

## LATIN-AMERICAN POLITICAL CYCLES: AN EXPLANATION

by Jose Luis Sardon

Good morning, ladies and gentlemen. I am delighted to be here at the Philadelphia Society for this discussion of the cycles on liberalization and authoritarianism in Latin America. I thank Bill Campbell for inviting me to this meeting.

I would like to begin by explaining a terminological precision, as I believe that liberalization should not be opposed to authoritarianism. *Liberalization* is a term with economic content; *authoritarianism*, one with political content. Liberalization consists of the deregulation of markets and their opening to competition. The opposite of liberalization would be to establish legal and bureaucratic barriers for market access.

Authoritarianism, on the other hand, consists of the suppression of elections and the freedoms of: expression, assembly, and association. It can be said that the opposite of authoritarianism is democracy, if it is understood that democracy is defined not only by having elections, but also by respecting civil liberties previously pointed out by the government.

The term *illiberal democracies* —coined by Fareed Zakaria— refers to governments of democratic origin, but with an authoritarian behavior<sup>1</sup>. In Latin America, the best example of this type of government is the government of Hugo Chavez, whose mandate as President of the *República Bolivariana* of Venezuela has been approved of several times at the ballot boxes. However, this government has flagrantly violated the freedom of speech in its country.

Illiberal democracies are also characterized by its interventionist policies, which pretend to replace market decision-making by the infinite wisdom of the Great Boss. According to this definition, Chavez's government also qualifies as an illiberal democracy, because of its nationalization of private enterprises, and because Chavez has gone to the extreme of dictating the prices of essential goods using his radio and TV program.

In Chavez's case, political authoritarianism and economic statism go hand in hand. However, this is not always the case. In fact, in Latin America there have been authoritarian governments that have liberalized the economies of their countries. Examples are the

governments of Augusto Pinochet in Chile (1973-1989), and of Alberto Fujimori in Peru (1990-2000).

These governments ended notable inflationary processes, opened their markets to competition, and privatized public enterprises. In Chile, Pinochet found an annual inflation rate of 362%; when he left office, it was 17%. In Peru, Fujimori found an annual inflation rate of 7,482%. When he left office, it was 4%<sup>2</sup>. Additionally, Pinochet lowered the average tariff for imports from 94% to 15%<sup>3</sup>. In Fujimori's case, he lowered this average tariff from 66% to 14%<sup>4</sup>.

Does this mean that economic policies are linked to the political nature of the regimes from which they emerge? Does politics shape economic policies? From my point of view, I consider that economic policies are relatively autonomous from political regimes from which they flow from.

Economic policies depend on the economic education of the rulers — and, in a democracy, also of the ruled. Specifically, economic liberalization derives from the understanding of the principles upon which a free economy is based: property rights and competition. Nothing stops economic liberalization when both rulers and ruled are clear about its importance.

However, the institutionalization of a free economy usually goes hand in hand with the establishment of a certain kind of political regime. This kind of regime is the one that I will call *moderate* here. *Moderate* regimes — either a regime of a dominant party or, better yet, one of a two-party system— are more associated with the affirmation of economic freedom than *extreme* regimes are — either a personal regime or a multiparty system one.

We will better understand the link that exists between economics and politics, if we start by classifying political regimes based on their degree of openness, competition, and pluralism, as expressed in their party systems<sup>5</sup>. Political parties are the first level of political organization of a society. For this reason, the kind of party system is of the highest economic and social significance.

Two out of the four sub-types of political regime that I have mentioned can be definitely considered democratic: the two-party and the multiparty systems. However, the emergence of economic freedom is only associated with the first one. Multipartyism —at least, in the context of a republican and presidential system of government— prevents the affirmation of the rule of law and, therefore, of economic freedom.

In the last fifty years, Brazil, Bolivia, Ecuador, and Peru have had no less than six different political parties that managed to reach power. These parties were not only meaningful —since they were real options for reaching power— but also effective —as they in fact constituted governments. However, almost all of them arose in electoral circumstances and, after leaving office, they disappeared from the political scene.

In Peru, for example, both the *Unión Nacional Odriísta* (UNO) and the *Movimiento Democrático Peruano* (MDP) ruled the country in the 1950s, but vanished at the end of the 1970s. The same has happened with most of the parties in the other countries that I mentioned before. Latin American political parties are very volatile. Political scientist Michael Coppedge counted more than 1,200 parties in the Congresses of the nine largest Latin American nations during the 20th Century <sup>6</sup>.

This situation has deep consequences. Two-party systems are associated with the affirmation of the rule of law because they provide what game theory refers to as *repetitive games*, bringing incentives for political actors to have a long term perspective and developing strategies of prestige. On the contrary, multiparty systems generate *non-repetitive games*, which thus provide incentives for developing predatory strategies.

