Keys to Latin America’s Insecurities
Economic Development and State Strengthening

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I. Introduction

Few concepts in the realm of public affairs are as malleable as that of “security.” Traditionally, the term has referred to the circumstances of states, and threats to security have been understood to entail challenges to the interests of the state. These threats may be internal, as when armed actors of one kind or another imperil the state’s monopoly on “legitimate” violence, or they may be external, as when state sovereignty is called into question by cross-border territorial invasion or by the specter of foreign control over vital economic resources. The particular conditions or agents understood to imperil security vary over time and across contexts, reflecting “objective conditions” as well as public opinion, which is shaped not only by those conditions but also by strategic manipulation of forces that endeavor to set the public agenda. At any given moment, then, internal “threats” to security might be identified with witches and heretics, spies and subversives, or narcotraficantes and terrorists. External risks, in turn, can encompass such matters as the potential for military or economic attack by hostile states, sabotage by their agents, or the destabilizing impact of mass invasions of migrants. In recent years, the domains that might be relevant to debates about state security have multiplied, quite reasonably, amidst recognition of the devastation that can be caused by such phenomena as ecological degradation or the spread of infectious diseases, or even the disruption of computer networks by bored teenagers.

Whereas these notions of security share an underlying preoccupation with the interests of the state, an alternative approach to conceptualizing security begins with concern for the interests of the people who inhabit those territories. This approach has gained salience in an

2 See Murray Edelman, Constructing the Political Spectacle. Chicago: University of Chicago Press, 1988, for analysis of how power-holders shape public perceptions in ways that seek to preserve existing hierarchies of power.
3 For a useful review, see Ann M. Florini and P.J. Simmons, The New Security Thinking: A Review of the North American
array of forums, most notably in international agencies, human rights organizations and among development advocates. Common throughout is the equation of security with the absence of threat, and threats to security matter because they make not only states, but more importantly their populations, vulnerable to serious harm. The foremost among these harms is death or dismemberment—security is thus understood in terms of protection from physical harm—but loss of national sovereignty, of democratic rights, or of opportunities to maintain livelihoods are also security threats when considered in light of the idea of people’s vulnerability to a broader range of adverse outcomes.

This stance is consistent with the notion that security entails insulation from serious threats, not only to states, but also to the basic well being of individuals and communities. And, when placed in the context of real life experiences and preoccupations of people living in today’s world—that is, the context of what they truly fear, of what they want to enjoy protection against—the idea of human security leads us to highlight freedom from hunger, from intractable unemployment, or from preventable disease. Thus, the question of economic development assumes, at least in theory, a powerful connection to that of security.

II. The Centrality of Human Security in Latin America

Observers of contemporary Latin America will recognize the relevance of this formulation for the region. There are exceptions, to be sure, but comparatively few people in the hemisphere fear invasions from neighboring states, marauding mercenaries, or even putative domestic agents of evil foreign powers. And, in contrast to even the recent past, there is relatively little fear of overthrow of legitimate/democratic political institutions, and of the associated experiences of political repression. It is noteworthy here to recall that such

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phenomena as “desapariciones,” torture and arbitrary imprisonments were among the nightmarish phenomena associated with the pursuit of “national security” by dictatorships across much of the region during a substantial portion of the late twentieth century. Yet, amidst today’s relative absence of concern with such conventional “security” related issues, there is nonetheless widespread fear, uneasiness, “insecurity” in general. There are pervasive complaints about an absence of stability, of predictability, and people seem to long for order, in the sense of absence of sudden disruptions that can cause profound pain, sorrow, hunger, physical injury, etc. The desire not to be vulnerable to such things—that is, the quest for security—is eminently reasonable, and permeates everyday life and social relations across much of the region.

Two issues stand out here: first, levels of everyday physical violence that appear to be increasing, and that are at least indirectly related to the second issue, i.e. material deprivation of severe, debilitating intensity. The problem of economic exclusion, of poverty, is pervasive and, arguably, deteriorating. As we will argue later in this article, this is in large measure a result of the economic models being applied in virtually all countries of the region.

