capitalism' will be used instead of the more common 'capitalist democracy'. The reason, briefly speaking, is quite **straightforward**: the latter expression conveys the wrong idea – but a rather apologetic one – that in this type of political regime the 'capitalist' side of it is just an adjective that barely qualifies the workings of a full-blown democracy. On the contrary, 'democratic capitalism' captures the real essence of these regimes by pointing out that the democratic features of it are, for all its importance, hardly anything

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more than political modifiers of the underlying undemocratic structure of a capitalist society (Boron, 1995b: 189–220; Wood, 1995: 204–237)

The belated triumph of Schumpeterian ideas, which downsize the democratic promise to its formalistic and procedural arrangements, mirrors the narrow scope and limits of democratic capitalism (early noticed by Marx in *The Jewish Question* and other essays) by ignoring both the ethical content of democracy – as a crucial constituent element of any discourse dealing with the organization of a **good** society – as well as the practical-historical processes of constituting 'real existing democracies'. It is of crucial importance to realize that Schumpeter-inspired 'procedural' theories of democracy imply a radical departure from the classic argument developed by Western political tradition from Aristotle to Marx. Authors as diverse as **Plato**, Aristotle, Machiavelli, Rousseau, Marx and Tocqueville all considered democracy to be something completely different from what mainstream political scientists imagine today. **Tocqueville's** introductory chapter to his famous *Democracy in America*, for instance, portrays the epic nature of democratization with these moving words:

This whole book has been written under the impulse of a kind of religious dread inspired by the contemplation of this irresistible revolution advancing century by century over every obstacle and even now going forward amid the ruins it has itself created (Tocqueville, 1969: 12).

Despite the compelling force of **Tocqueville's** historical fresco mainstream political science still looks upon democracy from an incredibly narrow perspective, considering it as a method solely aimed at the formation of a government and no longer as a condition of civil society. Instead, the critical and substantive approach nurtured in the Marxist tradition considers democracy as a unique amalgam binding together three inseparable components:

(a) first, democracy requires a social formation in which a given level – historically variable, of course – of material welfare and fundamental equality have been achieved, thus allowing for the full development of unique individuals and a plurality of expressions of social life;

(b) democracy implies the effective enjoyment of freedom by the citizenry, a freedom that has to be not only a formal entitlement but a living and practical day-to-day experience rooted in the main features of a given society. However, while necessary, these two social conditions are not sufficient to produce **by** themselves a democratic state. Other, not necessarily democratic outcomes would be conceivable as well. So, a third condition has to be met:

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(c) the existence of a complex set of unambiguous institutions and rules of the game able to guarantee the relatively uncertain outcomes that characterize democratic states (Przeworski, 1985: pp. 138–145). This is the politico-institutional condition of democracy, a necessary one indeed; but not a sufficient one, because democracy is devalued as a political regime when it is embedded in a type of society, like capitalism, characterized by structures, institutions and ideologies antagonistic **and/or** hostile to its spirit.

A critical theoretical approach, therefore, would argue that a full-fledged democracy only exists when all these three conditions are met. As Adam Przeworski has observed, '(t)o discuss democracy without considering the economy in which this democracy is to function is an operation worthy of an ostrich' (Przeworski, 1990: p. 102). In practical terms democratic capitalisms, even the most developed ones, barely meet these standards: the institutional deficits of advanced democracies are very well known; and even more serious doubts are raised when minimum levels of social and economic equality are considered, or when the effective enjoyment of freedoms – distributed extremely unevenly among the different sections of the population – is taken into account (O'Donnell, 1994).

Democracy and Citizen's Confidence

Economic crises, a rebellious military, a despotic plutocracy, or a scheming American embassy have been crucial factors in explaining the long history of political instability and military *coups* in Latin America. In the past, every democratic step forward carried with it the menace of a blatant authoritarian regression. Nowadays, the situation has changed: important as they are, those factors have lost their critical importance. As some recent theorizing on democracy has argued, the major threat now besieging democracy is a much subtler and, perhaps, a more formidable foe: the loss of purpose and meaning of democracy itself due to its lack of depth, its poor quality, its unfairness and its incompleteness (Agero, 1994: pp. 5–7). In other words, the dangers come now from the inside rather than from the outside of our embattled and faulty democracies, downgraded to an abstract and empty set of rules deprived of much meaning for the citizenry and thus leading towards institutional decay (Haggard and Kaufman, 1992: p. 349), or towards 'delegative democracies' whose perverse form of endurance should be clearly **distinguished** from genuine democratic consolidations (O'Donnell, 1992: pp. 6–10).