In a two-party system, the party in power definitely knows that in the next election it can become the opposition, but in the following one it can return to power. In a multiparty system, on the contrary, the party in government knows that in the next election it cannot become the opposition, but that it will go to jail. In fact, in the last twenty years, several Latin American Presidents have ended up in prison or as fugitives from justice.

Some Latin American countries have had two-party systems, and, nevertheless, have fallen into populism. They were not able to generate a long-term perspective, and a comprehension of free market decision-making mechanisms. This is explained by the fact that these two-party systems did not spring off from their systems of representation, but were imposed from the top-down by agreements of their main political parties in order to limit competition.

Colombia provides us with an example in the second half of the 20th Century. There, in the early 1960s, conservatives and liberals agreed to alternate the power for the following sixteen years. Evidently, I am not praising this kind of fake two-party system.

The consequences of multipartyism are so terrible that, in comparison with it, even regimes of a dominant party are preferred, as long as the regimes are really a system of a dominant party and not one of a hegemonic party. The difference between these two systems is having competitive elections. In the first case, the dominance of one single party is the result of a majoritarian decision of the electorate; in the second, it is the result of some kind of political maneuver.

Today, we find examples of a dominant party in East Asia: the Liberal Democratic Party of Japan, the Kuomintang of Taiwan, the Popular Action Party of Singapore, and even the Communist Party of China. Obviously, Japan is closer in having a competitive political system than China. However, it should be recognized that in China — since Deng Xiaoping— there has been a pacific and ordered alternation of persons in power.

These regimes of a dominant party cannot be compared with the personal regimes of Kim-Jong-Il in North Korea, Robert Mugabe in Zimbabwe, or Fidel Castro in Cuba. In this sub-type of extreme regime, it is impossible to consolidate the rule of law, since the will of one single person — owner of the absolute truth — is the law.

The central problem of Latin America is that its political process oscillates between one extreme regime and the other. Latin American countries are trapped in the vicious circle of going from multipartyism to a personal regime, and to return from a personal regime to multipartyism. Peru offers the best example where during the last four decades these two regimes have alternated.

In the 1960s, Peru had a democracy with seven parties in Congress. Controlled by an opposition coalition, it devoted itself to censor the ministers of President Fernando Belaunde, thus ending up in having 178 ministers <sup>7</sup>. This provoked the coup d'état of 1968, and the establishment of a military government for the following twelve years. When Peru became a democracy again in 1980, it had an average of ten parties in Congress during the whole decade. This situation contributed to having governments incapable of stopping terrorism and inflation, thus provoking Fujimori's self-coup of 1992.

In this decade, Peru has returned to a democracy with an average number of nine parties in Congress. In spite of it, things are going relatively well. Regarding the economic agents, it has generated trust by having rulers such as Alejandro Toledo and Alan Garcia, who, although coming from the center-left, deepened the economic policies of the previous decade. What is happening now in Peru is the same thing that happened in Chile in the 1990s.

However, the difference between Peru and Chile is that Chile already has a moderate regime. In some sense, this is a regime of a dominant party, since the government has been in the hands of one single group for many years. Nevertheless, in another sense, it is a two-party system, since there is an opposition of the right which is relatively consolidated. In any case, in Chile it is not possible for an anti-system candidate such as Ollanta Humala in Peru – who almost became President in the Peruvian elections of 2006 – to get into government.

How do moderate political regimes emerge? Why are Latin American democracies –with the exception of Chile– multiparty regimes? The origin of Latin American multipartyism, fundamentally, comes from the system of representation with which they elect their Congresses. Thus, the cycle of multipartyism and authoritarianism in Latin American can be stopped if the system is redesigned.

The American two-party system is a product of the plurality or simple majority system, based on single-member electoral districts, from which members of the House of Representatives are elected. During the 20th Century, as Theodore Roosevelt up to Ross Perot experienced, it is practically impossible to break this two-party system, since the electoral rules prevent a third party to have a significant congressional presence.

The U.S. is not the only case in which this system of representation has produced a two-party system. The same has occurred in England and Canada, and not to mention Germany and France, that after World War II established different modalities of the very same system. Clearly, this political reform allowed stabilizing the democratic process in these countries, overcoming the convoluted political experiences previous to the War.

Chile has distinguished itself from the rest of Latin America because of the fact that, since 1989, the members of its Congress are elected in bi-nominal electoral districts. It has a reductive effect on the number of political parties similar to the one of the American single-member districts <sup>8</sup>.

In the last twenty-five years, Mexico, Bolivia, and Venezuela have tried variations of the plurality system. Like Germany, they established that one part of their Congresses was to be elected individually and the other part through lists. However, the difference with Germany is that they did not have parliamentary systems. Thus, the results were not encouraging, contributing to the empowerment of Hugo Chavez and Evo Morales. In 2006, Mexico

was on the verge of getting its own dose of indigenous nationalism with Manuel Lopez Obrador.