IIa. Violence

Violence is a huge problem in contemporary Latin America, as evidenced by homicide rates in such countries as Colombia, Brazil and El Salvador, and the incidence of other violent crimes against individuals throughout most of the region. Alongside the challenge of petty criminality is the continuing threat of abuse from state or quasi-public officials (police brutality is evident from Mexico to Argentina, as policing institutions remain woefully resistant to reform across Latin America), as well as diverse forms of organized crime and/or militarized banditry, which at times takes on political overtones (Central America, Colombia). All of these forms of violence exact heavy tolls on people’s real and perceived well being—on their security in a very
tangible sense.

It thus comes as no surprise that “seguridad ciudadana” rises to the top of citizen concerns in public opinion polls across much of the region. Forging effective and legitimate institutions for grappling with this threat constitutes a major challenge for all political forces, and particularly for leftist actors that have traditionally eschewed strengthening of police agencies. The costs of continuing failure to address public fears is illustrated most dramatically in the apparent increase in revenge killings, in lynchings, and also in electoral triumphs of candidates (e.g. Uribe) calling for the imposition of repressive measures.

Physical insecurity is a main concern of public policy in many Latin American countries. Death or severe injury by random acts of violence—not including accidents—are endemic to many urban areas in the region. And, though in different ways, insecurity gravely affects all social classes, from the very poorest to the middle sectors and the extremely rich. The impact of theft and violence has significantly increased the production and transportation costs of many firms operating in Latin America, and thus adversely affected their international competitiveness. Neither domestic nor foreign investment is easily attracted to places where violence and insecurity are endemic.

Ironically, while these threats to security are not of the sort that involve inter-state conflict or that would appear amenable to solutions that reflect realist logics of deterrence, the bulk of government expenditures on “security” continues to concentrate on military institutions, on weaponry and the like. Equally ironic, and arguably tragic, is that with the exception of haphazard programs to strengthen the “administration of justice,” bilateral aid from the U.S.

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continues to equate development assistance with the provision of military hardware. Needless to say, this offers little hope of reducing the sense of insecurity that pervades much of the region.

IIb. Economic Vulnerability

Alongside the problem of physical violence, associated principally with criminality of various forms, is the alarming sense of economic insecurity among vast segments of the population of Latin America. Such insecurity has several expressions. An evident one is the frustration of the middle-classes produced by their failure to fulfill their expectations to improve—or at least maintain—their standard of living. As various surveys show, a large proportion of the middle classes in the region believe that their standards of living are lower than those of their parents and fear that their own children will likely face harsher economic conditions still. Such a view sees upward economic and social mobility to be more the exception than the rule. The economic decline of such countries as Argentina and Venezuela, to cite but two especially lurid examples, may validate such an assessment.

Another, more dramatic, expression of Latin America’s economic insecurity is the persistent increase over the past 25 years in the sheer number of people living in conditions of poverty. The economic decline of the 1980s caused, indeed, a drastic deterioration in the poverty indices of the region. In 1990, the figures for the region had jumped to 48.3% (incidence of poverty) and 22.5% (extreme poverty). The economic recovery experienced by the region in the first half of the 1990s, and the reorientation of public spending towards social needs managed to stop this decline. However, the improvement was insufficient to compensate the decline suffered in the previous decade. Indeed, by 2000, 42% of Latin Americans lived in conditions of poverty. Moreover, during 2000-2003 poverty has become more widespread. In 2003, according to United Nations data, 225 million Latin American were poor, and among them, 100 million lived
in conditions of extreme poverty. The incidence of poverty in the region has reached 43.9%, and the share of the population in extreme poverty is 19.4%.