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The right to participate in the election of their government, granted by universal suffrage, confers on the citizens an aura of dignity and self-respect which is one of the landmarks of democracy. However, when democratically elected governments break the 'representative covenant' and display a total lack of compassion in face of the sufferings of their fellow-citizens it is **highly** likely that most of the latter will be inclined to think that democracy is just a sham. Of course, the erosion of a government's legitimacy does not mean that democracy as a political regime will necessarily succumb. However, if several successive governments – in many cases, from different political parties – prove unable to cope with democratic shortcomings and institutional decay, then the future of democracy will certainly be anything but bright.

The Western political tradition speaks with a **single** voice: contrary to other, non-democratic, regimes the stability of democracy is to a large extent contingent on popular confidence and citizens' beliefs. But Latin American democracies have proved progressively unable to stop the erosion of such confidence. Public opinion data for several Latin American countries are revealing. The proportion of those who feel dissatisfied with democracy ranged between 40% in Peru and Bolivia to 59% in Brazil and 62% in Colombia (Haggard and Kaufman, 1995: pp. 330–334).

Neoliberal Policies and Democratic Consolidation

Neoliberal economic reforms have become a major factor in the loss of democratic credibility. Accepted as an unchallenged dogma, **neoliberalism** was instrumental in the swift abandonment of time-honoured ideological tenets and policies. Latin America shares with Eastern Europe and Russia the dubious honour of being the part of the globe where the ideological influence of the Washington Consensus is felt with greatest intensity (Boron, 1995a: pp. 90–97). Even a moderate leader like Chile's former president **Patricio Aylwin** **recognized** that in his own country, **usually regarded** as a model to emulate, the most pressing issue confronting democracy was to redress the 'social debt' caused by neoliberal 'market-friendly' public policies.

Moreover, the ideological success of neoliberalism far exceeds the modest accomplishments – at inordinate social cost – it obtained in the terrain of the economy. The case of Chile is particularly instructive. By 1988 – i.e. after fifteen years of economic restructuring! – the real wages of Chilean workers were not much **higher** than they had been in 1973, **notwithstanding** the immense social costs implied by an average

unemployment rate of 15% through most of this period. Between 1970 and 1987 the percentage of households under the poverty line increased from 17% to **38%**, and in 1990 the per capita consumption of Chileans was still inferior to that of 1980 (Meller, 1992). After celebrating the 'important gains' experienced by urban minimum wages in Chile between 1990 and 1992 a recent CEPAL report concludes that **they** have now recovered the purchasing power they had achieved . . . in **1980!** (CEPAL, 1994: p. 10). As was pointed out by Luiz C. Bresser Pereira, 'Chilean society probably would not have tolerated these transitional costs if the regime had been democratic' (1993: 38). Commenting on similar developments, **Tomas** Moulian observed in a recent book that despite official propaganda 'Chile is one of the few countries where the income of the top 20% of the population has gone up between **1960–69** and 1994, from 36.6% of the national income to 45.8%'. Moulian also noted that in a sample of 62 countries Chile's index of social equity ranked **54th**, in a cluster formed among others by South Africa, Lesotho, Honduras, Tanzania, Equatorial Guinea, Panama, Guatemala and Brazil. After reviewing many specific studies Moulian concluded that the data for 1978–1994 'show a systematic and **significant** deterioration of the income distribution' (Moulian, 1997: pp. 93–95).

