

A MARSHALL PLAN FOR LATIN AMERICA

THERE MUST BE A FUNDAMENTAL REVISION OF OUR COUNTRY'S ROLE IF WE ARE TO MAKE DEVELOPMENT — AND DIPLOMACY — TRULY “TRANSFORMATIONAL.”

BY GEOFFREY CHALMERS

During the past year, a period described by *The Economist* as “The Battle For Latin America’s Soul,” the U.S. Agency for International Development attempted to reform the development assistance process while also linking it more closely to America’s strategic interests, both short- and long-term. In parallel, the Millennium Challenge Account, a Bush administration initiative to reward countries that meet certain criteria, has taken off and often works side-by-side with USAID.

During the same period, American politicians approved legislation mandating the construction of expensive, high-tech barriers to keep mostly poor Mexicans from entering the United States. Hundreds and even thousands of miles from the U.S.-Mexico border, rural Mexicans and Central Americans languish amid lack of economic opportunity. Virtually untouched by the new opportunities created elsewhere by the North American Free Trade Agreement and other free trade measures, they are driven to make the perilous trip north in search of a livelihood.

This confluence of political, economic and social trends

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must be better understood if the United States is to succeed in making development “transformational,” as called for by Secretary of State Condoleezza Rice. An evaluation of these trends points to the need for a fundamental revision of our country’s role in the region — specifically, a serious redoubling of our commitment to economic development in order to stem the migration flow, encourage democratic participation in a globalized world, and reclaim our influence in the hemisphere.

Solving the Migration Issue

Much emphasis has been placed on the two aspects of migration as Americans view it: how to handle the legal status of the immigrants currently living in the U.S. and how to secure the border to keep future migrants out. Largely left out of this debate is any discussion of our long-term vision. If one believes that reducing the flow of migrants — especially illegal migrants — from the south is a desirable goal, is there a systematic way to achieve that reduction without spending billions of dollars building a wall, alienating a close friend and neighbor, and maintaining indefinitely what would have to be one of the world’s most sophisticated security apparatuses?

The most important statistic in the U.S. migration debate is one that is rarely heard: the border between the U.S. and Mexico, where per capita income is only a fourth of that of the United States, represents the world’s greatest absolute income disparity line. The absolute difference in average income between the two countries is greater than it is along any other land border in the world. Until this disparity is sig-

nificantly reduced, the wall will have to be extraordinarily tall to keep out the natural effects of supply and demand and to dampen the desires of poor people living in rural areas in Mexico, where the only hope for their children's future currently lies in their neighbor to the north.

Disaffection by Exclusion

A second sociopolitical phenomenon that must be better understood is a variant of a commonly heard theme: the disaffection with globalization in developing countries. In contrast to the highly visible role of anti-globalization activists, it is a subtle disaffection. What we are seeing is a frustration that has existed for decades, even centuries, and a disappointment that this new model of economic development does not appear to be any better than past models at addressing the question of socioeconomic exclusion.

To be sure, benefits have come as a result of the region's embrace of fiscal discipline and more open economies: namely, more stability and fewer crises. But Latin America's "man and woman in the street" have not missed the fact that these benefits have been highly concentrated among the relatively better-off, those with more access to education and, quite often, those fortunate enough to live in certain geographic zones. In Mexico, this has generally translated to more opportunity for those in the north and parts of the center of the country, those in urban areas, and those near certain markets or infrastructure.

Some of today's more astute political leaders are quite adept at capitalizing on disaffection. *The Economist* and other commentators have noted that the most significant pendulum swing in the region is not so much a resurgence of the left, but the emergence of democratically elected authoritarian and pseudo-authoritarian rulers. Others emphasize the re-emer-

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gence of populism, on both the left and right, as the defining shift of the last five to 10 years. In any case, politicians are responding — both positively and negatively — to the electorate's demands for governments to address the exclusion in their societies.

Clearly, encouraging more democratic regimes in Latin America is important in ensuring a friendly, collaborative and safe hemisphere. It would follow, therefore, that it is in the strategic interest of the United States to contribute to inclusive societies where such authoritarian tendencies do not gain traction.

The New Donor in Town

The noisiest of the new generation of political leaders who are capitalizing on this disaffection, of course, is Venezuelan President Hugo Chavez. As he moves closer to Fidel Castro, and as he recruits new "Bolivarian" partners in South America, he gets even more attention. Chavez has challenged the longstanding role and image of the U.S. as the region's most important and generous donor country, offering cheap oil, cash and social programs modeled after his own, to friendly governments. He has even offered cheap oil to poor U.S. communities in an effort to go "directly to

the people" with his foreign aid.

Recently, Chavez offered the new Evo Morales government in Bolivia \$100 million to implement a micro-credit program, to be modeled after Venezuela's highly distortionary and politicized program. This example is particularly telling because Bolivia is the birthplace of Latin American microfinance, and one of its most successful case studies. Following the example of Nobel Peace Prize winner Muhammad Yunus, Bolivia has been the "Bangladesh of Latin America," creating a diverse and competitive microfinance sector that serves the poorest members of society with much-needed financial services such as microenterprise loans, safe savings and insurance.

