Liberalism and the Good Society in the Iberian World
Miguel Angel Centeno

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This article investigates the causes behind the limited success of neoliberal economic policies in the Iberian world. In addition to Latin America, the author includes Portugal, Spain, and the Philippines in the analysis. The author argues that, in the absence of strong liberal states able to enforce the rule of law, economic liberalization has failed, expanding inequalities rather than bequeathing prosperity. The article gives special attention to variations in the outcomes of liberalization that expose the limitations of cultural explanations.

Keywords: neoliberal policies; Iberian world; Latin American development; liberal state

Two basic questions motivate this article. The first and broadest concerns political and economic patterns of the Iberian world. Has the Iberian political economic legacy been an uninterrupted failure? If so, then the lessons for the twenty-first century are particularly important. I contend that the experiences of large parts of the Iberian world serve as a preview for outcomes in the twenty-first century. Nowhere else have the liberal ideas that dominate the current century been so assiduously (if incorrectly) applied. If liberalism has been a disappointment in what I am calling the Iberian world, then the prospects for a liberal global order are indeed bleak.

But of course, no history of such a large number of societies and people can be understood as a unilinear process, nor can we expect not to find variations over such a huge land mass. This article is also meant to address a surprisingly popular perspective on Latin America and other parts of the Iberian world that focuses on the legacy of the Black Legend.1 According to that outlook, the supposedly universal problems

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in these countries stem from cultural traditions inherited through the Spanish
Conquest. Iberian culture is seen as inimical to both market economics and elec-
toral politics, because a combination of authoritarian centralism and what one
may call the “anti-Protestant” ethic doomed those parts of the world ruled by
Spain beginning in the sixteenth century. Anecdotal correlations would seem to
support such theories, and the rise of the East Asian miracles (with the relevant
exception of the Philippines) over the past three decades has only made it even
more of the conventional wisdom. This article analyzes commonalities, as well as
variations, within the Iberian world, thereby testing the validity of this form of
cultural determinism.

The second subject of this article—and the larger project of which it is part—is
an exploration of how classical liberalism has been applied in the Iberian world.
I begin by noting the dominance of liberalism not only in Latin America but also
in large parts of the world at two critical moments: the first wave of contempo-
rary globalization in the late nineteenth century and the second wave beginning
in the 1980s. Because Iberian liberalism was not an isolated instance, the cases
analyzed can tell us a great deal not just about the continent, but the manner in
which liberalism functioned outside of its birthplaces in Northwestern Europe
and North America. As electoral democracy and market economics become more
and more the only legitimate systems inside a global system, their adaptability and
relevance to specific countries become particularly significant. Whether read as
a cautionary tale or as a primer, this article will assist us in navigating the political
economy of the new liberal world order.

The relationship between the political economic performance of the Iberian
world and the application of liberalism is the theme that connects the various
parts of this article and the larger project of which it is a part. Specifically I wish
to explore the causal links between ideology and outcomes. To what extent did
Latin America “fail” liberalism?—a common if implicit theme in much of the
cultural-centric literature. To what extent was it the misguided application of an
ideology that resulted in the frustrations of the continent? No simple causal order
is assumed or argued; rather, I am interested in how the realities on the ground
and the aspirations from above came together to produce contemporary results.

It is critical to begin with an appreciation for the historical and geographical
variance we find in the political economy of the Iberian world. In the nineteenth
century, observers within and outside Latin America became enamored of the
“failed continent” perspective using the United States as the preferred counter-
factual example. Similarly, Spain and Portugal were seen as some of the “sickest
men” in Europe. In the twentieth century, similar unflattering comparisons have
taken place, and now East Asia and some cases of Eastern Europe have appeared
as preferred alternatives. The understandable habit of aggregating the experience
of Latin America—and less so that of the Philippines and the Iberian Peninsula—
has obscured potentially significant differences in how countries performed, both
across time and in relation to one another. In Latin America the relative success
of Chile, for instance, during both periods in question, merits attention. The fail-
ure of Argentina to live up to its early promise is another. The continuing failure
of the Philippines deserves comparison with other cases in Latin America. Finally, the great success of the Spanish and Portuguese transitions to electoral democracy and market economics in the last quarter of the twentieth century is striking, especially given their position relative to Latin America in 1975.

These variations imply that the homogeneous cultural argument does not provide an adequate explanation for any empirically confirmed political and economic “underperformance” that we may establish as part of the “Iberian” legacy. Despite their continuing appeal, cultural explanations for political economic outcomes can explain neither variances within the same culture nor historical shifts in performance. The very same values that hold Mexicans “back” seem to disappear in entrepreneurial zeal in the United States; what cultural legacies do Chile or Southern Brazil enjoy that Venezuela does not? How do we explain Spain’s voyage from “sickest man” in Europe to miracle?

Despite their continuing appeal, cultural explanations for political economic outcomes can explain neither variances within the same culture nor historical shifts in performance.

Much more feasible candidates for explaining the historical and geographical dispersion of performance are what we may call “institutional” legacies. Such a perspective shares with the culturalist school an appreciation for history (but not of the unchanging sort); it recognizes that the past does matter and has helped to shape the contemporary political economy of the region. But its historical view does not stop with “culture” or “worldviews.” Rather, it seeks to analyze the social structures that may encourage, support, and maintain a set of behaviors. We are no longer dealing with predispositions or attitudes but rather measuring the extent to which actual human beings are behaving and the structures and institutions that encourage or prevent them from acting in particular ways. Rather than saying that someone does not wish to vote or disdains the market, we ask whether historical agents have ever seen elections matter, whether they have had opportunities to participate in the market, and whether established rules and procedures are adequate to ensure those agents will continue to behave in desirable ways.

