

If Saddam Were Only Brazilian

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CARACAS, Venezuela - Two mobs were hurling bottles at each other on a Caracas street the other night. The ground was littered with broken glass, a few gunshots had been fired, and the army was popping tear gas to forestall a riot (though Venezuelan gas is wimpish stuff, like onion-scented air freshener).

My mob was made up of Chavistas, militant supporters of President Hugo Chávez, and we could see what looked like anti-Chávez forces 100 yards down the road. I slipped away to have a look at them before the enraged mobs tore each other apart . . . but more on that in a moment.

That tense moment seemed to capture the mood in much of South America these days: desperate, angry and above all unstable -- with the U.S. nowhere in sight. The World Bank announced last week that Latin America was suffering its worst recession in two decades, shrinking its economy an estimated 1.1 percent this year, making it by far the worst-performing region in the world.

Our neighborhood risks falling apart. Worse, at this pivotal time, we in the U.S. are losing the battle of ideas in Latin America.

In the 1990's the "Washington consensus" -- emphasizing free trade and free markets -- gained ground, and with tinkering it still offers the best hope for the continent. It is the policy that success stories like Chile and to a lesser extent Mexico have generally adopted.

But this policy is now regarded by many as failed and discredited. That's why a pro-Castro leftist like Mr. Chávez was elected in Venezuela, and why free-marketeers have been losing elections in Brazil, Ecuador and, at the local level, Peru. Ask hawkers in the markets, and they tell you that Washington consensus policies enriched only crooked politicians.

Unfortunately, there's some truth to that. Capitalism hasn't done well in South America.

"Inequality in most Latin American countries is far worse than 10 years ago," notes Julia Sweig of the Council on Foreign Relations. In Brazil the richest 10 percent of the population now gets 48 percent of the income, while the poorest 10 percent gets 0.7 percent. In Argentina, once a first-world country, I visited a slum where doctors told me that 90 percent of the children had worms.

If only Saddam Hussein ruled Brazil! If only Hugo Chávez were developing nuclear weapons! Then Washington might pay attention to the fire next door, which will affect us as much over the next two decades as Iraq's machinations.

Our essential first step is simply engagement, for the Bush administration has several Iraq policies but no Latin America policy. It's particularly sad that the friendship between President Bush and President Vicente Fox of Mexico has soured.

Second, trade will be the key engine for a Latin recovery, and in fairness it's one of the areas where the Bush administration has been busy in Latin America -- if also hypocritical, by scandalously protecting steel and agriculture. The U.S. needs to build on this month's landmark free-trade agreement with Chile.

Third, we must fight corruption more aggressively. The State Department publishes an influential annual report on human rights abroad; Treasury could publish a similar accounting of corruption abroad.

Corruption has undermined the efficiency of capitalism in South America and eroded support for markets. It's one reason too many South Americans see foreign investors and lenders only as exploiters.

Latin America has the world's best graffiti, and I was struck by the angry scrawls on American banks in Buenos Aires. A Citibank branch was defaced by this line written in English (with Spanish grammar): "Thieves, returns ours dollars!"

It seems to me that Citicorp's chairman, Sanford Weill, could pull out a can of paint and scrawl those words on the Argentine Consulate in New York. Still, however misguided, that fury needs to be addressed. Unless we pitch in to help fight corruption, unless we help build the case for markets, then much of South America will spin out of control -- ultimately looking like that angry street scene in Caracas.

Speaking of which, the second mob down the street turned out to be Chavistas as well. Two angry mobs were straining through the tear gas to rip each other apart, without realizing they were on the same side. The delusion underscored the slightly comical, mostly tragic way in which, as we look the other way, our neighborhood is coming apart.