This unsatisfactory social and economic development is reflected in the lack of progress towards the satisfaction of the Millennium Development Goals adopted by the UN General Assembly, in particular regarding the commitment to reduce the incidence of poverty and extreme poverty by 2015 to half the percentages registered in 1990. In 2002 only two countries—Chile and the Dominican Republic—showed a sufficient reduction in the incidence of poverty that suggests that they are on track to meet the MDG. Furthermore, the economic crisis that erupted in the Dominican Republic during 2003 has reversed some of its social achievements, and shows little signs of abating in the foreseeable future. In Nicaragua, Honduras and Haiti—the poorest countries in the region—advances in poverty reduction have been minimal. The political instability and violence in Haiti during the first half of 2004 will only bring further costs to the poor. Over the medium term, in any event, the most dismal performances have been those of Argentina and Venezuela, which experienced an increase in the incidence of poverty and of extreme poverty during 1990-2002.

Latin America’s appalling track record in the quest to reduce poverty is closely related to its extremely high rate of concentration of income. Latin America is most likely the region in the world where income is more unevenly distributed. (See Figure A, appendix.) It is somewhat shocking that by the end of the 1990s, as ECLAC’s estimates show, the 10% richest households in Brazil held 50% of national income, while the 40% poorest’ share was close to 10%. In Chile, allegedly the most modern and dynamic economy in the region, the share of national income of the 10% richest households was close to 40% and that of the 40% poorest ones was under 15%. Mexico, Argentina and most other large economies in the region show comparably acute degrees
of income concentration. Particularly worrying is that, with the exceptions of Mexico and Nicaragua, income concentration did not decrease during 1999-2002 in most Latin American countries.  

ECLAC’s recent projections indicate that, unless the trend towards income concentration is reversed, few countries in the region will be able to halve the incidence of extreme poverty by 2015 even if they manage to sustain high rates of economic expansion. Indeed, assuming that regional GDP expands in 2004-5 at its recent historical peaks, only El Salvador, Panama, Costa Rica, Peru, Brazil and Mexico in addition to the Dominican Republic and Chile might meet the MDG goal of halving the incidence of extreme poverty. This assumption is rather heroic given that Latin America as a whole experienced a decline in its per capita GDP in real terms during 1998-2003.

Thus, the likely scenario points to a sharp and widening divide among the haves and the have-nots in the region, a divide that mirrors critical economic deprivation for vast majorities of its poor population. This state of affairs may be labeled as a form of economic violence. The labeling is not uncontroversial, yet the data on poverty and social indicators, and on the high share of the population that is unable to adequately satisfy its nutritional and other basic needs in many parts of Latin America lend credibility to this claim.

Food security remains an issue in much of the region, and its resolution requires attention to numerous threats, including that of environmental degradation, which has destroyed the possibilities of sustainable livelihoods in many rural zones, and which is itself connected, in many instances, to the patterns of export-oriented agricultural development that have intensified under Washington consensus policies of recent years. Hurricane Mitch provided incontrovertible

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evidence of this, as acknowledged even by such mainstream institutions as the IDB.

The Millennium Development Goals also include the commitment to halve the proportion of the population suffering malnutrition and hunger. According to most recent figures for 1998-2002, between 11% and 15% of the population (55 million people) in Latin America and the Caribbean did not meet the minimum daily nutrition requirements.\(^6\) The average figure, however, does not reflect cross-country variation in performance on this issue.\(^7\) On one extreme is Haiti, with 50% of its population suffering a certain degree of malnutrition, followed by Nicaragua (29%), Dominican Republic (26%) and Guatemala (25%). On the other extreme is Argentina (2%), Uruguay (3%), Chile (4%) and Mexico, Ecuador and Costa Rica (all with 5%).\(^8\)

It is not surprising that chronic malnutrition is severe in various countries in the region, adversely affecting the health, learning capabilities and productivity potential of the poor. Whether this is overstated or not relative to third world standards may be discussed, but it is certainly a social problem that Latin America must address. As such, hunger and malnutrition represent a prime cause of the intergenerational circle of reproduction of poverty.\(^9\)