The variations we find across countries and between historical periods are therefore nothing more complicated than the results in the sets of institutions required for the desired outcomes. Countries with more consistent economic success are assumed to have better functioning institutions that lead to these outcomes. But to
simply assert this would be to engage in simplistic tautology. The question becomes why certain institutions arise in some places at some times. Using comparative methods, we can attempt to define which institutions appearing in which order are best suited for the political economic development we may wish to encourage.

My central argument is that the imposition of liberalism largely failed in the Iberian world precisely because the institutions assumed to exist by liberal dogma and that it requires for its efficient operation were not sufficiently well developed. Specifically, the combination of high inequality and the lack of state capacity produced a social, economic, and political milieu antithetical to the assumptions of liberalism.

Grafted onto this “different kind of wood,” the structures of liberalism did not produce the desired results; instead they promoted societies both untenable and, in many cases, mired in historical inertia. The product of this combination may be most obvious in the underdevelopment in the Iberian world of the “rule of law”—the assumed universalistic and effective application of regulations. The absence of the rule of law is a constant theme in accounts of life in Latin America, from the massive travel literature of the early nineteenth century to contemporary accounts of urban life. The exceptions are few, but prominent. Chile’s institutions and legal system were already recognized as exceptional in the nineteenth century. Spain and Portugal in the past thirty years have created not only much more equal societies and strong states but have also produced the political economic results expected by liberalism.

By Way of Definition

The Iberian world

What do I mean by the Iberian world? By that term I simply refer to the part of the globe that was colonized by Spain and Portugal in the sixteenth and seventeenth centuries. The empires included at least stations in every continent save Antarctica. Some have largely lost their Iberian connection (Macao, Goa), while others retain not only languages but a related set of ideological and religious symbols and values. I am interested in this broader setting as it allows us to go beyond the standard categories. Latin America is usually studied in isolation, while contemporary Portugal and Spain are more often compared to their pasts or to other Southern European societies. The Philippines is perhaps the most interesting inclusion as comparisons between it and Latin America are far too rare and may provide good avenues for comparisons to the East Asian countries. Finally, this broader set of cases will allow me to better address the question of a “cultural fit” by analyzing the variations that may exist within a single “legacy.”

To explore this Iberian world and the application of liberalism, I have identified a series of cases to be analyzed by the larger project. I am dividing the “liberal era” into two waves: the first beginning immediately after nineteenth-century independence and largely disappearing after the early twentieth century, and a second wave begun in the 1970s and continuing today (see Table 1).
TABLE 1
CASES CONSIDERED

<table>
<thead>
<tr>
<th>First Wave</th>
<th>Second Wave</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>1812-1923: Critical problems include government fragility, regional divisions, and frustrated development. 1976-2005: Successful creation of welfare state supported by increasing equality, integration into international economy.</td>
</tr>
<tr>
<td>Mexico</td>
<td>1855-1884: Some success in establishing central and democratic rule as well as some economic development, but persistent inequality. 1994-2005: Beginning with NAFTA increasing liberalization and some economic development, but problems with order and inequality remain.</td>
</tr>
<tr>
<td>Central America</td>
<td>Costa Rica 1948-2005, rest post-1990: Limited democratization in some cases, some economic success, still great deal of inequality and poverty.</td>
</tr>
<tr>
<td>Chile</td>
<td>1881-1938: Resolution of conflicts from first fifty years of independence. Increasing national integration and successful social and economic policy. 1989-2005: Arguably most successful implementation of Neoliberal reform.</td>
</tr>
<tr>
<td>Argentina</td>
<td>1861-1930: Successful integration into global economy and competitive democracy, but increasing social conflicts. 1983-2005: Consolidation of democratic practices, but increasing inequality and fragile economic model.</td>
</tr>
<tr>
<td>Brazil</td>
<td>1889-1930: Consolidation of national bourgeoisie. Regional divisions and inequality. 1985-2005: Consolidation of democratic reforms and significant growth, but continued social inequities and problems of order.</td>
</tr>
</tbody>
</table>

The good society

To judge the performance of a region, we need to establish some parameters. What is a good society? What models of it exist that we can compare with the Iberian world? My answer to that question is anachronistically liberal because the
examples I am using preceded the writings that were to form the liberal canon, but they do originate in that time and place that may represent the birth of the liberal ideal: Renaissance Italy. It is in this period that we find the virtues of ancient republicanism meeting the aspirations of contemporary liberalism: a good government will create the environment in which individuals can flourish in a secular world.

From mid-fourteenth-century Siena, we have inherited a nearly perfect allegory of what a good society might look like. Painted by Ambrogio Lorenzetti in 1338-1340, the frescoes on the “Effects of Good and Bad Government” nicely illustrate the aspirations of a liberal (or if one wishes, a liberal-republican) state. In these paintings we see that a good society must include wealth, order, and citizenship. The first is illustrated by the many representations of economic well-being found in both the city and countryside associated with virtuous government. The people are well fed, the fields are verdant, and the city is not only in respectable shape but clearly growing. Order produces peace, and both are enjoyed in such a fortunate milieu. Peasants can venture beyond the city wall without needing protection; rich and humble meet without tension on the streets. Worthy services—such as the instruction taking place in a classroom at the center of Lorenzetti’s painting—are freely offered. Finally, notions of citizenship are implied in the apparent equality of those depicted in the painting. This is not a portrayal of the rich where the poor and marginal are mere background. At the center of the painting are representatives from various classes and their spacing and positions imply civil equality.