USAID is commonly credited as instrumental in bringing about the Bolivian success story. Indeed, for decades the U.S. has been widely recognized as the most important donor throughout the region, enjoying significant good will among the people of Latin America for bringing them improved health care delivery systems, better schools, broader access to financial services and better economic opportunities for the excluded. Equally important, this support did not consist of paternalistic giveaways, nor was it motivated by who was or was not allied with the United States at the moment. It was long-term in nature and oriented toward leaving sustainable development in its wake.

But now our status as the hemisphere's most generous neighbor is being challenged by a donor with a fundamentally different view of how best to raise the living standard of the region's most vulnerable populations. With his targeted support, Chavez may well undo the success of Bolivian microfinance (by flooding the market with cheap, subsidized loans that do not need to be repaid) and simultaneously demonstrate his ability to "out-give" the United States.

Dual Economies and the Rural/Urban Divide

If there is one characteristic of Latin American societies that has changed remarkably little over time, it is their dual nature. It is not the fault of globalization or the Washington Consensus (the pro-free trade views that emerged from the Washington-based institutions such as the World Bank and IMF) that Latin American societies are divided, nor that their economies reflect these fault lines. But fairly or not, the Washington Consensus is widely blamed for failing to narrow the massive equality gap in Latin America.

Consider Mexico, which in many ways is a wealthy country. Some of the world's richest men and women (including the world's wealthiest individual, Carlos Slim) are Mexican; the large cities are filled with expensive cars and houses; and there is a rela-

tively large and thriving middle class. For these groups, free trade and democracy has been a boon. The same goes for those regions of Mexico fortunate enough to be located near the right markets, roads, schools and other infrastructure.

Yet those excluded from these gains are numerous; similar to most countries in the region, more than 40 percent of the Mexican population live below the poverty line. They are disproportionately from rural areas, and often from certain regions, such as the south of Mexico. The rural/urban divide is one of the defining characteristics of the dualistic Latin American economies. It is also one of the most damaging, particularly because research (see de Ferranti and Perry, "Beyond the City: The Rural Contribution to Development") suggests that improvements in agricultural output cause a doubling of overall

national growth; that is, an increase of 5 percent in agricultural output leads to 10-percent growth nationwide. Thus, the stagnation we see in the Latin American countryside represents not only misery for rural residents, but also a lost opportunity to jumpstart the overall economy.

Those migrating to the U.S., not surprisingly, are largely from these areas. According to Manuel Orozco ("Remittances to Latin America: Issues and Perspectives on Development"), 10 predominantly rural states account for the majority of emigration from Mexico. Between 1993 and 1997, 46 percent of Mexican migrants to the U.S. came from towns with fewer than 2,500 inhabitants. For the 2001-2004 period, this proportion grew to 51 percent.

The income gap between rural and urban Mexico is intimately related to the U.S.-Mexico income gap. To

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make a dent in both income gaps, and to reduce and regularize the flow of migration to the United States over the long run, the benefits of globalization must be brought to those who have been excluded and left behind, throughout the region. Focusing only on border security as a way of addressing the migration problem is simply not enough.

A Marshall Plan for Latin America

Conducting a serious, sustained effort over several years to raise the standard of living in the Western hemisphere could be an extremely high-return investment for the United States, according to Jeffrey Davidow, former U.S. ambassador to Mexico. He and Luis Rubio, a Mexico-U.S. expert, wrote in the September/October 2006 issue of *Foreign Affairs*: “The immigration mess is a direct result of the lack of growth and opportunity in Mexico. As long as Mexico remains poor and the lure of opportunity across the border persists, workers will continue to head north.” Davidow goes so far as to recommend the creation of a major fund for infrastructure and other development goals, “along the lines of what the wealthier northern European nations created for their poorer European Union colleagues.”

Senate Majority Leader Harry Reid, D-Nev., has likewise been calling for a large increase in aid to Latin America, specifically to promote microcredit lending, small business and entrepreneurial development, small farms and farmers, and a system of private property ownership in rural communities. Reid argues that “the United States should assist the neighboring country of Mexico ... because the assistance would have a positive impact on the United States by reducing the flow of illegal migrants.”

Both Sen. Reid and President

Most importantly, such a plan would be based on a new urgency, a sense that the gaping disparity between the U.S. and its neighbors is dangerous.

Bush have made trips to Latin American countries (Reid to Bolivia, Peru and Ecuador; Bush to Mexico), during which they have called for a redoubling of our attention and efforts to support the expansion of opportunities to the poor in our neighboring countries. Finally, there are calls from Senators Robert Menendez, D-N.J., John Kerry, D-Mass., and others for a new “Social and Economic Investment Fund for the Americas,” whose purpose would be “to reduce poverty and foster increased economic opportunity in the countries of the Western Hemisphere.”