In Mexico, the social and economic involution experienced after more than a decade of orthodox adjustments is unconcealable. Official data show that per capita national income fell 12.4% between 1980 and 1990 despite the reformist rhetoric used by **PRI** governments to sell their conversion to neoliberalism (Altimir, 1992). In those years poverty increased **significantly**: between 1982 and 1988 real wages went down by 40% and have remained very close to that level ever since. Moreover the traditionally **high** level of Mexican unemployment went up and per capita consumption in 1990 was 7% lower than in 1990 (Bresser Pereira, 1993). According to Castañeda, 'when in 1992 the Mexican government published the first statistical accounts of income distribution in 15 years the data were terrifying' (Castañeda, 1993: pp. 283–4). However, official optimism was not disturbed by these revelations. It took the insurrection in Chiapas, two political assassinations, a huge trade deficit and, finally, the collapse of the Mexican peso in December 1994 to make the local elites and their advisors realize that things were pretty much out of control. The new emergency package launched by President Ernesto Zedillo was bound to exact, as usual, renewed hardships from the poor: **governmental** officials anticipated that the purchasing power of salaries was likely to

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decline another **32%**, bringing greater personal sufferings and deprivation to most of the 90 million Mexicans (**DePalma**, 1995: A 1/10).

Monetary stabilization, the opening up of the economy, balanced budgets, deregulation, privatizations, the downsizing of the state and the free rein given to market forces do not seem to be enough to ensure self-sustained growth, let alone a more equitable income distribution or, last but not least, a supply of other non-commodifiable but essential values for a democracy such as justice, fairness and well-being (Bresser et al, 1993: pp. 203–205; Przeworski, 1992; Dahl, 1992). As Western European experience since the second war clearly shows, and as the most recent experience of Japan and south east Asia convincingly proves, capitalist development requires an appropriate mix of public policies, and this calls for a state endowed with effective capacities of intervention in (and regulation of) markets (Blackburn, 1991).

In this regard it is worth reminding ourselves that the accomplishments of Chile's economic restructuring – much praised by ideologues of the Washington Consensus, despite looking rather unimpressive when compared with South East Asia or China – has had as one of its most eccentric features the preservation of the strategic copper industry in government's hands, an embarrassing relic for the neoliberal blueprint, to say the least. Nationalized during the Allende years, state-owned copper firms account for about a half of all Chilean export revenues. This significant amount of cash goes directly to the treasury and not, as in Argentina, Brazil and most Latin American economies, into the pockets of private businessmen, thus strengthening the public finances and the capacities of the state apparatus. In 1995 the state-owned **Corporacion del Cobre** transferred to the Treasury 1,764 millions of dollars of its profits, a **figure** far superior to the taxes paid by all private firms in Chile (IHN, April 6, 1996). This economic 'aberration' is deliberately disregarded by neoliberal economists, who tirelessly preach that all forms of public property are inefficient or inflationary. In addition, the size of the Chilean state – measured by the ratio of public expenditures to GDP – grew continuously in the last decade, as did strict state regulations concerning the financial markets, two features clearly at odds with the neoliberal creed. Last but not least, the export performance of Chilean agriculture is closely related to the emergence of a new class of rural entrepreneurs, a by-product of a radical programme of agrarian reform launched by the socialist government of Salvador Allende in the early seventies. To sum up, Chilean economic restructuring does not seem to be a shining example of neoliberal policies (Bresser Pereira, 1993: p. 38). Yet, all

these 'peculiarities' of the Chilean model have apparently passed unnoticed by the otherwise alert economists of the World Bank. In a recent official document – which includes a section called 'Chile as a Model' – the Bank's Chief Economist Sebastian Edwards fails to mention these facts even in a modest footnote (Edwards, 1993: pp. 34–35).

Some of the results of this 'free-market fundamentalism' have been quite **uniform** throughout Latin America. Both of the two countries the World Bank and the IMF used to **regard** as major 'success' stories – Chile and Mexico, the latter being now quietly removed from the list – as well as the other countries of the region, show the same results: the application of neoliberal policies has vastly increased the numbers of those **living** under conditions of 'extreme poverty', and widened the gulf separating rich and poor. For the sake of brevity, let us hear what an organization like CEPAL, little inclined to rhetorical excesses, has to say in this connection:

Poverty is the greatest challenge for the economies of Latin America and the Caribbean. Between 1980 and 1990 it worsened as a result of the crisis and the adjustment policies, wiping out most of the progress in poverty reduction achieved during the 1960s and 1970s. Recent estimates place the number of poor at the beginning of this decade, depending on the definition of poverty, somewhere **between** 130 and 196 million. . . Recession and adjustment in the eighties also increased income inequality in most of the region. In the countries with the most highly concentrated income distribution, the richest 10% of the households receive 40% of the total income (CEPAL, 1994: 1).