What is most interesting for our purposes is the clear mixing of the liberal ideals of a high-quality life with the republican emphasis on good government. First, while we see signs of market activity, Lorenzetti’s frescoes are in the city hall of Siena—not the main market but the seat of government. They explicitly state that to have a good society, you must have moral leaders, and part of the room in which the murals are housed includes an image of upright governance in the form of an allegorical representation that includes classical virtues. We also observe an inclusive if altogether masculine parade of citizens. What is most striking is the rope that binds government to justice through the people and their representatives. By contrast, bad government depends on tyranny, which wraps justice in a cocoon and surrounds itself with avarice and vanity. Bad government has its consequences as well. In the corresponding fresco, the rich fields are now brown and no one is working them. The city infrastructure is fragile and falling apart, businesses are in disrepair, and, most important, violence haunts the streets.

In large parts of the Iberian world, such allegories of the good and bad government have been part of the public debate for the past two hundred years. As we will see in subsequent sections, only some societies have been able to achieve first-class governments. The question is, Why those and not others?

**Liberalism**

An answer to that question from a culturalist perspective brings us back to notions of virtue. According to outlooks that privilege mores and values, Iberians did not deserve the good society because their traditions were not suited to support
it. More pragmatic observers have also recognized the historical limitations of the Iberian world, but asked what manner of government could best provide the desired results. The answer for most of Latin America’s history and certainly for the past thirty years has been liberalism. Many contemporary observers, in fact, see the continent’s and the general Iberian world’s failures as stemming from the frustrated imposition of liberalism. Our next task is to provide a definition of what we mean by the liberal model.

Liberalism (or some version of it) is, in many ways, the political equivalent of a Judeo-Christian ethic in Western culture. Broad enough to encompass considerable disagreements, it still embodies the values of the “West” over the past five hundred years. We can separate the central tenets of liberalism into those having to do with behavioral assumptions and those dealing with institutional expectations.

With regards to the first, liberalism is based on the primacy of the individual and the rights thereof over and above any collective claims. When liberalism looks beyond single individuals, it is largely concerned with articulating and defending the social interactions between them, each seeking their own purposes. Liberalism does assume cognitive rationality, not necessarily in its extreme microeconomic form but as a guiding principle for social analysis. As revolutionary as its elevation of the individual is liberalism’s rejection of the perfectibility of humans. The same individuals who are held to be the center of all things are also seen as potentially opportunistic. The central problem of liberalism is to secure individual freedom while also allowing social interaction in a world of possible malfeasance. How does one create order from the various desires and acts of individuals who cannot always be counted upon to be virtuous?

The solution for liberalism is mutual dependence through specialization. We interact with each other not as some expression of species, but because we want something from one another. In its most basic form, we need what each produces or has specialized access to. Property in this vision is not only an expression and extension of the self, but that which allows us to participate in basic forms of social interaction. As I cannot depend on myself for all things, I will find it necessary to deal with others. To improve my ability to do so, I will also seek to specialize in the production of some service or good that I can provide at the highest possible price or return to my investment. This process of constant specialization creates a world of mutual interdependence. The solution to the possible dangers and problems associated with this dependence is a world of contracts. Contracts are assortments of rules by which we manage our interactions and ensure order and control. The role of the state is essentially to serve as a guarantor of these contracts through a variety of enforcement mechanisms. States serve to assure that we can engage in contracts with some certainty that opportunistic behavior will not lead us to too much harm. To ensure this role, it is critical that the state not represent only the interests of one group or another. Only by serving as an “honest broker” can the state both do its job effectively and protect its legitimacy. At the very core of a liberal state, then, is the notion of the “rule of law” as the basic glue allowing social interaction to take place.

This set of behavioral assumptions requires—implicitly and sometimes explicitly—a set of institutional arrangements. The first and most obvious is that individuals
must be free to “truck and barter” to all extents possible. Not only is this a basis of individual freedom, but it allows the critical process of interaction and mutual dependence to work its social magic. Similarly, democratic participation provides some control over the state as a guarantor. Democracy at its simplest level merely applies market logic to political decisions. It not only allows for the free choice by individuals but also the sort of mutual dependence on each others’ acceptance of rules that Liberalism considers the foundation of social life.

For this democratic system to function and to properly adjudicate over market interactions, it must include all relevant individuals and provide each of them with a putatively equal stake in the system. Only in this way can they be assured that their participation in it is worthwhile, and only in this way can you have an effective state ensuring the participation of all. But the most important institutional apparatus on which liberalism depends is the rule of law. Only with this assurance of fairness and universality can the hegemony of contract relations establish the felicitous combination of peace and plenty that liberalism promises.