For the past several decades, U.S. support for economic development in Latin America has been effective in some cases — but not overwhelming and certainly not transformational. Funding levels are extraordinarily low compared to the resources the U.S. invested in Europe following World War II.

According to the American Association of Arts and Sciences, U.S. investments in Western Europe after World War II under the Marshall Plan amounted to a total of \$13.3 billion over a four-year period — the equivalent of \$450 billion if measured in constant 2002 dollars. Compare

that to the \$40 million to \$70 million per year that was provided in aid to Mexico from 2002 to 2006, right on our 2,000-mile-long border — only a small fraction of which goes to economic development activities.

Possibly more relevant to the U.S.-Latin America relationship, however, is the development assistance that poured into southern and Eastern Europe over the past two decades — and its results. For the period from 2000 to 2006, according to a United Nations study, European Union funding for rural development in the south and east amounted to more than \$68.4 billion. Today, according to a European Commission report, the income disparity between Western Europe and its poorer neighbors to the east and south (which was not nearly as big to begin with as the U.S.-Mexico difference) has been reduced, and employment and real income have increased. In short, all of Europe is benefiting today from a less divided union.

Unlike the European plan, the U.S. budget for development in Latin America (including all assistance except counternarcotics support to Colombia and other Andean countries) has always been relatively small — and could now be reduced even further. From 1980 to 1990, according to “U.S. Overseas Loans and Grants, Obligations and Loan Authorizations” (commonly known as “The Greenbook”), total U.S. assistance to Latin America averaged about \$1.4 billion per year in constant dollars. Between 1990 and 2000, this figure fell to \$929 million, and from 2000 to 2005, it was only \$671 million — a reduction of more than 50 percent in real terms over 20 years.

The Millennium Challenge Account was designed to complement USAID funding in those countries that pass the test of being well governed. (In Latin America, these include Bolivia, Honduras, Nicaragua and El Salva-

dor.) If we count MCA funding, the total development assistance figure was \$885 million in 2005, but this still represents a decrease from previous decades.

The MCA is a good start, but a much larger investment is needed. In addition, the increased funds must benefit more than a handful of countries in the region. The MCA may continue to reward high-performing countries, but the overall assistance program needs to have a broader base of beneficiaries. And the larger initiative must be focused on the kinds of assistance that can, if designed well, contribute to wealthier and more just societies in Latin America — especially in countries with large numbers of emigrants.

Some Broad Characteristics of the Proposed Plan

Like the two historical initiatives mentioned here (the Marshall Plan and the E.U. plan), this program would be based on the idea that prosperity elsewhere — in this case, in Mexico and its neighbors — is inherently good for the donor country. The potential benefits for the U.S. would include decreased immigration, a contribution toward global and hemispheric social peace and democracy, and the economic benefit of an expanded market for U.S. goods. Most importantly, such a plan would be based on a new urgency, a sense that the gaping disparity between the U.S. and its neighbors is dangerous, morally unacceptable and fundamentally against our interests.

Most polls suggest that Americans believe foreign aid accounts for between 15 and 25 percent of the federal budget, when in fact it represents less than 1 percent. Yet if they are properly informed about current aid levels and the benefits of foreign aid, there is evidence that Americans would be willing to fund more assistance. Some surveys show public

support for bringing assistance as high as 10 percent of the federal budget.

Of course, more money is not the solution by itself. Previous periods of increased aid were generally not successful in significantly reducing social exclusion. A Marshall Plan for Latin America would need to be well conceived and well designed, and focused on projects and ideas with proven success as well as promising new approaches.

Related initiatives in the areas of democracy and governance (reducing corruption, promoting justice reform and the rule of law, increasing competitiveness by ensuring a level playing field), health and education (contributing to a healthier, better educated populace that can better take advantage of economic opportunities) and the environment (ensuring that natural resources are well managed and thus able to play a sustainable role in economic development) would be important complements to such a program.

Careful steps would need to be taken to avoid the corruption and graft that can accompany significant new flows of resources. Such a plan might look something like this:

- It would be focused mostly on rural economic development as well as on helping governments improve rural infrastructure, and its objective would be broad-based economic growth (i.e., integrating the previously excluded) in rural areas with an emphasis on positive linkages to urban areas and the rest of the economy.

- This aid would be new. It would not replace, but complement, funds currently designated for important programs in health, democracy and governance and the environment. Nor would it replace resources currently designated for Africa, Asia or other regions whose development needs remain great and urgent.

- The new approach would draw heavily on lessons learned from past work in economic development, such as the importance of sustainability, longer horizons and building lasting institutions.

Clearly, development professionals would have different ideas on how best to structure such a plan, and how to best use such resources.

But the first step is to create a sense of political urgency, and to make the case that these political and economic trends are closely related. Ignoring them will risk squandering a once-in-a-generation opportunity to follow in the tradition of Secretary of State George Marshall by developing a policy that, in his words, is “directed not against any country or doctrine but against hunger, poverty, desperation and chaos.”

Such a policy would be in line with America’s tradition of helping those less fortunate — and with our own self-interest. ■



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