



In Peru, Another Near Miss for Latin American Liberty

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April 20, 2021

Costly mistakes have allowed socialism to rise again in the 21st century.

On June 6, Peruvians will elect their next president. At the moment, the favorite to win is Pedro Castillo, a previously obscure teachers union leader who won the first round with 19 percent of the vote.

Castillo's government program describes the "Free Peru" movement he leads as Marxist-Leninist, quotes Karl Marx and Friedrich Engels, and praises the legacies of Vladimir Lenin and Fidel Castro. It also calls for the abolition of the current constitution and the creation of a constitutional assembly, for the nationalization of "strategic sectors" of the economy, for the "regulation" of the free press, and for central economic planning under an "inverventionist...innovative, entrepreneurial, and protective state." In recent days, Castillo has promised to expel all illegal immigrants from Peru in three days.

How did Peru, a country which the Cato Institute's Ian Vásquez described in 2011 as "an increasingly successful market democracy," end up on the verge of electing a Marxist-Leninist government? Much has to do with the broader context in Latin America, where 21st century socialism has survived during the last few years due to its opponents' serial bungles, missed opportunities, and general ineptitude.

In 2018, just as there seemed to be hope for an end to the cash-strapped, hunger-inducing Chavista regime in Venezuela, which was running out of gasoline and desperately selling its gold reserves, dictator Nicolás Maduro and his Cuban puppet masters lured the hapless opposition parties into holding negotiations "to end the national crisis."

In May 2019, the opposition fell into the trap—and not for the first time—when National Assembly president Juan Guaidó, who had been recognized as Venezuela's legitimate leader by more than 50 countries, agreed to hold talks with Maduro's representatives in Norway. By September of that year, Guaidó had achieved nothing and had broken off the negotiations, but other opposition parties didn't follow his lead and prolonged the talks with the Chavistas.

After dividing their rivals, who couldn't agree to a unified strategy for the 2020 parliamentary elections, Maduro and his party regained control of the National Assembly virtually unopposed. With Guaidó deprived of any official position, the European Union no longer recognized him as "interim president," but only as a "privileged interlocutor." Meanwhile, Maduro held on to

power—without any end in sight—by relying on Russian loans, Chinese debt relief, and Iranian gasoline exports to the country with the world's largest oil reserves.

Likewise, in Argentina, better days seemed to have arrived in 2015, when voters narrowly rejected Kirchnerist socialism after 12 years of spectacular misrule. The era was epitomized by the arrest of a former minister of President Cristina Fernández de Kirchner, José López, who was caught hiding USD \$9 million in cash in the vault of a convent. Mauricio Macri, a businessman and former mayor of Buenos Aires, won that year's presidential election on a promise to curb inflation and reduce poverty. But Macri refused to cut the deficit, reduce the debt, or slash bureaucracy—tough measures that were necessary at the outset of his government. Instead, he opted for a "gradualist" course that relied on attracting foreign investment and borrowing money on cheap global credit. The Kirchnerists' Leviathan, meanwhile, survived mostly intact.

As journalist Marcelo Duclos explains, investors remained skeptical of an overregulated, debt-fueled economy while interest rates rose ever so slightly, increasing a default-prone Argentina's borrowing costs. Not only did Macri fail to bring prosperity to Argentina; he also raised taxes and presided over an inflation level of 47 percent in 2018, as voters recalled how he had assured them that he would stabilize price levels easily. When he sought reelection the following year, Macri suffered a rout in the first round of voting as the Kirchnerists returned to power.

Also, in Bolivia, a glimmer of hope emerged in late 2019 as Evo Morales, perhaps the most colorful figurehead of 21st century socialism after Hugo Chávez—he once suggested that female hormones in chicken caused homosexuality in men—was caught red-handed in a massive exercise of voter fraud. After he contested an election against former President Carlos Mesa, both the Organization of American States and the European Union detected "overwhelming" evidence of ballot manipulation. Facing nationwide protests, Morales quickly lost the military's support and fled to Mexico.

The entire debate about Morales' reelection should have been spurious. In 2016, Morales, who had governed Bolivia since 2006, held a referendum in order to alter the country's constitution so as to allow him to run for reelection for a third consecutive time, but a majority of voters rejected his proposal. Morales, however, blamed his defeat on social media platforms, accusing them of corrupting the youth, and got the Supreme Court, which he had packed with his supporters, to approve his reelection bid in 2017.

After Morales' ouster, however, his opponents took a series of missteps. The opposition-led interim government called an election but postponed it twice. Although it blamed the COVID-19 crisis, it also fed Morales' narrative of a well-orchestrated, U.S.-led coup against his government. The opposition also failed to unite around a single candidate and, like Macri in Argentina, offered nothing but Keynesianism.

