LATIN AMERICA’S POLITICAL ECONOMY OF THE POSSIBLE: Beyond Good Revolutionaries and Free Marketeers

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Chief Economist & Deputy Director
OECD Development Centre

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LATIN AMERICA: IN THE GARDEN OF DELIGHTS?
Utopia in Latin America: from a spacial search to a temporal search.

A search which has impregnated the history of Latin American political economy: from structuralism to monetarism, from Marxism to Liberalism.

In the 20th Century the whole Continent was dancing a waltz of paradigms.
“The great ideological storms” (Isaiah Berlin).

A few decades ago one of the key words in the entire continent was “Revolution”; a projective concept which denotes a temporal Beyond.

Whether Cuban or Chilean, Marxist or Liberal, the Revolution will feed the time of tomorrows and the sacrifices of the immediate present.

The flood, as Albert Hirschman describes it, brought with it an “angry desire to conclude”, where rigid economic models constituted numerous invitations to design alternatives with no chiaroscuro; either all or nothing.
DEMOCRACY AND THE MARKET: THE NEW ALPHABET

The transformations of the Latin American continent are now obvious.

In the region as a whole, the conceptual and practical framework of political economies have been transformed.

Democracy and the Market have taken over from Revolution and the State on the altar of references.

To sum up, a complete vocabulary and grammar have disappeared from the political and economic repertoire allowing a new ideology to emerge.
THE GREAT TRANSFORMATION OF LATIN AMERICA

The great transformation which took place in Latin America at the end of this century does not herald the arrival of the Good Liberal.

There was no transfer from one paradigm to another, instead a new cognitive style emerged.

We witness the failure of the whole idea of political utopia and the political economy of the impossible.

The failure of a cognitive style of macroeconomy of populism, similar to the purist monetarism of the Chicago Boys has only been the defense and illustration of the same concept.
A BLESSING IN DISGUISE FOR LATIN AMERICA?

Perhaps we should not spend too much time mourning the passing away of the great reforming impulses.

Hausmann and Rodrik in 2004: most economic accelerations were not preceded by reforming big-bangs, or by marked political or economic ruptures.

This empirical study covers 83 sustained world growth patterns between 1957 and 1992 (above two percentage points over a period of at least eight years).
The strategy used by Ulysses: leaders know that they could be in danger of succumbing to the temptation of the sirens chanting the economic politics of the impossible.

They are cautious and they tie themselves to the masts of the fiscal and monetary institutions they have contribute to build.

Two strategies of development are being outlined - and sometimes combined-: one is an anchor of endogenous credibility, coming from within, and the other is an anchor of exogenous credibility, coming from outside.
THE POLITICAL ECONOMY OF THE POSSIBLE:
THE SILENT TRANSFORMATION

THE GREAT TRANSFORMATION: THE MONETARY MAST

Inflation (%)

Source: Based on IMF
THE GREAT TRANSFORMATION: THE FISCAL ANCHOR

By Country (2005)

- Chile*
- Argentina*
- Venezuela*
- México
- Peru*
- Colombia
- Brasil

*Central Government

LAC-7: FISCAL BALANCE (SPNF, in % of GDP)
THE GREAT TRANSFORMATION: 
THE EXTERNAL ANCHOR

Trade openness in Latin America

Trade openness in 2005

Source: OECD Development Centre

Source: Based on BBVA
EXTERNAL ANCHORING: MEXICO NOW DEPENDS A LOT LESS ON RAW MATERIALS

The export of manufactured goods grew on average between 1990 and 2000, about 28% per year and now accounts for 90% of total exports.
EXTERNAL ANCHORING: BRAZILIAN FIRMS RALLIED EXTERNAL ANCHORING: BRAZILIAN FIRMS RALLIED MEXICAN MULTILATINAS

The 50 more profitable firms

Number of firms in Forbes 2000

Source: Forbes 2000

Source: America Economia 2005
GRADUALISM AND CONTINUITY: PENSIONS REFORMS IN CHILE

Evolution of the Pension System in Latin America (in % of GDP)

Return of Democracy

Num. periods

ARGENTINA
COSTA RICA
CHILE
MEXICO
BOLIVIA
COLOMBIA
EL SALVADOR
PERU
URUGUAY
GRADUALISM AND CONTINUUM:
PENSIONS REFORMS IN CHILE

Evolution of Pension Funds in Latin America (in % of GDP)
INSTITUTIONAL ANCHORING: A KEY DRIVER OF POSSIBILISM

Public Policies in Latin America

Stability Index

Adaptability Index

INSTITUTIONAL ANCHORING: A KEY DRIVER OF POSSIBILITIES

Public Policies in Latin America

Enforcement and Implementation

- Chile
- Uruguay
- Mexico
- El Salvador
- Colombia
- Brazil
- Peru
- Honduras
- Bolivia
- Venezuela
- Ecuador
- Argentina

Coordination and Coherence

- Chile
- Brazil
- Mexico
- El Salvador
- Bolivia
- Uruguay
- Honduras
- Colombia
- Peru
- Ecuador
- Argentina
- Venezuela

INSTITUTIONAL ANCHORING:
A KEY DRIVER OF POSSIBILISM

Public Policies in Latin America

<table>
<thead>
<tr>
<th>Public Regard Index</th>
<th>Efficiency Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chile</td>
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LATIN AMERICA 2006: THE POLITICAL CYCLE IS BACK

Next presidential elections
- 2007 - 2009
- 2006
- 2004 - 2005
Democratic regimes in Latin America since transition (1978-2005)


Based on the Inter-American Development Bank.
THE TIMING GAME: POLITICAL AND FINANCIAL CRISIS USED TO BE SYNCHRONIZED

Nominal exchange rate depreciation and government change

<table>
<thead>
<tr>
<th>Country's Total</th>
<th>Elections</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Colombia</td>
<td>13</td>
</tr>
<tr>
<td>2 Costa Rica</td>
<td>11</td>
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<td>18 Bolivia</td>
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Source: Frieden, Ghezzi y Stein, 2001
SOME COUNTRIES ACHIEVED TO DECOUPLE BOTH CYCLES: MEXICO IN 2000

Timing of Presidential Elections and Exchange Rate Depreciations in Mexico, 1975-2000

OTHERS HAVE OVERCOME THE TEST OF FIRE MORE RECENTLY: BRAZIL IN 2006

Voter intention for Lula in the opinion polls (left)

Source: Based on Juan Martínez and Javier Santiso, 2003.
LATIN AMERICA 2007: BEYOND THE POLITICAL CYCLE

Next presidential elections

- 2007 - 2009
- 2006
- 2004 - 2005
Latin America: The pending challenges

Gini – Market Income

Gini – Disposable Income

Note: Gini coefficiente calculated before and after taxes, social security and transfers.

Fuente: The World Bank
Social Pacts and Fiscal Pacts

Gini – Market Income

Gini – Disposable Income

Note: Gini coefficient calculated before and after taxes, social security and transfers.

Fuente: The World Bank