**Liberalism and the nation-state**

Given the critical role through which the state underpins the institutional bases of liberalism, it is surprising to see over the past half century how much this doctrine and political power have come to be seen as antagonistic. This is especially surprising because the record shows that the advent of liberalism as a fully fledged doctrine parallels the rise of the state—both share ideological and historical paths. There is the familiar case of Hobbes and his Leviathan, but even better accepted progenitors such as Locke accept the significance of the state as a guarantor of proper market interactions. The oft-noted dichotomy between “Republicanism” and “Liberalism” obscures the reality that the state is very much to be found in the liberal canon.

It is no accident that both liberalism as a doctrine and the state as a political institution arose simultaneously. In a variety of ways they are dependent on each other and one makes the other one possible. On one hand, liberalism provides the state with a role above and beyond more contentious debates over virtues and values. Liberalism allows for the state to grow as something of an empty chalice, vacant of religious and ideological contention. In the same vein, if the contemporary state has any civic religion that unites its various parts, one could argue that it is liberalism and its notion of contract enforcement. As I have argued above, the state provides the institutional mechanism that liberalism requires for its smooth functioning. It is impossible to imagine a system of contracts in which price and value are divorced from status and where commercial relations are paramount without a system with which to assure the appropriate application of law. To paraphrase Barrington Moore: no state, no liberalism.

Liberalism also relies on the nation-state to balance the recognized economic inequalities that would result from the market with a politically based equality based on citizenship. From the very beginning, liberal authors recognized there would be a permanent social tension regarding the distribution of resources, no longer legitimated by outdated religious or feudal notions. Those authors stated
that the theoretical equality of citizenship and opportunity—again, dependent on and reinforcing each other—would serve to control the avarice of those with much while also serving to legitimate the system to those with little. By the last half of the nineteenth century, what we could call “national liberalism” sought to resolve the Polanyian “double movement” by allowing market forces while also channeling social responses to the market. Liberalism created mechanisms through which some social and political opposition—or better yet, safeguards—against the market could be established.

The importance of the state to the functioning of liberalism may be appreciated by noting two critical assumptions underpinning such a system. First, as noted above, liberalism assumes that the equality of citizenship will counteract and, if need be, control the inequality of resources. Liberalism can only function if there is some kind of systematic balance between representation and avarice. Consider a two-by-two space where we can define four possible combinations of property rights and citizenship rights (see Figure 1). Too much power on one or the other leads to anarchy, oligarchy, or populist demagoguery. One needs a strong state to ensure that both property and citizenship are properly respected and protected.
In the second example, consider the state’s position within an international setting (Figure 2). If citizenship and property as recognized by the state are to mean anything, the state must have the capacity to secure such rights in an international arena. It not only has to protect its citizens from each other’s possible opportunistic behavior but also from claims made from outside the system. At the same time, the state must also allow for the integration of those citizens and property holders into that global system. This requires a balancing of domestic and international interests.

Iberian Liberalism

Armed with a general notion of liberalism, to what extent can we say that such an outlook has been applied in Latin America and the rest of the Iberian world? Was liberalism the dominant school of thought at critical moments in the development of the contemporary Iberian world?

Not only did many prominent elites and regimes explicitly call themselves liberal for large parts of the nineteenth century, but the core ideas advocated by such groups
and governments reflected the basic tenets of liberalism discussed above. There are, of course, specific characteristics in the application and language used in each country, and one of the tasks of the larger project in which this article belongs is to explore the reasons for such an intellectual variation. But enough of an ideological kernel exists so that we can identify a cohesive world view in the region during this period.

The willingness of more recent adherents of the liberal worldview to call themselves by that name has been more limited. The very term “neoliberal” is usually used in a pejorative sense by those who oppose contemporary policies in Latin America. But in their beliefs about the centrality of the market, the legitimacy of elections, the significance of property, and guardedness of state power, many of these policy makers and thinkers share the goals and assumptions of their nineteenth-century predecessors. For the purposes of this article, I will concentrate on the performance of the Iberian world during the past quarter century. An analysis of the preceding stage will receive its appropriate attention in a future work.

Beginning in the 1970s the classic tenets of liberalism—politics by election and economics by markets—became increasingly accepted throughout the Iberian world. The victory of electoral democracy was clear by the 1980s and the imposition of market friendly policies became obvious after 1990 (Figures 3 and 4).

If we consider that liberalism requires the combination of market activity and political rights, a large part of the Iberian world (with the prominent outlier of Cuba) was within the “liberal” zone.3

Why was liberalism such a powerful intellectual force in the Iberian world? This is an important question to ask now as liberalism appears to have won the great ideological debate that raged through most of the twentieth century. Winners tend to assume that their victory was inevitable. The appeal of post facto
functionalism is considerable, and it is understandable why those looking back may consider that history was on their side. Such an attitude seems to pervade among sympathizers of market economics throughout the globe, particularly in Latin America and Eastern Europe. That markets should and would win the ideological battle is often seen as a natural process.

In the case of Latin America, the appeal of liberalism needs to be judged on the basis of the “welfare return” of policies based on that outlook. There is no doubt that democratization has improved human rights. There is much less evidence, however, for the “return” of liberalism to the economic arena. Spain, Portugal, and Chile have been economic successes, but the extent to which these successes are the effect of specific policies is questionable. In other cases, there is no clear evidence that national economies are doing better thanks to liberalism. The “lumping” that we see in Figure 5 indicates that much broader and contextualized factors have important roles to play in determining outcomes. I would suggest that these forces may both advance Liberal agendas and growth and that the relationship between the latter two may well be spurious.

