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**COMMENTARY: *Keeping Up With the Chavezes***

by Francis Fukuyama

What is it that leaders like Iran's Mahmoud Ahmadinejad, Hezbollah's Hassan Nasrallah and Venezuela's Hugo Chavez have in common that vastly increases their local appeal? A foreign policy built around anti-Americanism is, of course, a core component. But what has allowed them to win elections and build support in their societies is less their foreign-policy stances than their ability to promise, and to a certain extent deliver on, social policy -- things like education, health and other social services, particularly for the poor.

Mr. Chavez has opened clinics staffed with Cuban doctors in poor barrios throughout Venezuela; Hezbollah has provided social services for years and is now in the business of using Iranian money to rebuild homes in the devastated south of Lebanon. Hamas in Palestine, the Muslim Brotherhood in Egypt and Evo Morales in Bolivia all have active social agendas. Organizations like Hezbollah and Hamas do not merely lobby the government to provide social services; they run schools and clinics directly.

The U.S. and the political groups that it tends to support around the world, by contrast, have relatively little to offer in this regard. Washington stresses democracy and human rights -- that is, procedural safeguards that institutionalize popular sovereignty and limited government -- as well as free trade, with its promise of economic growth. This is a good agenda in line with American values, and it has worked well in Eastern Europe and East Asia. But it tends to appeal to middle-class, educated constituents. In those parts of the developing world that suffer from deep social cleavages and inequalities, free elections and free trade have relatively little resonance for the great majority of the population that is poor.

The reason that Washington has so little to offer in the social sphere is that American politics itself has focused on cutting back on the state sector and social services in the past generation. From the New Deal through the Great Society, the American welfare state grew enormously. Ronald Reagan came into office promising to cut back on entitlements and "big government," which he argued was an obstacle to economic growth. In the context of U.S. politics this made a lot of sense. America's freer labor markets and deregulated economy laid the groundwork for more than two decades of sustained productivity growth. Britain went through a similar revolution in late 1970s and '80s under Margaret Thatcher; the failure of continental Europe to follow suit has saddled it with an unsustainable welfare state and entitlement crisis.

But the legacy of the shift toward "smaller government" has meant that there has been little new thinking in the U.S. on social policy. The Democrats returning to power are loath to offer proposals for ambitious new social programs, sticking with penny-ante proposals like raising the minimum wage or student loans. Washington has lots of advice to give developing countries on economic policy, in terms of deregulation, privatization, reduction of tariff barriers and the like. But apart from Hernando de Soto's pioneering work on property rights for the poor, there is no clear agenda on how to help Bolivia, Pakistan or Egypt improve their primary education systems or get health services delivered more efficiently in poor neighborhoods.

Part of the problem is that while social policy is popular, it has many pitfalls and is very hard to do well. Badly designed social programs don't achieve their primary purposes, and retard economic growth in the long run. Social safety nets have a habit of becoming entrenched entitlements, controlled by powerful lobbies that benefit directly from public spending and use their power to expand the rents they receive. In Argentina and Mexico, public education is controlled by centralized teachers' unions whose main interest is in protecting the interests of the adults in the system rather than the children.

As was the case with the American welfare system, cash transfers breed dependence and moral hazard. In the case of the Depression-era Aid to Families with Dependent Children (AFDC), the program had the unexpected consequence of encouraging out-of-wedlock births. Post World War II housing programs for the poor took no account of existing social capital in poor neighborhoods and created vertical slums that were soon taken over by drugs and gangs. It was for these reasons that AFDC was abolished by Congress in 1996, and housing projects like the Robert Taylor homes in Chicago have been dynamited. In developing countries with deeply dysfunctional public sectors, the World Bank can finance the building of schools and clinics, but has a much harder time incentivizing teachers and health-care workers to show up for work.

Some of the newest and most innovative social policy has been designed by economists who, taking these earlier experiences into account, have tried to design programs that also take incentives into account from the get-go. For example, the Mexican Progresa program of conditional cash transfers pays poor people a stipend on the condition that they send their children to school, recognizing the fact that many poor families see greater benefit in putting their children to work rather than educating them. Built into the program was a way of empirically testing its effects, by deliberately creating control groups that could be used to benchmark its impact. There are by now a host of econometric studies documenting how Progresa raised school attendance rates dramatically, though its final impact on long-term educational outcomes is less certain. Early success led to the program being extended broadly across Mexico as the Oportunidades program, where it now reaches into urban neighborhoods.

Progresa's success has led to it being copied in other parts of Latin America, like the Red de Protección Social program in Nicaragua, the Programa de Asignación Familiar in Honduras and the Bolsa Familia in Brazil. The Bolsa Familia now reaches some 15 million poor Brazilians, and appears to have had an actual impact in lowering that country's Gini coefficient (a measure of income inequality), Brazil's being one of the highest in the world.

What is fascinating about these new social programs is that they were initiated not by leftist politicians, but by pro-free-market leaders on the conservative side of the spectrum. Progresa was started by Ernesto Zedillo of the dominant Institutional Revolutionary Party (PRI) during the 1990s, and greatly expanded by the National Action Party's Vicente Fox over the past six years. There is some evidence that the current president, conservative Felipe Calderon, may owe his razor-thin victory over leftist Andres Manuel Lopez Obrador to a substantial number of poor voters who supported him out of gratitude for Mr. Fox's Oportunidades. The Bolsa Familia was initiated in Brazil by pro-market President Fernando Henrique Cardoso, and only later expanded by his leftist successor Ignacio Lula da Silva.

If the U.S. wants to support liberal democracy around the world, it needs to start thinking seriously about a well-designed social agenda that will appeal to the poor. There is both an inherent and an instrumental reason for this. In itself, the world's poor desperately need help, and have often been ill-served by the interventions of well-intentioned outsiders.

And if true supporters of liberal democracy and free markets are ever to compete successfully with the Islamists and populists of the world, they need to have a social agenda that gives some hope not just to the middle-class and educated, but to those who are isolated and excluded as well. Above all, we need to stop seeing this issue through the old left-right ideological lens of American domestic politics, and recognize that our influence is dependent in large measure on our ability to offer people around the world what they want, and not what we think they should want.

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