Moreover, the deregulation of markets and privatization have also magnified the bargaining power of a handful of privileged collective actors who have direct access to the upper echelons of the government and the central bureaucracy, **further** aggravating inequalities. The impoverished and fragmented societies resulting from both the crisis and the conservative response to it do not constitute the most fertile soil for the flowering of democracy, or for upgrading the quality of Latin America's 'democratic **governance**'. The structural imbalance between: (a) a handful of very **powerful** bourgeois actors and 'market forces' reigning without adequate counterweights; (b) large sections of demobilized, disorganized, mostly apathetic, depoliticized or submissive populace; and (c) increasingly impotent democratic states, threatens to prevent the genuine consolidation of new democracies in the South.

The Withering-away of the Sovereign State: Fiscal Crisis and Globalisation

The unprecedented empowerment of private interests at the expense of everything public places Latin American democracies under the Damoclean sword of capitalist coalitions which can easily, and at almost no cost to themselves, destabilize the political process when they see fit. As a result, weak democratic states can only produce feeble and ineffective governments which, in due course, tend to aggrandize the social, economic and political weight of very rich and well-organized private collective actors (Przeworski, 1985: pp. 138–139). Given that capitalist economies are extraordinarily sensitive to the economic calculations and initiatives of entrepreneurs and that the weakened national states have **left** themselves with very few instruments of market regulation and control, most governments prefer to make sure of **being** able to count on the 'business community', even at the expense of declining levels of popular legitimacy and support. The outcome of this policy choice is a weakened democratic regime, where democratic arrangements are increasingly perceived as political rituals deprived of any relevance to the everyday life of the citizenry. The popular devaluation of democracy goes hand in hand with an analogous **downgrading** of politics, seen as a selfish game played by professional and corrupt politicians and wealthy and powerful notables with total disregard for the common citizen.

As a result, Latin American democracies find their state capacities progressively deteriorating and are unable to provide the collective goods needed for the bare reproduction of civilized life: health, education, housing, social security, food programmes, and so on. In this section we will examine two specific causes of this state enfeeblement: on the one hand, the persistence of the 'tax veto' still successfully wielded by capitalists throughout Latin America; and on the other, the effects of **globalisation**.

(i) The 'tax veto'

The Latin American rich refuse to pay taxes. They react with anger and contempt when governments try to **tax** their properties, profits and earnings. Even modest taxes on their private boats, airplanes, sport cars, **fancy** summer homes or other luxurious items are regarded as '**communist**' confiscations. For them, the American IRS and **Stalin's** Politburo are twin institutions aimed at the destruction of private property and capitalist civilization. This 'tax veto' is an aberrant social

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and economic tradition dating back to colonial times, and it has periodically created unbearable pressures on the state budget. Because of outrageous **legal** loop-holes, **systematic** tax evasion, and the successful resistance of capitalists to modernizing and democratizing the tax system policy-makers have routinely tried to solve the fiscal crisis by cutting expenditures or, when possible, raising new indirect and socially regressive taxes. In both cases, the burden of the financial adjustment has rested on the shoulders of the workers and the poor. In Argentina, for instance, a research study sponsored by the World Bank proved that, in the late **1980s**, the tax burden on the richest 10% of the population was equal to 27.0% of its total income, while the taxes paid by the poorest 10% of the population amounted to 29.3% of their earnings. Unfortunately, in this matter at least, the 'structural reform' launched by **Menem** in the **1990s** only served to make things even worse (Santiere, **1989**: p. 27).

With the debt crisis the chronic underfinancing of the state in Latin America became a source of major and urgent national and international concern. **Why?** Because heavily indebted countries, especially those which signed the Brady Plan, from then on had to run consistent budgetary surpluses in order to repay the principal and interest on an ever-growing external debt. Therefore, amidst the severe crisis of the 1980s Latin American states reinforced the recessive trends of the economy with fiscal policies that depressed even more the purchasing power of large sections of the population and shrank the incomes of the middle classes while creating (in accordance with fashionable 'supply-side' economics) new tax incentives for the rich. Harsh cuts in social expenditures and in public spending generally became one of the key elements of the neoliberal blueprint.