As Bolivian commentator Mauricio Ríos writes, the consensus among opposition candidates dictated "that the way out of the economic crisis, which was worsened but not caused by the pandemic, was to increase public debt and government spending." This was exactly what their Morales-backed opponent, former finance minister Luis Arce, had done for years in a desperate attempt to offset a collapse in the prices of commodities, which accounted for 95 percent of Bolivia's merchandise exports in 2017. In October 2020, Arce comfortably won the presidency in the first round with 55 percent of the vote. Morales promptly ended his foreign sojourn and returned to Bolivia.

To add to this string of regretful events, the hard left gained a major triumph in Chile when it cajoled President Sebastián Piñera, who is often described as a neoliberal, into holding a referendum to change the 1980 constitution, the most successful by far in Latin America as measured by the economic results of its protections for private property and limitations on government: per capita income, poverty reduction, social mobility, and access to higher education. In 2019, a small hike in the price of subway fees led to violent protests in which perpetrators in Santiago, Chile's capital, methodically burnt 80 subway stations, numerous tollbooths, large department stores, and even churches. As the destruction was being wrought, Diosdado Cabello, a Venezuelan Chavista of high rank, weighed in by claiming that a "Bolivarian breeze" had reached Chile.

Instead of standing up to the thuggery, however, Piñera capitulated and announced a referendum on the constitution, which a staggering 78 percent of voters decided to replace last October. According to Axel Kaiser, a Chilean academic, the country's far left succeeded in selling "a narrative of failure not rooted in reality," but which much of the media, the business establishment, and the political right believed nevertheless. A majority of voters, added Cato's Vásquez, had rejected the "Chilean miracle" and opted to become, "in the best of cases, a mediocre Latin American country."

This series of victories made 21st century socialists confident. As presidential elections were held in Ecuador and Peru on Sunday, April 11th, a confident Evo Morales proclaimed that "the people" were about to back the return of Chávez's "integrationist project." But, as it turned out, the people had other plans. In Ecuador, Guillermo Lasso, a 66-year-old former banker with strong ties to the country's libertarian community, won the election with 52 percent of the vote.

Lasso's victory was far from guaranteed. In March, when voters first headed to the polls, he barely qualified for the runoff election after obtaining less than 20 percent of the vote, 12 points behind the 36-year-old Andrés Arauz, a *dauphin* of strongman Rafael Correa, who ruled Ecuador from 2007 until 2017. Lasso, however, offered a clear, unequivocal alternative to socialism; his platform included cuts in the value-added tax (VAT) and public spending, increased oil production, and a push for free trade deals on the global stage. Crucially, Lasso promised to get rid of a tax on the withdrawal of currency from Ecuador, where the U.S. dollar has been the official currency since 2000. Arauz, on the other hand, had published plans to use currency controls as a means to dedollarize the country, a measure opposed by 88 percent of the population.

As the media were confirming Lasso's win, Hernando de Soto, a free market economist with no previous experience as a political candidate, was poised to qualify for the runoff in Peru. In 1986, de Soto published *The Other Path*, an influential book that showed how the underlying problem of informality in poor countries was not the informal workers themselves, but rather the dysfunctional and usually corrupt state bureaucracies that made formal property rights a privilege of the rich and well-connected. As he wrote for *Reason* in 2001, "'extralegality' is often perceived as a 'marginal' issue. In fact, it is legality that is marginal; extralegality has become the norm."

De Soto's emphasis on the lack of property rights as a primary source of poverty in much of the world revolutionized thinking about development. It also made him a target of assassination attempts by the Shining Path communist guerrilla group.

Alas, de Soto's electoral success was too good to be true; as the vote count proceeded on Monday, he was knocked out of second place by Keiko Fujimori, daughter of strongman and former President Alberto Fujimori, the scourge of the Shining Path who governed Peru from 1990 to 2000. Since 2005, Alberto Fujimori, whom de Soto advised, has been in jail due to human rights abuses. In the upcoming runoff, Keiko will take on Castillo, who represents such a threat to the country's recent prosperity that Peruvian Nobel laureate Mario Vargas Llosa, a classical liberal, has endorsed his rival.

Vargas Llosa's support is significant because he lost to Alberto Fujimori in the pivotal 1990 election, after which, he writes, he "has combatted *Fujimorismo* systematically." He also recalls that Keiko not only participated directly in her father's dictatorship, but that she benefited from it, as she did later from money from Odebrecht, the Brazilian firm that ran a bribes-for-government-contracts schemes across the region, a scandal for which she served time in jail. Nevertheless, Vargas Llosa argues that Keiko "represents the lesser evil" and at least "a possibility to save our democracy," whereas Castillo represents its certain demise.

Such arguments, however, have proved insufficient until now. Castillo leads Fujimori comfortably in the polls—42 to 31 percent according to one—which might not be surprising given the widespread rejection of the Fujimori family. The likelihood that a Marxist-Leninist will become Peru's next president made me think of several former colleagues of mine who, in 2017, fled from Venezuela to Lima. Evidently, any enthusiasm about Peru's success had to be tempered with the wisdom of an old viral meme. It read: "Migrating within Latin America is like moving from one cabin to another while inside the Titanic."