The repeated victory of liberalism in the Iberian world may have much to do with the validity of its ideas and concepts. It is critical to understand the precise mechanism by which ideas are channeled and imposed, no matter how good or bad they may be. In the case of liberalism, we can identify several critical strains worthy of attention.

First, there is a generation of thinkers who come to their “liberalism” through the very same processes occurring in other parts of the world. As people of their age, they adopted the leading theories bandied about in the wake of the Enlightenment

FIGURE 4
MARKETS AND ELECTIONS IN IBERIAN WORLD, AVERAGE, 1995-2005

NOTE: Pol Sc = political freedom score; G7 = Group of Seven; NIC = newly industrializing countries.
and the Age of Revolution. Partly for that generation but certainly for the one that followed, the appeal of liberalism was also fueled by the success of the United States and especially the perceived contrast with the fortunes of Latin America.

Nevertheless, more instrumental political and economic interests should not be neglected. In their crudest form, aspects of liberalism were imposed by a combination of domestic elites and external powers for which a property-centric ideology was not only appealing but also convenient. Liberalism was the outlook of the global markets that Iberian countries wished to entice. Here ideological isomorphism had less to do with the intellectual appeal or value of a set of ideas and more with the strategic needs to propose alternatives that would find favor with those whom one had to please.  

Liberalism was the outlook of the global markets that Iberian countries wished to entice.
This process of “coercive isomorphism” was particularly pronounced in the case of access to capital. Beginning in 1973, massive amounts of global lending allowed almost all countries later to have neoliberal policies to borrow beyond their wildest dreams. From Mexico to Poland and from Hungary to Indonesia, governments went on a prolonged borrowing binge. For a wide set of social, political, and economic reasons, countries needed foreign exchange. Given limited export capacity, financial institutions were their only source of “ready money.” Yet such assets were unavailable unless the same countries could maintain their viability as international debtors. In part, this involved paying back some of the debt. But as amounts became astronomical, the actual payment became less important than providing banks and other relevant institutions with a reasonable case that the fulfilment of obligations would occur at an unspecified future time. Leading international banks were only too ready to play this game, which required countries to adopt the behaviors and polices of responsible international actors. As long as they were judged accountable—that is, as long as they were seen as moving toward a neoliberal alternative, they would be rewarded with more loans. The very imposition of these policies often made exit from such bargains difficult. As countries opened their markets to satisfy the conditions of their continued access to international cash, they saw previous domestic suppliers of a variety of goods and services disappear. As they were replaced by imported goods, the need for steady sources of cash with which to pay for these new imports increased. Neoliberalism not only justified itself but also appeared to make its adoption irreversible. Beginning in the 1990s, access to assets was augmented by the development of new sources of cash through portfolio investments.

### Did Liberalism Forge a “Good Society” in the Iberian World?

Considering the standards described earlier for a “good society” as well as the aspirations of many Latin American thinkers, the question is whether liberalism worked in the Iberian world. What were the effects of liberal policies?

In certain countries, liberalism had more time to produce results than in others, and one cannot hold it responsible—nor give it credit—for all failures and accomplishments. The first fact drawing attention involves the large variations found within the Iberian world. We can compare two aggregate measures of well-being: the Human Development Index (HDI) and overall wealth as measured through purchasing power parity (PPP). To standardize these measures, I have expressed them in terms of an index of the OECD average (Figure 6).\(^5\)

The variation in HDI may seem relatively small, but this measure has a very low standard deviation. Thus, the real distance between Peru (at slightly more than 80 percent of the OECD standard) and Spain (at the OECD mean) is quite large and has significant consequences for daily life. The PPP measures give us a better sense of the differences in these societies, with Spain and Portugal having practically achieved parity with the wealthiest societies in the globe while the Philippines remain among the poorest.

An even better indicator of the current state of these countries is provided by measurements of poverty. Poverty in Spain and Portugal is of a completely different
magnitude than in the rest of the Iberian world. Among the poorer countries, we again find huge variations with Argentina and Chile on one end, the Philippines and Peru on the other, and Mexico and Brazil in the middle (Figure 7).

The same pattern may be observed if we use health or access to medical resources as a proxy for well-being (Figures 8 and 9).

The gap between Spain and Portugal and the other countries is also obvious if we use access to modern technology as a proxy (Figure 10).

One trend is clear and practically universal throughout large parts of the Iberian world: the erosion of the middle class. Given our definition of a good society, this is a damning fact. Liberalism has long been associated with the aspirations and expectations of the middle sectors. The assault on their social position does not speak well of the imposition of the doctrine in the Iberian world. During the 1980s, the second and third population quartiles saw dramatic declines in middle-class fortunes, in some cases with losses as high as 30 percent of their income.6 Argentina is an extreme case illustrating the growth of what may be called the new poor. In 1970, only 3 percent of residents in Buenos Aires were poor; that number had increased to nearly 20 percent in 1990. In the past five years, the same process has accelerated with some sources indicating that up to half of the population of greater Buenos Aires may now be poor.

FIGURE 6
WEALTH AND WELL-BEING

NOTE: HDI = Human Development Index; PPP = purchasing power parity.
FIGURE 9
AVAILABILITY OF HEALTH PROFESSIONALS

FIGURE 10
ACCESS TO MODERN TECHNOLOGY
Overall, I would posit the imposition of liberal policies a qualified failure. The reason for this had nothing to do with cultural predispositions but with the contradictions between the assumptions of liberalism and the social, political, and economic reality on the ground in the Iberian world. Three critical conditions defined the Latin American experience with respect to liberalism: inequality, state incapacity, and external dependency. Below, I address each one in turn.