Argentina, Brazil, Colombia, Ecuador, and Peru have persisted in the proportional representation system, based on the election of congressmen in multi-member electoral districts. In Argentina, this system is known as *lista sábada* (*sheet list*), in reference to the fact that it covers the reality of the country under a long list of candidates to Congress. Ecuador goes to the extreme of electing its congressmen in a single national district, thus getting the maximum of fragmentation.

Why do Latin American countries use proportional representation? How do they justify it? As can be supposed, the great basis of proportional representation is the appeal of democracy, enshrined as not only the main but the only principle of social organization. Proportional representation, it is argued, gives a more democratic representation —i.e., a more socially representative and ideological diversity — than the plurality system.

The argument of social representativeness implies that it is not important that congressmen are honest and hard working, but that they come from this or that race or sex. The American academy, dominated by the Left, and even by the Inter American Development Bank supports this argument passionately. It is argued that this system is adequate for plural societies like the ones in Latin America.

The argument of ideological pluralism is older and more respectable, but in the end equally wrong too. It comes from a most unsuspected time and place: Victorian England. In the second half of the 19th Century, John Stuart Mill —already in his romantic stage— advocated for the introduction of a proportional representation arguing accordingly <sup>9</sup>. This proposal was not taken into account in England, but was taken into account first in Belgium, and then in France and Germany. Latin America came afterwards.

However, the lack of appreciation of the two-party system by the conservative and libertarian American thinkers has also contributed to this situation. Generally, these underline the value of principles such as separation of powers or federalism without valuing this system. The only exception might be Samuel P. Huntington —before his cultural furor <sup>10</sup>.

By the way, it should be pointed out that the effects of proportional representation are not only limited to encouraging multipartyism. They affect the performance of the political system in an even more

direct way, diluting any accountability. Because of this, congressmen render accounts more to the party's big bosses in charge of elaborating lists than to their own constituencies. It is not really a coincidence that there is no Spanish translation for the word *accountability*.

Economists Torsten Persson (from Sweden) and Guido Tabellini (from Italy) have empirically demonstrated that there is an association between proportional representation and higher levels of public spending, tax pressure, and perception of corruption <sup>1</sup>. On the contrary, by establishing a clear link of representation, single-member districts establish a stronger citizen control over politicians. This generates a virtuous circle of legitimacy and limited government.

What will happen in Latin America? Until when will it be trapped in the cycles of multipartyism and authoritarianism? Will the contrast of Chile with the rest of the region be enough to inspire the other countries to undertake the political reform they so urgently need? I do not know. But I consider it important that at least the friends of economic liberty and political order who are gathered here are clear about this.

## Notes

<sup>1</sup> Fareed Zakaria, *El futuro de la libertad: las democracias "iliberales" en el mundo*, México: Taurus, 2004.

<sup>2</sup> World Bank, *World development indicators*, Washington DC: World Bank, 2007.

<sup>3</sup> Ricardo French-Davis, Patricio Leiva y Roberto Madrid, "Liberalización comercial y crecimiento: la experiencia de Chile, 1973-89", *Revista de Pensamiento Iberoamericano*, Madrid, 1992.

<sup>4</sup> Banco Central de Reserva del Perú y Ministerio de Comercio Exterior y Turismo, *Series Estadísticas*, Lima: BCRP y Mincetur, 2008.

<sup>5</sup> José Luis Sardón, "Estado de derecho y régimen político", *Revista de Economía y Derecho*, 5(17): 37-57.

<sup>6</sup> Michael Coppedge, "Latin American parties: political darwinism in the lost decade", en: Larry Diamond y Richard Gunther (editores), *Political parties and democracy*, Baltimore MD: Johns Hopkins University Press, 2001.

<sup>7</sup> Matthew Soberg Shugart y John M. Carey, *Presidents and assemblies: constitutional design and electoral dynamics*, Cambridge: Cambridge University Press, 1992, p. 113.

<sup>8</sup> José Luis Sardón, "Partidos, gobierno y Congreso: Chile y Perú, 1965-2005" en: Arturo Fontaine, Cristián Larroulet, Jorge Navarrete e Ignacio Walker (Editores), *Reforma de los partidos políticos en Chile*, Santiago: Consorcio CIEPLAN, CEP, Libertad y Desarrollo y Projectamérica, 2008, pp. 221-232.

<sup>9</sup> John Stuart Mill, *Considerations on Representative Government*, New York: Prometheus Books, 1991[1860].

<sup>10</sup> Samuel P. Huntington, *Political order in changing societies*, New Haven: Yale University Press, 1968.

<sup>11</sup> Torsten Persson y Guido Tabellini, *The Economic Effect of Constitutions*, Cambridge MA: MIT Press, 2003.