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Chairman Ballenger, Ranking member Menendez, members of the Western Hemisphere Subcommittee, thank you for inviting me to testify today on the proposed Social Investment Fund for the Americas. I commend you for taking this bipartisan initiative to support the democratization and economic and social integration process in Latin America.

I have been visiting and observing Latin America since the Carter Administration, when I worked on the Panama Canal Treaty. At the National Democratic Institute, I actively participated with many of the future leaders of the democratic movement of Central and South America. No region of the world evoked such politically charged emotion as did Latin America, especially when we were opposing insurgent movements there during the Cold War. Political parties in the United States were deeply divided on how to respond to

the challenge anti-democratic forces represented and on how to support the advocates of democracy.

When the Cold War ended and democracy spread across the hemisphere, political and ideological conflict in Washington began to subside. Both parties supported the democratic changes, even to the point of being highly critical of military forces and others who threatened democracy. It was then that we began to reap the benefits of many years of investment in the economic and political development of this region.

In a 1995 speech, I touted this great success story for foreign assistance, saying: “ Consider Latin America; today it is the fastest growing market for American goods. This is a huge new middle class of 350 million people. It achieved this status because of investments made during the last 40 years—\$30.7 billion in economic assistance from the United States between 1949 and 1993. Yet, our exports to all of Latin America in 1993 alone were more than two-and-a-half times that amount—\$78 billion.”

I went on to predict that exports could grow three-fold in the next decade. That has not happened. Worse, today, democracy itself is threatened in many countries in the region. In Argentina, Ecuador, Venezuela, and now Bolivia, populist forces with little regard for the institutions and values of democracy are

tapping into the deep discontent of poor people—people who for the most part have never experienced the economic benefits of democracy.

We declared victory in this region too soon, Mr. Chairman. Elections and the creation of democratic governments only represented the beginning of the beginning of real democracy in Latin America. We ignored the troubling fact that approximately 46 percent of the people were still living below the poverty line. Many were illiterate, toiling to make a living outside the formal economy. Few had been given a real stake in democracy; fewer still in capitalism.

Foreign assistance agencies like USAID focused on the right objectives: empowering the poor, decentralizing government, deregulating markets, and thus attacking the informal economy. We preached free trade, encouraged foreign investment, and counseled macro-stability. We did all this with fewer and fewer aid resources.

In retrospect, we may have created the worst of all worlds. We empowered new voters, yet gave them no real stake in responsible politics. We created a major constituency for demagoguery. Those who wanted to play by the rules of the international community—the International Monetary Fund or the World Trade Organization—were increasingly seen as the advocates of a system that did nothing for the poor, least of all development.

Mr. Chairman, it is time to pay attention to our own backyard. This Social Investment Fund is an important step in the right direction. It is a small amount of money compared to the billions we are spending in Iraq, but it creates essential partnerships with the democrats of our hemisphere. It leverages additional resources from the nations of the region, the Inter-American Development Bank, and other donors. It is at least a recognition that we have a role to play in bringing about equitable development by helping close the gap between the rich and the poor,

If we look at the success stories in Latin America, we see that timely and strategically directed foreign assistance interventions were vital. Costa Rica is a perfect example. When economic downturns threatened social spending on the poor in the 1980s, foreign assistance provided a counter-cyclical response. Social spending on education and health care in poorer rural areas were continued, financed in part by foreign dollars. Today, Costa Rica may have its ups and downs economically, but its development indicates first-world status and its democracy is strong.

I see this fund as providing the resources needed to continue to root out poverty and to integrate the previously disenfranchised poor into the democratic system. If these people begin to have a stake in the success of democracy, they

will be less likely to follow the siren call of leaders whose only interest is power.

Chairman Ballenger and Congressman Menendez, I urge you to pursue this important legislation. The people of Latin America need to know that someone in Washington understands that consolidating democracy takes time, resources, and commitment. As we have seen in places like Costa Rica, foreign assistance cannot substitute for good governance, but with good governance it can make that crucial difference between success and failure. On behalf of Americans north and south, thank you for your good efforts.