Yet the theorists of the Washington Consensus conceal the fact that the critical situation of the state accounts in Latin America is not caused by overgrown **governmental** expenses but by the chronic inability of governments to collect taxes from the wealthy. In this matter the World Bank's schizophrenia is notorious: while the research of its own experts conclusively proves the preposterous regressiveness of Latin American tax systems, the Bank's leaders exhort our governments to 'reduce the tax burden' in order to attract private investment. Despite the allegations of the neoliberal zealots, the tax burden (measured as a percent of the GDP and **excluding** social security contributions) of the more developed countries of Latin America is around 17% while in the OECD countries the proportion is more than twice as much, averaging 37.5%. Taxes on capital gains and

profits, which in the OECD countries reach an average level of 14% of the GDP, are only 4% in Brazil, 3% in Argentina, Chile and Uruguay, and 1% in Bolivia (CEPAL, 1992, p. 92). It is astonishing that Latin American governments that were strong enough to dismantle **and/or** sell at very low prices large – and sometimes very efficient – public enterprises, shut down governmental agencies, terminate social programmes, privatize all kind of public services, destroy labour unions, savagely cut the public budget, and overwhelm public resistance to these policies, could at the same time present themselves as surprisingly weak and frail when faced with the task of organizing an equitable and progressive tax regime. The class selectivity of the **neoliberal** state is blatant: strong to promote the market forces and to advance the interests of big capital, weak to defend the public interest or to be responsive to the needs of the poor.

The outbreak of the debt crisis in Latin America hastened the relentless disarticulation of the state apparatuses and the retreat of the governments from policy-areas in which their contribution had been very important for large sections of the popular classes. If these countries fail to break the tax veto the reconstructed Latin American democratic capitalisms will bear much more resemblance to corrupt and mafia-ridden 'free-market' Russia than to tidy Switzerland or Austria.

(ii) Globalization and External Vulnerability

The process of economic globalisation has only made things worse: the tax veto coupled with globalisation has led to a radical weakening of the national states' administrative and decision-making capacities, a decline in the quality of governance and growing levels of vulnerability in face of an increasingly complex domestic and international environment. Latin America's new democracies are first and foremost responsive to the interests of foreign creditors and key sections of international capital and its watchdogs, **the** World Bank and the International Monetary Fund; second, they respond to domestic 'market forces', a euphemism for big capital and the firms, local or foreign, that operate in our markets; third, and much later, to the citizenry at large. It is very hard to coriceive of a solid democracy that does not reach a minimum threshold of national sovereignty. Otherwise states are deprived of the means to make autonomous decisions in crucial matters that will inevitably have severe distributional impacts. The globalisation of economic activities has also sometimes caused the new Latin American democracies to transfer

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decision-making powers in a growing number of sensitive areas to transnational firms and international financial institutions under the guise of commercial agreements, 'conditionalities' and 'country risk' evaluations. Monetary, industrial, commercial and fiscal policies, hitherto by and large decided within the national boundaries of Latin America, are today settled in New York, Washington, London, Paris, or Tokyo, far removed from the reach, let alone the control, of the citizenry. In short, given the formidable reach of globalisation, and the reinforcement of financial dependence due to the external debt, a weak state increasingly deprived of decisional autonomy is likely to decay.

These processes of globalisation and state enfeeblement are, moreover, far from neutral in their distributional impact. Local capitalists and their metropolitan partners obtained several gains from the downsizing of the old developmentalist state: first, they significantly reinforced their economic predominance by drastically reducing public control of the markets and economic activities, and undermining both the consistency and the scope of the public sphere itself. Today, Latin American societies have become highly 'privatized': the state has retreated to minimal functions, and former collective goods (health, nutrition, education, housing, occupational training, and so on) have become individual problems that must be solved according to the egotistic rules of the market place. The name of the game is the survival of the fittest; the poor, the elderly, the children, the sick, the homeless, the unemployed and unemployable are the new clients of the Red Cross and a host of other **non-governmental** organizations. Private charity and altruistic associations are substituted for supposedly cost-ineffective social policies and state intervention. Secondly, the wholesale privatization of state-owned enterprises and state-administered services has transferred **highly** profitable monopolies to capitalists and guaranteed the repayment of the **foreign** debt by irresponsible, corrupt and *de facto* military rulers. Neoliberalism supplied the general justification for the transfer of public assets and state-owned enterprises, paid for with public savings, even in areas considered untouchable until a few years ago, like electricity, aviation, oil and telephones. Thirdly, these reforms have changed the balance between state and markets so dramatically in favour of the latter that any future government sensitive to popular demands, or inspired by even some vague reformist vocation, will immediately realize that it lacks some of the most elementary instruments of public policy-making as well as the efficient administrative cadres needed to carry out these tasks. This is why one of the most urgent tasks facing Latin American societies is the

