

Dr. Fukuyama

Or: How I Learned to Stop Worrying and Love Free Market Economics

Submitted by: Michael Worth
Student Number: 80197999

Class: POLI 220
Submitted to: Dr. Pablo Policzer
Submitted on: April 13th, 2004

At the close of the Cold War in 1989, it seemed apparent to many political theorists and philosophers that liberal democracy has finally triumphed over all other political ideologies. Holding to the ideas of Georg Wilhelm Friedrich Hegel, Francis Fukuyama outlined his proposal regarding how this major event had signaled the “end of history.”

Clarifying his argument, Fukuyama states that the end of history will not result in an end to all international conflict as “the victory of liberalism has occurred primarily in the realm of ideas or consciousness and is as yet incomplete in the real or material world.”

(Fukuyama 2) He instead goes on to show his reasoning in why he believes the liberal democracy ideology will govern the material world “in the long run” as all other viable alternatives have been discredited and thus can be dismissed from the discussion.

(Fukuyama 2) Fukuyama also presents his claim that one of the cornerstones of any liberal democracy is that of a free market economy.

Fukuyama defines a liberal democracy as a state that is “liberal in so far as it recognizes and protects through a system of law man’s universal right to freedom” and “democratic insofar as it exists only with the consent of the governed.” (Fukuyama 4) Unfortunately, there seems to be a trend in most “democracies” where the voice of the people is regarded as the voice of the minority. Most states following the liberal ideology seem to have a tendency to overlook the will and the needs of the people and put all their efforts into economic theories that are said to give huge returns and bring prosperity to all citizens of the country. When these reforms are put into practice the results are usually disastrous for the economy and no reasonable person could argue that they brought any prosperity to the majority of citizens of the state. Yet Fukuyama maintains his idea that the growth of liberalism is more stable if it is complemented with a modern free economy.

With regard to alternatives to liberal democracy, Fukuyama simply dismisses them by saying that they have all been “exhausted” (Fukuyama 2). This should strike most people as rather presumptuous since it is not difficult to argue that rather than be exhausted, the options were actually deemed “unacceptable” by other states and therefore had to be “altered.” Some good examples of this would be with Chile in the early 1970s and the Congo in the 1960s.

The goal of this paper is to show how all viable alternatives have not actually been exhausted as Fukuyama claims. Rather, they have been repressed by the imperialist states

that Fukuyama holds as the final and rational form of government. It is illogical to discredit these alternatives on these grounds since their failure was the fault of outside influences refusing to give them time to grow and mature. The secondary goal is to show that after the “inferior” alternatives were replaced by regimes that favored free market economics, the economy was worse off than it was with the previous governments and the people of the state suffered brutal atrocities under the new regimes. This will be done by examining two case studies and comparing the outcomes to the ideas put forth by Fukuyama. By the end of this paper, it should be apparent that we are actually not yet at the “end of history.”

In 1970, the Chilean Unidad Popular party, led by Salvador Allende, gained the plurality of the vote and became the democratically elected government. Following the party line of nationalizing some of Chile’s main exports including its lucrative copper industry, Allende began reforming the economy to one of a more socialist format. This was met by fierce opposition by the right wing elites and most of the Christian Democrats. More importantly, this disturbed the United States who had strong economic relations in Chile. Some companies with investments there included ITT, Pepsi Cola and the Chase Manhattan Bank. (Hitchens 55)

It was widely known that US planners held great contempt for Allende and the socialist movement of Chile. Henry Kissinger was even quoted as saying that he saw no reason why a certain country should be allowed to “go Marxist” merely because “its people are irresponsible.” (Hitchens 55) Clearly acting in its own interests, the United States put into motion a complete reversal of foreign policy towards Chile. In the period between 1962 and 1969 Chile had received over 1 billion dollars in US aid which was more per capita than any other country in the hemisphere. (Angell 149) This in turn had produced a Chilean economy that was heavily dependant on the United States. When Allende came to power, this aid did not decrease but actually ceased completely. In a meeting with President Nixon, CIA director Richard Helms made note of the President’s request to “make the economy scream.” (Hitchens 56) With \$8 million dollars¹ authorized to the CIA to secure the overthrow of Allende, the United States had identified itself as a clear enemy of Chile’s democratically elected government. (Angel 167)

¹ Given black market prices at the time this was probably closer to \$40 million.

