



## Problems Facing Latin American Countries at Year-end 2006

Sidney Weintraub

Latin America has caught the attention of news media that normally pay little heed to the region because of what is seen as a leftward trend in presidential election outcomes. Three recent examples are the victories of Rafael Correa Delgado in Ecuador on November 26, Hugo Chávez Frías in Venezuela on December 3, and Daniel Ortega Saavedra in Nicaragua on November 5. Lula was reelected president of Brazil on October 29. Andrés Manuel López Obrador came within half a percentage point of being elected president of Mexico on July 2. In Peru, the election barely went against the populist-leftist candidate Ollanta Humala and, instead, Alan García Pérez was chosen as president on June 4. Earlier, on October 31, 2004, Tabaré Vázquez Rosas was chosen president of Uruguay; Evo Morales Ayma won an unprecedented majority to become president of Bolivia on December 18, 2005; and Michelle Bachelet Jeria, a socialist, was elected president of Chile on January 15, 2006.

Many analysts use the word “populist” rather than “leftist” in the foregoing characterizations. A populist in my mind refers to a leader who spends money the government does not have, and that is not true for Chávez and the others. The high price of oil has provided the money that Chávez spends to win support at home and to attract allies elsewhere in Latin America and the Caribbean; and the other left-leaning presidential winners, where a record in office exists, have pursued prudent fiscal policies. That was the pattern established by Lula when he first assumed the office of president of Brazil in 2003.

A presidential election is a single event, and the more interesting questions deal with the causes of that outcome. I believe that the main cause of popular dissatisfaction with governments in Latin American countries is inadequate job creation, coupled with the demons of poverty and inequality. Unemployment data in the hemisphere are unreliable, and even the definition of “employment” is not uniform across countries. Visitors to urban centers in Latin America can see for themselves the consequences of the lack of formal employment, because the streets are full of able-bodied people trying to sell things like chewing gum and crackers. For more affluent residents, it is easy to find people to do

odd jobs—a phenomenon that has become a reality in U.S. cities as well because of the large influx of undocumented immigrants. Joblessness is not the only reason for the substantial underground employment that exists—people also seek to avoid paying taxes—but it is the basic explanation of why some 40 percent of the labor force works informally in key countries, such as Mexico and Brazil.

Increased job-creation has become the key plank in the platforms of presidential candidates, leftist and conservative alike, throughout the hemisphere. The more conservative candidates are usually at a disadvantage in this kind of contest, because the voting population has seen for itself the inadequate employment results under past conservative presidents. The voting population may turn back to conservative leaders if the leftist presidents now taking office do not deliver on their promises of greater job-creation. López Obrador in Mexico did well largely because job-creation under President Vicente Fox was manifestly inadequate until his sixth and final year in office. His conservative successor, Felipe Calderón, now faces the task of bringing about considerable job-creation during his six years in office; and, failing that, the kind of presidential challenge made by López Obrador will be repeated either by him or another left-leaning candidate six years hence.

Inequality in income distribution in Latin America is greater than in any other continent. The extent of inequality differs by country and is most comprehensively measured by the gini coefficient, an index number that rises with the degree of inequality.<sup>1</sup> Based on the *Human Development Report 2006* of the United Nations Development Program, the gini coefficients of the two most populous countries in the hemisphere were Brazil 58 (measured in 2003) and Mexico 49.5 (measured in 2002). Presented in a different way, the richest 20 percent of the population in Brazil had 24 times the income of the poorest 20 percent, and in Mexico the ratio of richest 20 percent/poorest 20 percent was much lower at 13. Using Norway to provide a comparison with a more

<sup>1</sup> If income were perfectly equally distributed among the population, the gini coefficient would be zero.

egalitarian country, the gini index there in 2000 was 26 and the richest 20 percent/poorest 20 percent ratio was less than four.

People who must confront poverty, using the World Bank definition of people who live on less than the equivalent of \$2 a day (i.e., people who barely subsist), typically constitute 40 percent or more of the population in Latin American countries. There are exceptions. Some 45 percent of Chile's population in 1987 lived in poverty, but this was reduced to 22 percent by 1998, just 10 years later. This was a remarkable achievement, stimulated largely by steady economic growth of 6 to 7 percent a year over that period. But in 2006, the gini index in Chile rose to 57 percent. The two phenomena, inequality and poverty, do not necessarily move together. A rising tide of economic growth may lift the income of most people, but not by equal percentages.

These three socioeconomic realities—not creating enough jobs, high income inequality, and great poverty—are the main problems faced by governments in Latin America. Steady and significant economic growth is essential to create jobs for all those seeking work and to lower poverty levels, but economic growth may simultaneously increase income inequality. Most Latin American countries, unfortunately, have not had steady and sufficient economic growth to deal with two of the three problems that I believe are at the heart of the region's recent political outcomes. Looking at the region as a whole (Latin America plus the Caribbean), recent growth in gross domestic product has been poor to middling—ranging from close to 0 to minus 1 percent in 2001 and 2002, and averaging about 4 percent a year for the remainder of the period since 1996. On a per capita basis, GDP growth was about 1½ percentage points lower. GDP growth was low in the 1980s, in fact negative on a per capita basis for much of that decade.

One must therefore ask why Latin American economic performance has been poor; and there is no simple answer. The region has gone through some unfortunate experiments, including fiscal laxity (or populism, if that term is preferred), retention of import substitution and pessimism about sustaining export competitiveness for much too long, and protectionism cloaked in the guise of economic integration. After the debt crisis of the 1980s exposed the frailty of these policies, most countries altered their economic policies by reducing import protection and espousing export promotion as the engine of growth. The inflation caused by fiscal profligacy was replaced by greater fiscal discipline, and modest rates of inflation now are the norm in the region. However, there is no consensus on what economic policies should be in the years ahead. Politicians in country after country excoriate the pressures put on them during the past 15 or so years, presumably by the United States, to adhere to

the Washington Consensus, which laid out a set of mainstream economic policies, but these politicians have not clarified what the alternative policies should be.

A return to import substitution is not feasible. Blaming the Washington Consensus for their problems is a way of denying self-responsibility, but it is not policy. Candidates in Latin America typically run from the left and then govern from the right or the center. The outcomes in recent regional elections demonstrate the political attraction of leftist rhetoric, but this rhetoric does not provide a clear picture of the economic model that will follow.

Latin American elites allowed deep inequalities to take hold early in their national development programs, and these are proving hard to correct. Indigenous people were not brought into the social mainstream through education and training and remain alienated to this day in many countries; this complicates achieving economic growth. On the other hand, Latin American countries have well-educated and talented people who can provide leadership for economic development. Yet, if one compares economic advancement in Latin America and East Asia since World War II, the Latin Americans come off poorly. Part of the explanation for this is the intransigence of political positions and the inability to reach political compromises to stimulate economic growth. This intransigence is evident in Mexico today and played a large role in the Argentine economic crisis five years ago.

Earlier, I said that political elections are an outcome, whereas economic and social issues are the basic inputs in understanding recent election outcomes in Latin America. The reality is more complex: political stubbornness is also a basic input to economic outcomes.

---

*Issues in International Political Economy* is published by the Center for Strategic and International Studies (CSIS), a private, tax-exempt institution focusing on international public policy issues. Its research is nonpartisan and nonproprietary. CSIS does not take specific policy positions. Accordingly, all views, positions, and conclusions expressed in this publication should be understood to be solely those of the author.

© 2006 by the Center for Strategic and International Studies.