But aside from the extreme circumstances of hunger and malnutrition, there is the endemic problem of insecure access to the basic resources needed to sustain minimally acceptable standards of living. The underlying issue concerns not only access to material resources but also the possibility of acquiring and preserving the assets needed to ensure a flow of material resources over time. Latin America has clearly failed to create enough jobs, as well as to provide the supply of education and health needed for the citizenry to sustain employability over a lifetime. Jobs, like education and health care, are essential to the avoidance of devastating

\(^6\) See ECLAC (2003), *Social Panorama of Latin America 2002-03*, Santiago de Chile.
\(^7\) Such difference reflects the use of either arithmetic averages or weighted averages in the calculation of the regional average.
\(^8\) A comparative analysis of indices of malnutrition in Latin America may be found in ECLAC (2003).
risk. Yet the available data show that during the 1990s very few formal sector jobs were created in net terms. Indeed, 70% of all jobs created during these years were informal; that is, they were jobs that lacked even the minimum elements of social security and protection. In turn, the wage gap between the skilled and the unskilled widened, at the same time that the supply of quality jobs failed to keep pace with the expansion of the labor force in the region. Migration became the only option for economic and social improvement for many families, and not necessarily the poorest ones. This situation coincided with and reinforced a decline in the quality standards of many academic centers as well as health provision facilities in the region. As a result, the gaps in education and health become increasingly severe.

III. From Definitions to Causes

Two fundamental issues must be examined in order to understand the intractability of these risks to security, physical or economic, in Latin America, and to identify the paths toward overcoming the crisis of security that plagues people across the region.

IIIa. Latin America’s Myopic Approach to Globalization

The first concerns the ways in which the international economic environment—and Latin America’s attempts to adapt—has undermined prospects for sustaining livelihoods. For this purpose it is important to recall that Latin America was subject to a major external shock during the 1980s: the international debt crisis. This crisis, inaugurated by the default and collapse of the Mexican economy in 1982, dramatically increased debt service and curtailed new external finance to the region. The adverse external shocks created critical pressures in the region’s balance of payments and fiscal accounts, resulting in a severe slowdown in economic activity.

9 See again ECLAC (2003).
10 See ECLAC (2004), Globalization and Development, Santiago de Chile.
In response to this collapse, the early 1990s saw governments embark on a dramatic shift in their strategies for economic development. Radical reforms were put in place to ensure tight fiscal and monetary policies, eliminate trade protection, liberalize the financial markets, privatize public enterprises and reorient domestic production toward export markets. The new strategy was successful in reducing inflation, downsizing the public sector and cutting down state intervention in economic affairs. In addition, it brought about a boom in exports in the region.\textsuperscript{11}

Some policy reforms—especially those affecting the domestic regulatory framework—were long overdue. However, though the region left behind the economic stagnation suffered during the 1980s, it has so far been unable to reinsert itself in a path of high and sustained economic growth. Latin America’s economic growth potential has been hampered, in particular, by an insufficient dynamism of domestic investment.

The old paradigm of import substitution and state-led industrialization was undoubtedly exhausted and in need of radical reform. But the new strategy pursued by Latin American countries has been rather myopic in its approach to global insertion as well as in its vision concerning the role of the state and the market in the allocation of resources and in promoting capital formation. Thus, the radical retreat of the state from the economy has not been compensated by private investment. Exports, though booming, have been insufficiently linked to the broader fabric of domestic economic activity, and thus have failed to act as a dynamic engine of growth. In addition, two decades of emphasizing the role of market forces as a key element to promote growth has fostered neglect of distributional imperatives, and in ways that have themselves undermined possibilities for growth.