Inequality

It has become almost a cliché to say that Latin America is the most unequal region on the planet. The Philippines exhibits comparable rates of inequality. While Spain and Portugal had until relatively recently similar profiles and resulting conflict, the past thirty years have seen a dramatic decline in disparities in the two countries. In this section I examine those variations.

Levels of inequality in Latin America defy description and belief. Cross-regional comparisons are difficult, but no other set of countries as defined by any possible criteria shares such distributional characteristics. The top 5 percent of the Latin American income ladder receives twice the comparable share of their OECD counterparts, while the bottom receives half of what they would in the same countries. The past forty years have also witnessed very different dynamics of inequality in Latin America and the developing countries of East Asia. More significant for our discussion, Spain (and Portugal) have followed dissimilar patterns as well. Notice also the heterogeneity within Latin America (Figures 11, 12, and 13).

The combination of poverty and inequality makes Latin America an island of a particular form of misery.

The combination of poverty and inequality makes Latin America an island of a particular form of misery. Latin Americans live worse than they need to—the correlation between the GDP and the United Nations Development Program's (UNDP's) Human Development Index declines when the Latin American countries are added to a sample, indicating that living standards are worse than the national incomes would predict. Evidence also indicates that a significant part of the deprivation for large parts of the population does not necessarily stem from poverty in and of itself, but from the consequences of radically asymmetrical distribution.

This maldistribution is not a new issue or the result of events occurring over the past few decades—although the evidence does indicate that neoliberal policies
did contribute to the growth in disparities. Latin America historically had high rates of inequality, even during the postwar boom. From 1950 to 1970, industrialization and urbanization created some upward mobility for significant parts of the economically active population. Since the 1970s, however, every country, with the exception of Colombia in the 1980s and Mexico and Venezuela in the 1970s, experienced an increase in the concentration of income and wealth. The effects of the misdistribution were exacerbated by economic declines. For the region as a whole, per capita income dropped 10 to 11 percent during the 1980s. Figueroa spoke of a breakdown in the “distributive equilibrium” in Latin America with a subsequent disintegration of public life.\textsuperscript{8} The data from the mid-1990s on the subject are sparse and difficult to analyze. At their most optimistic, studies indicate that the boom of the early 1990s reduced the levels of poverty in some (but not all) countries, while also producing greater inequality.

The past two decades have also seen what one analyst has called a regressive bias in policy making. Combined with a financial crunch begun with the debt crisis of 1982, these pressures have eliminated the state as a leveler of last recourse. There remains an intense debate regarding the role of neoliberal policies in the development of inequality in Latin America.

\textit{State incapacity}\textsuperscript{9}

Recent scholarship has established that it took an inordinately long time to establish a legitimate social and political order in large parts of the Iberian world. Even after the project of state building succeeded, many countries suffered through cycles

\vspace{1em}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{inequality_across_regions.png}
\caption{INEQUALITY ACROSS REGIONS}
\end{figure}

\begin{center}
NOTE: LA = Latin America; EA = East Asia.
\end{center}
of revolt and deinstitutionalization. Over the past two hundred years, the rule of law has been consistently frustrated in Latin America and the Philippines. I argue that the absence of such a legitimate order made the balance between political and economic power mediated through the law impossible in the region.

The problems emerged at the very outset of the sovereign life of the countries included in the Iberian world. Their independence struggles shredded the legal
fabric of the *ancien regime* without bequeathing the means to create alternative legal structures. Liberals applied free market dogmas without inscribing an underlying juridical order capable of legitimizing public authority. The first stage of Latin American liberalism was unable to resolve the difficult contradictions between its two central tenets, an emphasis on individual liberty and the creation of state strong enough to humble any corporate groups that threatened individual liberty.

At the same time that it weakened the hold of authority on society, Republicanism discharged massive mobilization among subaltern sectors. Constitutional discord was more than a clash of ideas among revolutionary leaders to guide liberal communities into statehood; it was also the context for class, ethnic, and racial struggles over the meaning of community. Simón Bolívar complained,

> The majority of the people have been led astray by religious fanaticism and reduced by the allurements of a devouring monarchy. To the torch of liberty, which we have offered to America as the guide and object of our efforts, our enemies have applied the incendiary brand of discord, of devastation, and the strong enticement of usurped honors and fortunes for men who have been debased by the yoke of servitude and reduced to brutishness by the doctrine of superstition.

Similarly, Juan Bautista Alberdi, reflecting on the failures of the 1820s, once noted that “in the first cries of triumph, (liberals) forgot a word that is less sonorous than *liberty*, but which represents a counterweight which keeps liberty afoot: *order*.11
The frustrations of the early liberal state throughout the Iberian world may be observed by measures of governing capacity. One apt indicator is the ability of the state to conduct a decent national census. While the United States could hold its first population count by 1790, most of Latin America (with the exception of Chile) had to wait until quite late in the nineteenth century or even the early twentieth to obtain such basic information. The construction of infrastructure is another basic measure of state capacity. The figures that follow indicate that the Iberian World was far behind the North American republics in providing basic services. While some of the gap may be explained by differences in national wealth, the distance between the North American successes and the others is striking (Figures 14, 15, and 16).12

One could easily interpret the years between our two waves of liberalism as the “golden age” of the Latin American state. Although never fully institutionalized by Weberian criteria, during the period roughly spanning the First World War and the oil crisis of 1973, the Latin American state created and fortified many of the basic institutions associated with political power. It also encroached into the economic sphere much more than its predecessors. Partly as a result of this and how these policies were perceived, an effort began in the mid-1970s to roll the state back out.