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reconstruction of the state. As a former minister of industry in Venezuela rightly observed, by the end of the 1990s 'Washington may encounter some surprises to the south. Latin America, which has spent the last 10 years demolishing the state, will spend the next 10 rebuilding it' (Naim, 1993: p. 133).

Civil Society and Democratic Governance in Peripheral Capitalism

Even in Western Europe the social involution resulting from the relative rolling-back of the gains made during the heyday of the welfare state has prompted some scholars to talk about a 'two-thirds' society: a wide sector roughly comprising one third of the population has been **progressively** excluded from the benefits of material progress, doomed to become an underclass or a decaying segment of modern society, unable to be 'reconverted' and reinserted in the formal labour markets of advanced capitalism (Gorz, 1989). The economist Richard Freeman recently suggested in the *Harvard Business Review* that the United States may be moving toward an 'apartheid economy,' in which **'the** rich live aloof in their exclusive suburbs and expensive apartments with little connection to the working poor in their slums' (Freeman, 1996, p. 120).

Yet this is not **only** a question of the immorality of social exclusion. The enduring **legacy** of neoliberalism is also a society whose social integration has been debilitated **by** the impact of unfettered market dynamics, worn out by the tremendous cleavages and inequities that characterize 'really existing capitalism'. Therefore, contrary to what is expected in at least Western European societies, it is not unlikely that in Latin America – a continent where the benefits of the welfare state arrived belatedly and in homeopathic doses – the 'two-thirds' are more likely to consist of those condemned to exclusion and marginality, while just one third, the bourgeoisie and the upper sections of the middle classes, will enjoy the charms of economic well-being and 'postmodernity'.

A society of this type is scarcely appropriate to sustain a democratic order. Paradoxical as it may seem, slave-owner Brazil and colonial Mexico were far more integrated as societies than their late twentieth century capitalist successors. The exploitation of the subordinated classes demanded, in those pre-capitalist modes of production, some forms of sociability, structural integration, and inter-class relationships that are largely absent in Brazil or Mexico today. The *fazendeiro* and the slaves, the landowner and the indigenous peasant, were

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antagonistic poles but both belonged to the same society. Their contradictions developed within a single social and economic structure, unified **by** the exploitative bonds of slavery and servitude and by a host of other social relations. Whereas, at the end of the twentieth century the Latin American bourgeoisie (and its allied social groups and classes) and the masses living in appalling poverty belong, on the contrary, to two entirely different social universes. The perverse fragmentation of modern capitalism has created dual societies in which people coexist only in an illusory manner thanks to the vicarious integration provided by television. In fact, rich and poor increasingly tend to live socially, culturally, economically and ecologically in worlds apart.

Referring to the case of the United States, Robert Reich, the former Secretary of Labor in the Clinton Administration, has remarked that as a result of neoliberal policies there are in America people living in the same society, but in two completely different economies (Rifkin, 1995: p. 180). The assertion is even truer in Latin America, where the bourgeoisie and the 'winners' in the game of capitalist restructuring seek **refuge** in exclusive residential districts, protected by sophisticated surveillance systems and a small army of security guards of all sorts. Their children go to private schools and bilingual institutes along with others of the same social class and then are sent to continue their education in American colleges and universities. If ill, the bourgeois will travel to Houston or Miami to see **his/her** doctor; for their entertainment **they** prefer New York, London or Paris. The source of their wealth is a global process of capital accumulation undertaken in a broad array of highly diversified economic activities where physical contact with a member of the labouring masses is an extraordinary and highly unlikely event. What economic and social relationship, if any, can exist between this social creature, the 'end-of-the-century bourgeois,' and the millions of 'wretched of the earth' that make their living selling candies, gums, cigarettes, and other cheap **goods** in the busiest intersections of our decaying cities? Or as fire-eaters or ragged clowns on downtown sidewalks? Or as occasional windshield cleaners at congested traffic lights? Or as precarious and informal workers who are barely able to speak the language of the country, have few skills and no formal education, have never seen a doctor, and live in tin and cardboard shacks? As **Darcy Ribeiro** once noted, not only do these people not fight against capitalist exploitation, they have a fervent desire to become an exploitable labour force. They are more than willing to do whatever is necessary in order to get an entrance ticket,

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albeit an expensive one, to the worst echelons of the system.

