

WILL LATIN AMERICA TAKE THE POPULIST PATH?

BY

Sebastian Edwards

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Next October 27th the citizens of Brazil will go to the polls to elect a new president. The overwhelming odds are that Luiz Inazio “Lula” da Silva, a former union leader and candidate of a left of center coalition, will be elected by a wide margin. Most analysts see Lula’s election as a clear sign that the Brazilian public has become disillusioned with the market system, and that it is ready to try something different. Some have even argued that the massive support for Lula – according to some polls he will get more than 60% of the votes -- consolidates a new trend in Latin American, and that the region is on the brink of a populist revival. Wall Street analysts point towards anti-market government actions in Argentina and Venezuela as clear evidence that populism is back with a vengeance. They foresee an outburst of inflation, a backtracking of the market-oriented reforms implemented during the last decade, the nationalization of public utilities, the repudiation of the public debt and a steep increase in protectionism. Some observers have gone as far as arguing that even Chile – until now the reform-oriented super star in the region – is succumbing to populism temptations.

This generalized gloom is not justified, and misses the subtleties of the economic and political dynamics in the region. Moreover, it is based on gross generalizations that ignore Latin America’s rich diversity and heterogeneity. Different countries have different histories and traditions, and move at their own pace. Flirtation with populism in some of them does not mean that the region as a whole – and not even the majority of countries -- will follow the path towards economic heterodoxy.

Nowhere in Latin America – and certainly not in Brazil – are people clamoring for a return to the days of galloping inflation. And people remember with horror the time when the government heavily regulated their lives, and when populist promises vanished in the midst of corruption and inefficiencies. On the contrary, today more people than ever value economic freedom, and support a democratic political system.

Lula and his team have repeatedly said that they will not embark on an irresponsible populist adventure. After years of seeking the presidency Lula is aware that fiscal discipline, low inflation, and honoring debt commitments are fundamental ingredients for a modern economy to attain sustained growth. He is also aware that without robust growth there is no chance that his social programs will be successful. In order to convince international investors that he really means what he says, it is essential that he appoint a solid, credible and well-respected economic team immediately after the elections.

It is true, however, that voters across the region are fatigued with the pace of reform, and are deeply concerned with the lack of economic growth during the last few years. Politicians want to take a “time out” and re-evaluate their countries’ development strategies. In some countries there is concern about rising unemployment, while in others issues related to the provision of social services, including health and education, are at the forefront of the discussion. In very few, however, is the “official” position one of nostalgia and populism. But even in those countries, the anti-market sentiment is far from generalized, as it has been illustrated by the increasing rejection of president Hugo Chavez statist and interventionist policies in Venezuela.

There is an increasing sentiment among the Latin American public, however, that the region has done more in terms of reforms than the advanced countries. Take, for example, the case of international trade and protectionism. Since the early 1990s the Latin countries have made tremendous progress in eliminating trade restrictions, slashing import quotas and lowering import tariffs. As a result, the region has become a major market for U.S., European and Asian products. While only fifteen years ago it was difficult to find U.S. made products in Latin American supermarkets or department stores, today Latin consumers have access to the same products as their U.S. counterparts. But Latin America has not only opened up to imports of manufactured goods, it has also liberalized its financial sector, allowing international banks and insurance companies to do brisk business throughout the region. In contrast, the advanced countries have become more protectionist during the last few years. The U.S. has imposed tariffs on products such as steel, and has massively increased agriculture subsidies; Europe continues to protect heavily its agricultural sector, making it

increasingly difficult for Latin exports to find their way onto European consumers' tables.

It is too early to know whether this sense of "unfairness" in trade will be eventually translated into serious reform backtracking. To a large extent that will depend on the advanced countries themselves. Policies in the U.S. and Europe that promote true free trade and allow Latin agricultural commodities and other exports to reach their markets would go a long way towards finally defeating the specter of populism in Latin America.

Mr. Edwards is a professor of economics at UCLA's Anderson Graduate School of Management. Between 1993 and 1996 he was the World Bank's Chief Economist for Latin America.