The assault on the state along with the accompanying “lost decade” of economic disaster led to a new stage of deinstitutionalization across Latin America, similar in many forms to the chaos of the postindependence years. The two archetypal cases

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**FIGURE 14**

**RAILROADS**

- **US-Canada**
- **Latin America**
- **Iberia**
- **Phil**

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may be Colombia and Peru. In both countries, faced with a challenge to its monop-
oloy over the means of violence, the state buckled. In Colombia it literally ceased to
rule in parts of the country, while in Peru the ability of the state to provide even
basic services in the capital came under assault. Argentina’s collapse in 2001 and
2002 is yet another illustration of the fragility of order in the Iberian political land-
scape, but the trend was not just the outcome of isolated violent attacks.

Deregulation, privatization, and internationalization of domestic markets have
not eradicated rent-seeking habits; nor have they put regional economies on track
to sustained growth. The combination of market economics and liberal rule, far
from delivering on their upbeat prophecies, has usually resulted in polarized
extremes: social upheaval against market rules or praetorian brutality. In Latin
America, the pattern of market allocation of resources and legal equality of polit-
cal subjects was not a harmonious, self-reinforcing combination (in the idealized
versions of what transpired in North America), but an explosive one.

The vast majority of Iberian states in the 1990s and in the twenty-first century
shared the same problems as their predecessors. For one, they had neither the
fiscal resources nor the organization to manage the challenges facing them.
Overall, Latin American countries have less than half of the taxing capacity of the
OECD averages (as measured by taxes as a percentage of GDP). The weakness
of the state has led not only to the lack of provision of basic welfare goods but also
to a skewed burden on taxes. The lack of resources helps explain the almost uni-
versal low quality of government services throughout the region. Evans and
Rauch’s work on comparative bureaucracy clearly indicates that Latin American
countries are uniformly below the norm in their “Weberian” scale.13

The weakness of the state has led to a boom in the informal economy.
Following Tilly’s conception of the state as a protection racket,14 the informal
economy consists of transactions where the state neither provides protection nor
receives a cut. The relationship between the informal economy and the state by
definition is one of unending conflict. The whole point of the state is to assert its
authority within a territory, but the whole point of the informal economy is not to
have anything to do with formal authority. Thus, all things being equal, there is a
close relationship between state strength and the development of an informal
economy. An informal economy will develop when and where it can, but an econ-
omy only needs to be informal to the extent that it has to be. The relationship
between the state and the informal economy is thus cyclically causal and nega-
tively correlated to the power of the state. The weaker the state is, the greater the
likelihood that many economic transactions will escape its grasp. The more ambi-
tious the state, the more cause for escape there is.

Dysfunctions are the institutional effects of a contradiction between the state’s
willingness to make rules and its ability to police. Such dysfunctions arise when
there is a discrepancy between two forms of state power—a despotic state can
produce many regulations but it is only an effective state that can enforce them.
The gap between nominal capacity and failure in implementation begets a frus-
trated state seeking to influence public life but lacking the resources to match its
ambitions. In such cases, states have claimed primacy and an expanded scope of
public interference. Yet these same states have often been unable to provide the
guarantees and services required for those rights to be accepted and defended.

Over the past two decades, frustrated states have witnessed the expansion of
crime in every Latin American city. Police response has been vicious and closely
correlated to income: the São Paolo police killed 1,470 civilians in 1992 as com-
pared to 25 killed by the Los Angeles Police Department. The violence of every-
day life spans a wide variety of forms. In 1991, violence was the leading cause of
death among adult, working-class Latin Americans. Security forces have been
overwhelmed in most urban centers. In Argentina alone, the total recorded crime
per 100,000 has increased nearly fifty-fold (fifty!) in the past twenty years; in
Uruguay it has nearly doubled.

These phenomena indicate the failure of the rule of law. Liberal theory pre-
supposes the existence of a legal framework capable of enforcing rights and oblig-
ations flowing from private and public entitlements. Much of Latin America's
turmoil can be traced back to the incapacity of the state to enforce laws. Rather
than a bedrock for markets and democracy, Latin American legality is a quick-
sand of rent-seeking and contestation. Reformers rushed to emancipate markets
without attention to the institutional life that enable them to function. Bereft of
public rules, wealth-seeking behavior often mutated into private rent-seeking; in
turn, market activity aggravated social inequalities.

Global marginality and dependency

As discussed above, the notion of citizenship is critical to liberalism. Citizenship must be a valuable good, but what if a state cannot deliver? What if
decisions are made or approval sought externally? The dependence of most of the
Iberian nations on external forces rests on three legs: global marginality, migra-
tion, and remittances.