Since this did take place during the Cold War, one could argue that the United States was simply trying to protect Chile from Soviet control. This would be a difficult position to defend since the complete opposite of the desired effect was the only possible outcome of the United States' policies toward Chile. By blocking access to the World Bank and the Inter-American Development Bank as well as cutting off loans, the US left Chile with no place to turn for aid except to the Soviet bloc who devoted \$500 million to the struggling socialist state. (Angel 167) Unfortunately, this money was nearly untouched by the time congress invited the military to defend the constitution by staging a coup. This brutal act brought to a close the only democratically elected socialist movement in history. But did this "failure" amount to "total exhaustion" of this particular alternative? It should be obvious that instead of lacking credit, this viable alternative lacked sufficient time and support to implement the planned reforms.

The followers of Fukuyama would prefer to say that this was a prime example of how the Socialist system does not work; in the end, the free market triumphed and freed the people of Chile from the clutches of the imperialist Soviet block. Fukuyama would probably defend US involvement in Chile as a valiant defense against the "expansionist ideology" of the "worldwide communist threat." (Fukuyama 25) This seems to be a distortion of what really occurred in the above case study. The voice of the people was silenced in favor of free market principles and that the "liberal democracy" was the one with the "expansionist ideology."

Tending toward the Right of the political spectrum, General Augusto Pinochet, the new leader of Chile, began to reform the country into a free market structure much to the delight of the United States. Following the economic model laid out by the "Chicago Boys," Chile became the testing ground for the latest monetary experiment. The "boys" wrote up a prescription for healing the wounded Chilean economy which they claimed could be accomplished in a period of a few years. These changes included reducing the size of the public sector, redirecting the surplus to the private capital market, opening the economy to free trade, and allowing market forces to regulate wage rates. (Angel 181) Of course, they added, "such a transformation could be achieved only through strict authoritarian controls to eliminate the distortions brought about by populism and to create the right conditions in which market forces could operate." (Angel 181) Following the

ideology of monetarism, the military junta pointed to the future utopia that would justify the atrocities that followed the coup.

In 1983, ten years after Pinochet had come to power, the economy had taken a turn for the worse. The gross domestic output dropped 19%, unemployment had reached 22% and the number of destitute Chileans had doubled to 40%. (Palast 201, 202) But even with these abysmal conditions, Chile was considered an economic miracle and received much praise. The US state department even issued a report which concluded that “Chile is a casebook study in sound economic management.” (Palast 202)

But the “miracle of Chile” was not a complete misnomer. The economic recovery of Chile was built upon the back of the copper and agriculture sectors which, ironically, were controlled by the state. Thanks to the land reform that Allende had partially accomplished before the coup², a new class of productive tiller-owners and corporate and cooperative operators began to bring in export earnings that rivaled copper. (Palast 204) The government continued its relatively socialist activities and “took over most of the private financial system” which provided them with “a large number of firms whose assets had passed to the banks.” (Angel 190)

In the end, the monetarist policies applied to Chile were “inapplicable in an economy with such a heterogeneous structure, segmented markets and sectoral and regional differences.” (Angel 191) It should be clear that free market economics was not be the best way to run Chile’s economy since it took some socialist activity to help it recover. Also, regardless of the economic strategy adopted by a regime, there is no excuse for the atrocious abusing of human rights that took place in Chile during this experiment.

Of course, Chile was in no way an isolated incident. Whenever a movement begins to take shape with the worker’s rights in mind, it meets incredible resistance from the elites of the region or with interests in the region. An almost uncanny resemblance to what happened in Chile is found in the events occurring in Congo shortly after it was granted independence from Belgium in 1960.