The new strategy put as one of its main goals the attraction of direct foreign investment

over and above the mobilization of domestic resources as the mechanism for boosting fixed capital formation. Economic policies emphasized maintaining external investors’ confidence, practically at all costs. High interest rates and repressed domestic demand were common in the region while concerted efforts were made to diminish producer costs through low wages and increased flexibility in labor markets. As a by-product of these efforts, labor/employment protection was radically weakened. As trade unions lost relevance in many countries, declining wage rates were accompanied by a broader phenomenon of decreasing capacity for collective action by subordinate sectors of the population.\(^\text{12}\)

During most of the 1990s the new strategy succeeded in bringing massive volumes of foreign capital inflows to the region. However, this dynamism did not survive the East Asian crisis and the collapse of the bubble in the United States stock market. A more fundamental cause of its decline was, surely, the end of the main waves of privatization of public enterprises in the region. In any case, foreign capital flows were unable to compensate for the weak performance of domestic investment. It is past due time to give attention to the longstanding problem of Latin America’s elites’ failure to invest—a failure that places countries at the mercy of international financial markets and/or of volatile external capital flows seeking rapid short term returns in the financial sector.

Indeed, crucial to understanding the failure of Latin America’s reforms to achieve and sustain a high rate of economic expansion is the inability of domestic capital formation to grow at a sufficiently rapid pace. The lack of dynamism of domestic investment, after years of decline during the debt crisis, impeded the modernization of domestic machinery and equipment and, at

\(^{12}\text{Among other implications, it is worth noting that an increasingly atomized population is less equipped to forge cooperative solutions to societal challenges.}\)
the same time, constrained the growth of productivity and international competitiveness as well as of aggregate demand. The ratios of investment to GDP in the region are, in general, far below the 25% minimum that UNCTAD has identified as necessary to launch a process of high and sustained growth in less developed countries.¹³

The disappointing performance of investment is a reason for concern over Latin America’s future economic growth and brings ill news for the economic security of its population. What are the causes behind such disappointing performance of investment?¹⁴ First, the reforms were adopted in stagnating economies, under severe rationing in their access to foreign and domestic capital and finance. The adverse economic environment was aggravated by the fall in public investment, given that “crowding in” between public and private investment has historically been more important than “crowding out” effects in the region. In addition, virtually no attempts were made to orient domestic spending to capital formation as opposed to consumption expenditures. The elimination of sector incentives had a most adverse effect on manufacturing investment, a sector that had traditionally been heavily protected and promoted by a plethora of regulations during import substitution and state-led industrialization. Finally, the uncertainty inherent to any radical change in development strategy was far from favorable to private investment, thus leading to the postponement or interruption of investment projects by the business community.

Such weak performance of investment was accompanied by a shift in policy priorities. Fundamental preoccupations are now the control of inflation and the reduction of fiscal deficits. These priorities have displaced the previous concern with the extremely relevant issues of

¹⁴ For a case study see Mattar, Moreno-Brid and Peres (2003), “Foreign Investment in Mexico after Economic Reform,” in K.Middlebrook and E.Zepeda (eds.), *Confronting Development: Assessing Mexico’s economic and social policy challenges*,
investment promotion, efficient use of installed capacity, employment generation and exploiting the potential of the domestic market. Moreover, the prevailing view that most, if not all, state interventions in the economy are a source of distortion makes economic growth a function exclusively of changes in the microeconomic policy packages and business climate throughout the region. This view has led to a generalized reduction in public investment and a parallel and strong emphasis in the promotion of small and micro enterprises as a source to promote economic growth in the region. This new strategy has so far failed. Latin America has been in a persistent economic slowdown for the last six years, showing an average decline in its GDP per capita in real terms. Open unemployment is currently at its highest historical average in the region.

Accompanying this view on the lack of dynamism of Latin American economies is the belief that compensatory, targeted social policies (emergency funds for the extremely poor, etc.) rather than universally applied benefits programs are the correct means to address growing social deficits. But this perception is increasingly unconvincing in a context where the basic macro-model systematically fails to insert the economies in a path of robust and sustained growth, and widens the universe of people in need of social services. Thus, the widening gap between job creation and labor force expansion, on the one hand, and growing wage dispersion combined with inadequate social protection, on the other, weighs heavily against Latin America’s prospects for ensuring the social conditions of its poor population.