But, for this to be possible they first have to acquire the qualifications that may convert them into a 'usable' and exploitable labour force, an almost impossible task when **neoliberal** restructuring is destroying the state and dismantling social services, including public education and health; and there is no other **place** in which these masses may obtain the minimum training needed for entering into the formal labour market. For growing sections of Latin American societies class exploitation is not their most immediate problem. Their handicap is precisely their inability to become exploited.

Democratic governance, the art of good government, brings us back to Plato's metaphor of the statesman as the helmsman: is a good helmsman likely to be elected by these kinds of desperate boat passengers? Reacting to this question, conservative thinkers would argue in favour of some more or less subtle form of popular disenfranchisement, in order to let 'responsible' people conduct the business of government without interference from the rabble. Discussing the governability crisis of the early seventies Samuel I? Huntington wrote that the problems besieging industrialized countries were not capitalism's fault but the consequence of democracy's- excesses (Huntington, 1975: pp. 73, 106–113). His thesis was wrong then and it is wrong again now. The main problem undermining democracy and democratic governance at the end of the century is precisely capitalism – the ways in which capitalist production and bourgeois societies have evolved – and not the supposedly inevitable self-destructive tendencies of democracy (Galbraith, 1992; Chomsky, 1996).

Of course, to address these challenges requires much more than delicate political engineering. An adequate institutional setting, a reasonable compromise between the elites, the improvement in the quality of political leadership and the betterment of the public policies carried out by the emerging democracies would be good, but not enough. Much more fundamental changes are required in the very structure of capitalist societies, and to this effect a radical programme of social and economic reform is badly needed. Improved democratic institutions and practices must always be welcome as valuable assets, but it would be naive to expect from them a miraculous cure for the deep-ingrained ills of Latin American capitalism. Political reform must go hand in hand with social and economic reform: a progressive tax reform, which is the cornerstone of any programme of social and economic transformation; the restructuring of the state, aimed at enhancing its capacity of effective intervention to regulate markets,

and provide public goods essential for the bare survival of the poor, the children, the unemployed, the women, the elderly and the peasant populations; the deepening and strengthening of democratic institutions, bringing new life to a political scene dominated by empty structures and inconsequential political rituals, and **significantly** upgrading the popular responsiveness and accountability of governments; finally, a programme of social and economic reconstruction able to heal the wounds left by years of irresponsible and disastrous neoliberal witchcraft. A whole programme of structural reforms aimed at the radical transformation of capitalist formations must take precedence over the repayment of an illegitimate foreign debt, the preservation of budget equilibria, or the maintenance of a 'friendly atmosphere' for investors.

Obviously enough, neoliberals strongly disagree with this. In a notorious interview given to the Chilean conservative newspaper *El Mercurio* during the Pinochet years, Friedrich von Hayek asserted that, for a while, he was **ready** to sacrifice democracy and political rights in exchange for a **governmental** programme committed to the unfettered development of capitalism. In the end, Hayek ventured, economic freedoms would reassert themselves and open the door to democracy and political liberty. For socialism, on the contrary, democracy, liberty and justice are higher and more cherished values than free markets and profits. Political liberty is a necessity, John Stuart Mill used to say; economic liberty is a convenience. The goal of a reform-minded democratic leadership in Latin America should be, first of all, to make our countries safe for democracy, freedom and justice. Nothing more, but also nothing less. Mam believed that democracy was incompatible with capitalism and that, in the end, the former would prevail over the later. Tocqueville expressed as a concern what for **Marx** was the possibility of a victorious and liberating outcome. If democracy is, in Tocqueville's words, that 'irresistible revolution advancing century by century over every obstacle and even now going forward amid the ruins it has itself created', will it respectfully stop at the gates of the capitalist society? It does not at all seem likely.

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