The first term points to the subordination of the Iberian world in the global
economy and its reliance on asymmetrical relationships with one or more metrop-
les for its financial and infrastructural needs. Mexico may be an extreme
example in that it depends on a single country, the United States, for more than
two-thirds of its international trade. Less obvious is the dependence of Mexico on
the same country for many of its transportation and infrastructural needs. Central
America is in a similar situation. Despite the increasing importance of China in
its trade over the past few years, Latin American countries are tied to the United
States in ways that curtail their autonomy. Venezuela is particularly interesting
given Hugo Chavez's recent rhetorical attacks. While it is true that the United
States depends on Venezuela for a significant portion of its oil imports, these
could be replaced for higher prices in the short term. Venezuela, on the other
hand, relies much more heavily on the United States for its sales. Moreover, the
lower quality of Venezuelan oil would make difficult its sale and processing on a
non-U.S. open market. In other words, if Venezuela and the United States were
to have an international equivalent of the Fight at the OK Corral, the American
gun would be much larger.
Such a dependence on external markets is even more pronounced in the financial arena. While intra-American investment is increasing, Latin America largely still depends on a global financial market skewed to the United States. The possibility of an investment strike organized through an American response to Latin American policies would be disastrous to the continent.

Global marginality and dependence mean that in the balance between the satisfaction of domestic and international interests—which for liberal citizenship to work must at least be neutral or favored toward domestic constituencies—is skewed toward external powers. In determining how to respond to internal challenges or demands, every Iberian state, with the possible exception of Spain and Portugal, has to consider international—and, especially, North American—responses.

For individuals, the critical significance of migration for survival and prosperity makes national citizenship less valuable as well. Consider the facts:

- Between 1980 and 1990, more than 3 million working immigrants from Latin America entered the United States. In 1990 to 2000, the numbers were larger than 6 million.
- An estimated 11 million Mexican citizens are currently residing in the United States.
- There are more than 1.5 million immigrants from Latin America in the European Union.
- More than 8 million Filipinos reside and work in other countries.

For many of these people—and maybe for the majority—the rights they may claim as citizens of their home country pale in relation to the benefits they derive from residence and employment in a different nation. The authorities that can make or break their lives are not ones for which they vote, and they, in turn, may not even recognize the claims their citizenship might make. This means that people compete in a liberal economic world with its accompanying uncertainty, but do not enjoy lives in a parallel liberal political sphere that provides protection.

The last leg of the dependency structure has to do with remittances. This is a product of migration and marginality as discussed above. Many of the relevant countries have become dependent on cash inflows sent from abroad by those who migrate abroad seeking opportunity. The numbers are staggering; according to the Inter American Development Bank, in 2005 they totaled $53.6 billion to Latin America alone, with Mexico receiving $20 billion. The Philippines received $10.7 billion that same year. In these countries, remittances have become as important a source of economic vitality as more traditional forms of foreign direct investment.

Exploring the Exceptions

To the pattern of failure sketched above, it is necessary to contrast three cases that, in the second phase of liberalism, were able to create the good society as defined earlier in this article: Chile, Spain, and Portugal. How do we account for these exceptional outcomes?

We can identify four critical elements behind the success of those countries: The first is a massive reduction in abject levels of poverty. This has been partly a
product of economic growth but also of declining levels of inequality and the provision of some government-funded public welfare. The second critical element has been the creation of institutional capacity on the part of the state that has allowed for the establishment of a legitimate and credible rule of law. The third element is the resolution of foundational social tensions. It may not be accidental that those three societies are relatively homogeneous in racial terms and that the preexisting conflicts were along class lines—a fact thus resolvable through economic development. The final factor of critical importance in the two European cases has been external support accompanied by pressure to make the liberal hope and commitment a political reality. These themes are the subject of future work.

Conclusion: No State, No Citizens, No Market

Pulling the state out of the market, and even public activity, without putting into place a legitimate system to hold rulers and ruled accountable to the same norms, has had perverse consequences in the Iberian world. It is one thing to dismantle state intervention in Western Europe or North America where the history of liberalism has bequeathed a deeply embedded rule of law, and where deregulation and privatization do not necessarily imperil civic equalities inscribed in legal rules and procedures. Even the harsh reforms imposed by Margaret Thatcher allowed market forces to work in England without destroying its institutional base. Another thing is to free markets in environments where there was never an opportunity to strengthen liberal political structures. Liberalization on its own does not stabilize or protect property rights although it transfers ownership from the public domain and places more collective decision making in private hands. In the end, the troubles with the rule of law in Latin America beg large contextual and historical questions. Latin America suggests a need for legal and social reform, not just technocratic solutions.

In the absence of strong liberal states, we witness the failure of neoliberalism in most Iberian countries: wealth without well-being, governments without laws, markets without contracts, and citizens without rights.

Notes


2. See Wolfgang Drechsler, Good and Bad Government: Ambrogio Lorenzetti’s Frescoes (Budapest, Hungary: Open Society Institute, 2001).

3. Scores lower than 3 on Freedom House Political Index and Heritage Foundation economic freedom Index. For comparison, I provide the scores for the Group of Seven (G7) countries as well as seven strategic newly industrializing countries (NICs) (Czech Republic, Korea, Poland, Thailand, South Africa, India, and Turkey). See also Joseph Cohen and Miguel Centeno in “Neoliberalism and Patterns of Economic Performance, 1980-2000,” Annals of the American Academy of Political and Social Science 606 (2006): 32-67.

5. Unless otherwise specified, sources for charts are the United Nations Development Program (UNDP) and the United States Agency for International Development (USAID).