IIIb. Diminished State Capacity

Secondly, and very much related, economic reforms undertaken to deal with the
international economic environment have eroded state capacity, not only to steer the economy (as intended), or to invest in infrastructural development or technological upgrading or job training, but also to protect against violence, and to provide access to such public goods as education, training and health care. Chronically under-funded states are prone to becoming failed (or failing, or flailing…) states, and it is not surprising that such states find it increasingly difficult to police remote areas, be they rural or urban. Similarly, states starved of resources are unable to construct the sorts of institutional structures that are needed to empower—and ensure transparent monitoring over—police and judicial agencies. Ensuring citizen security is impossible absent effective and minimally legitimate states. Rebuilding state capacity, beginning with fiscal capacity, thus becomes imperative for the long-term effort to provide security.

IV. Achieving Security

Protecting inhabitants of Latin America against threats to their physical and material well being requires: 1) vast improvements in capabilities for generating and distributing wealth; and 2) the strengthening of institutions that facilitate this while addressing the elementary needs of the excluded and expanding state capacities to provide public goods (physical safety, basic services, education and health care) in an efficient and accountable manner. Obviously, this is a daunting challenge, but it is necessary, and necessitates wholesale changes in the prevailing approach to economic development and democratic deepening. Today we are closer to being able to undertake those changes, given the growing recognition of the failure of policies
associated with the Washington consensus and promoted by the international financial institutions (IFIs) and governments throughout the region.\textsuperscript{15}

Without any presumption of presenting an exhaustive and full list of recommendations, we believe that the following recommendations (not listed in any type of hierarchical order) would help to insert the region in a path of sustainable and equitable development, reducing the social and economic vulnerabilities that so adversely affect its populations.

The first recommendation is to recognize that economic policy should have as a key priority, not only the achievement of a low rate of inflation, but also—and mainly—of a strong and sustainable rate of economic expansion consistent with the generation of sufficient quality jobs as may be required. High and variable inflation should certainly be avoided, but “stop and go” patterns of economic expansion that end up with an average growth rate of real GDP well below its potential or previous trend should be avoided. The adverse implications of the acutely unequal pattern of income distribution that has accompanied Latin America’s economic reforms must be addressed.

In addition, it is necessary to re-orient strategies for global insertion, favoring areas in which employment (particularly but not exclusively quality employment) is widespread and potentially expanding, and downplaying efforts in sectors in which jobs are less likely to be created or maintained. To do so, a third line of action is to focus not only on foreign investment and attracting the most footloose kinds of capital, but attempt to mobilize domestic savings and investment, including through more decidedly progressive tax systems. This foreign direct investment should, as far as possible, be induced to strengthen its backward and forward links with domestic producers. Such strengthening of the productive structure’s linkages is

indispensable if Latin America is to sustain high rates of economic growth, and equitable development. None of this is possible without investing massively in accumulation of assets and capabilities for subordinate groups, particularly in accessible education and health care.

The problems and challenges to overcome economic and social insecurity in the region are indeed of a daunting nature. To meet them Latin America needs, no doubt, to enter a path of high and sustained economic growth. But, economic growth by itself is nothing more than a necessary—but not a sufficient—condition for the region to fulfill its so far failed quest in search of development. We need a new political pact, a new agenda that puts as the center of policy considerations and design the strong and steady improvement of the living conditions of the vast contingents of poor population in Latin America. To achieve this, the region must devote economic and social resources as well as political capital to face its perhaps key institutional challenge: the construction of strong, impartial and transparent systems of justice, thus rendering the rule of law a resource available to all, rather than only a privileged few. All too many Latin Americans would recognize as reality Getulio Vargas’ famous dictum: “for my friends, everything; for my enemies, the law”; for as long as this logic endures, security will elude vast segments of Latin America’s population.
Appendix

Figure A
Selected regions in the world: Gini coefficients of concentration of income 1997-2002
(Per capita income concentration, by deciles)

Source: J.L.Machinea (2004), América Latina y el Caribe: La integración y la estrategia de cohesión social, paper presented at the conference: La integración económica y la cohesión social: Lecciones aprendidas y perspectivas, organized by the Mexican Ministry of Foreign Affairs, Mexico, 11-12 November.