

rejected in advance the only external inspiration capable of correcting his error; he does not merely neglect the kind of knowledge which would save him, he begins by destroying it. First he turns out the light and then complains that he cannot see, . . . In short, the Rationalist is essentially ineducable; and he could be educated *out* of his Rationalism only by an inspiration which he regards as the great enemy of mankind. All the Rationalist can do when left to himself is to replace one rationalist project in which he has failed by another in which he hopes to succeed. Indeed, this is what contemporary politics are fast degenerating into: the political habit and tradition, which, not long ago, was the common possession of even extreme opponents in English politics, has been replaced by merely a common rationalist disposition of mind."

To the practical American way of thinking, Oakeshott's armchair philosophy may seem too simplistic. We want a plan of action, a set of marching orders. We want to *do something*, even if it's wrong. But as Oakeshott points out, every time social engineers have tried to solve problems through "rational politics," they have only created new ones that are worse. By contrast, most of the liberties we enjoy were developed during a long historical process, totally outside the offices of the world's central governments. New freedoms that we experience as part of the computer and information age are coming not from rational political planning, but from private sector initiatives and voluntary associations.

Oakeshott's laissez-faire philosophy may work in societies with long traditions of individual liberty, such as the United States and Great Britain. But what about societies with no recent memory of freedom? We are already seeing how difficult it is for the Eastern European countries to free up their economies and people. What Oakeshott might suggest is that freedom in these countries cannot develop overnight, but only through many years in which existing institutions—the "black market," religious groups, the family, voluntary associations—are cultivated and allowed to take over spheres of life once dominated by government.

Years ago, Oakeshott predicted the breakup of the Soviet empire, as he felt the human spirit could only be suppressed for so long. (Unlike many economic historians, Oakeshott finds the origins of

modern freedom in the works of the artists and artisans of the Renaissance.) But he was also concerned that the nations which cast off Communism might replace one form of rational politics for another, and that the West might unwittingly aid in such folly. This book can help us avoid that temptation. □

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## THE MACROECONOMICS OF POPULISM IN LATIN AMERICA

edited by Rudiger Dornbusch and Sebastian Edwards

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*Reviewed by Doug Bandow*

**T**he decline of Latin America has long been one of the most potent indictments of interventionist economic policies. Countries like Argentina, once among the richest in the world, are now basket cases. But we may finally be seeing a turnabout, with Presidents Carlos Salinas de Gortari of Mexico and Carlos Menem of Argentina, for instance, implementing serious economic reforms.

What makes their progress so dramatic is Latin America's history of populist economics. "Macroeconomic instability has long been a salient feature of the Latin American economies," write economists Dornbusch and Edwards. "Inflationary outbursts, balance of payments crises, and painful stabilization attempts have dominated the economic history of the region since, at least, the early twentieth century."

There is, of course, no guarantee that this cycle will not recur, and the situation in a number of Latin American countries, such as Peru, is not promising. Nevertheless, several nations in the region appear to have learned from their mistakes.

This volume begins with a review of the common characteristics of the various populist episodes in the region. Although every country faces unique problems, the governments' overall economic strategies remained quite similar: expansive fiscal and monetary policies "to accelerate growth and redistribute income."

Nevertheless, there are at least two variants of Latin American populism. Tufts University professors Eliana Cardoso and Ann Helwege argue that "classical populism favored activist governments committed to a strong role in price determination, to protection of workers and wages, to policies of cheap food, to state ownership of key industries, to state allocation of credit at low interest rates, and to favors for private industry." The more recent variety, symbolized by Peru's Alan Garcia, were more nationalistic and protectionist, intended to benefit selected businesses as well as labor.

Ironically, both the old and new populism have tended to bypass the poorest segments of the population. Urban workers and businessmen, rather than peasants, have been the primary beneficiaries of populist economies. Moreover, since growth did occur in the short term, "these gains were more distributive than redistributive," conclude Cardoso and Helwege.

Unfortunately, the end result of the recurrent bouts of populism have been the same all over—a disaster for everyone but the best-connected. Write Dornbusch and Edwards, "at the end of every populist experiment real wages are lower than they were at the beginning of these experiences."

Even this understates the agonies suffered by most "beneficiaries" of populist policies. In the short term, growth accelerates, but then bottlenecks start appearing. Finally, explain Dornbusch and Edwards: "Pervasive shortages, extreme acceleration of inflation, and an obvious foreign exchange gap lead to capital flight and demonetization of the economy. The budget deficit deteriorates violently because of a steep decline in tax subsidies and by a real depreciation. Real wages fall massively, and policies become unstable."

Of course, the economic and social problems that have so often led to populist excesses are very real. Because the Latin American economies have been badly manipulated by influential political elites, income inequality in Latin America is two and one-half times as great as in Asia, report professors Robert Kaufman and Barbara Stallings. The sharpness of the distinctions between labor and business has also played a role in promoting populism, as have institutional and political factors. Observe Kaufman and Stallings, "the possibility of new rounds of populism has been highest

in systems where severe electoral rivalries encourage an emphasis on redistributive issues and/or the exclusion of partisan adversaries."

These factors are evident in most of the countries covered in detail in this book. For instance, over the past nearly five decades, Argentina has suffered under populist demagogues and military dictatorships. MIT economist Federico Sturzenegger says that its travails fit the general populist pattern, though "the adjustment phase appears to have been extremely long, alternating back and forth between shock and gradualist policies. The end was characterized by social unrest, political violence carried to its height, a fall in real wages, an increase in inflation, and discreditation of the political parties and democratic system in general."

The experiences of Brazil, Mexico, and many other Latin American states have been scarcely better. All accumulated huge foreign debts, suffered economic decline, and failed to eliminate gross income inequalities.

Yet a few nations have always resisted the sirens' call to populism. For instance, Miguel Urrutia, executive director of a Colombian think tank, writes that "such policies have never been tried" in his country. In his view, a number of factors worked against the populist temptation, including the strength of the political parties and a generally non-ideological political class.

But Colombia remains a rarity. Is there reason for hope elsewhere in the region? Yes, precisely because the populist failure has been both so consistent and great. William Cline, of the Institute for International Economics, argues that the populist lessons "are not only compelling, but . . . they have already been learned by key political actors," such as Menem, Carlos Andrés Pérez of Venezuela, and Fernando Collor de Mello of Brazil. Cline may be too optimistic, but the economic prospects of Latin America do seem brighter today than at any other time in recent years.

After reading Dornbusch and Edwards, it should come as no surprise that nations such as Argentina have proved to be ongoing examples of the disastrous consequences of statism. One can only hope that the newly emergent reformers will have the courage to persevere. □

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—Leonard E. Read

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