The newly elected Prime Minister, Patrice Lumumba, wanted to move the Congo away from being a colony of Belgium as quickly as possible and envisioned an economically independent Congo. This quickly alarmed many of the elites in both

² Pinochet had attempted to repeal this reform but was unable to do so.

Belgium, Britain and, again, the United States. CIA operations chief Allen Dulles later remarked, “The President [Dwight D. Eisenhower] would have vastly preferred to have him taken care of some way other than by assassination, but he regarded Lumumba as I did and a lot of other people did: as a mad dog... and he wanted the problem dealt with.” (Hochschild 302)

Ironically, it was Lumumba’s trusted chief of staff of the army, Joseph Mobutu, who would not only help plan the coup, but also would later stage another coup against acting president Joseph Kasavubu to seize power of the state for himself. What followed was a complete disaster for the country as billions in aid were deposited almost directly into Mobutu’s own pocket. His close ties with the Americans paid off by having them apply pressure to the IMF and World Bank to be lenient on the newly renamed state of Zaire and to allow it extensions on the repayment of its loans. This nice arrangement eventually broke down as Mobutu was unable to pay off his followers and make payments on outstanding loans. Mobutu eventually stepped down after 32 years of being dictator of the state and was replaced by rebel leader Laurent Desire Kabila.

In both cases examined, a democratically elected government was attempting to try a more socialist method of running the state but was opposed on all sides by states with free market “expansionist ideologies” that would not let them irresponsibly “go Marxist.”

In the end, we can see that the “end of history” may actually not be here. Rather, what we are witnessing is the halting of history. We have discussed only a few examples of a viable alternative that deserves a second look. One can hardly blame the wood for a fire going out when there is no oxygen allowed into the area. In the same way, external forces like the United States were able to extinguish the socialist movements in Chile, Congo, and many other states by simply not giving them room to grow and mature. This does not discredit the models they were following at all. Instead, it raises the question of why they were held with such contempt by the more powerful states.

By being able to afford the cost of repression, liberal democracies like the United States are able to undermine the growth and development of new socialist governments and other alternatives to free market economics. Recalling Dahl’s argument about the path to democracy, this growth will only occur when the cost becomes too great for the oppressors to continue to pay for it. Tolerating these socialist states would allow neighboring states to

see the benefits of the socialist system and possibly lead them to nationalize their own assets. Therefore, it is much more costly to the powerful states to tolerate socialism than to repress it.

The system used to accomplish this at present has been very successful at it. With the IMF and the World Bank giving out loans only with mandatory “reform packages” attached, struggling states will be hard pressed to get any aid without following the free market principles that nearly destroyed Chile’s economy. In time, the failure of free market economics will become acknowledged by scholarship and new systems will be implemented to repair the damage left in their wake. One example of such a system is the southern Indian state of Kerala. Having implemented the theories of Amartya Sen, winner of the 1998 Nobel Prize for economics, this small socialist nation has defiantly proved that it is possible to build an economy on intensive public education and other socialist principles. (Palast 204) Of course, most have never heard of Sen or Kerala since “they pose an annoying challenge to the free market consensus” and would only fuel the ideas of socialism in other poverty stricken states. (Palast 204) Until the repression of these ideas ceases, history will continue to be stalled and thus prevented from reaching the true “end of history.”

Bibliography

Hitchens, Christopher, The Trial of Henry Kissinger (New York, USA: Verso, 2001)

Hochschild, Adam, King Leopold's Ghost (New York, USA: Mariner Books, 1999)

Palast, Greg, The Best Democracy Money Can Buy (London, UK: Penguin Putnam Inc., 2003)

Sources from assigned readings used included:

Angell, "Chile Since 1958," in Chile Since Independence, ed. Leslie Bethell (Cambridge, UK: CUP, 1993), Ch. 4

Dahl, Robert A., Polyarchy: Participation and Opposition, (New Haven: Yale University Press, 1971)

Fukuyama, Francis, 'The End of History?' The National Interest, 1989