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**HEMISPHERIC POLICY**  
UNIVERSITY OF MIAMI

## **Perspectives on the Americas**

**A Series of Opinion Pieces by Leading Commentators on the Region**

# **“Four Reflections on the Political Consequences of the Economic Crisis in Latin America”**

by

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Washington, D.C.

June 25, 2009

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One remarkable trait of the current economic crisis is the perplexity of the social sciences, which are supposed to shed light on its causes, effects, and solutions. In fact, the whole episode has been, notably for economists, a long binge of humble pie. We simply know little about the way the crisis is likely to unfold. This is particularly true about the political implications of the downturn at the global, regional and national levels. So far, the political repercussions of the crisis have received scant attention when compared to its economic consequences.

In Latin America, where the slightly twisted pride of not being the culprit of the collapse led to a prolonged denial of its magnitude, the political implications have hardly been discussed at all. This is surprising, given the fact that the downturn happens to coincide with a region-wide election cycle in 2009-2010. Not just that. A region with historically fragile democratic practices ought to care about the potentially deadly consequences of sharp economic downturns for democratic regimes, consequences that are well established empirically. Inter-war Europe comes to mind. Hence, engaging in some reflection about the political aspects of the current conjuncture in Latin America seems appropriate. Four issues merit attention to begin the discussion.

**First**, when thinking about the political effects of the economic crunch, we must be careful in choosing the lens through which we see the crisis. This is the worst economic crisis that the United States has seen in 70 years. However, for most Latin American countries, this is *not* the worst economic crisis they have experienced in the past generation, nor is it likely to become the worst one. The list is long and terrifying: think of Mexico in 1982-83 and 1995, Costa Rica in 1982-83, Chile in 1982-83, Bolivia in 1982-85, Panama and Peru in 1988-89, Argentina and Uruguay in 2001-02, and Venezuela in 2002-03. Virtually every country in the region has seen much, much worse economic traumas than the current one (see Table 1).

**Table 1. Recent economic crises vs. current crisis, Latin America (selected countries)**

<b>Country</b>	<b>GDP Growth (%)</b>	<b>Annual inflation (%)</b>
<b>Argentina</b>		
2001	-4.4	-1.5
2002	-10.9	41.0
2009*	-1.5	7.2
2010*	0.7	7.2
<b>Bolivia</b>		
1982	-4.4	296.8
1983	-6.5	328.4
2009*	2.2	6.0
2010*	2.9	5.5
<b>Costa Rica</b>		
1982	-7.3	81.7
2009*	0.1	8.0
2010*	1.5	7.0
<b>Chile</b>		
1982	-13.1	23.4
2009*	0.1	2.2
2010*	3.0	3.0
<b>Mexico</b>		
1983	-4.2	98.8
1995	-6.2	52.0
2009*	-3.7	3.5
2010*	3.0	3.1
<b>Panama</b>		
1988	-16.4	0.9
2009*	3.0	3.2
2010*	4.0	2.5

Peru		
1988	-8.6	1,722.1
1989	-0.7	2,775.3
2009*	3.5	2.5
2010*	4.5	2.0
Uruguay		
2001	-3.4	3.6
2002	-11.0	25.9
2009*	1.3	6.4
2010*	2.0	6.5
Venezuela		
2002	-8.9	31.2
2003	-7.8	27.1
2009*	-2.2	42.0
2010*	-0.5	45.0
<b>Note:</b> (*) Projected figures.		
<b>Sources:</b> GDP figures from ECLAC, except 2009-2010, from IMF. Inflation figures from IMF, except for Argentina, Uruguay and Venezuela, from ECLAC.		

We know the story by now: Latin American countries are in better economic shape to cope with this downturn than ever before. With national variations, of course, foreign reserves tend to be high, inflation is low, the fiscal situation is not great but neither is it dire, and some very successful policies to support the poor have been put in place over the past few years. In most countries, there seems to be some leeway to tide them over the crisis, provided, of course, the economic contraction does not prove to be an ever-stretching “L”. We do not know at this point whether that would be the case. What we do know is that after many painful experiences, Latin Americans have become very adept at dealing with economic downturns. And the fact of the matter is that in spite of myriad recessions and inflationary crises, democracy continues to be the only game in town. A recent study on the impacts of the economic crisis on individual well being conducted by Brookings’ Senior Fellow, Carol Graham, pointed out that during the Asian crisis in 2001-02 in Latin America “*satisfaction* with democracy and with how the market was working went down significantly. Yet *preference* for democracy as a *system* of government and for market policies went up.”

So perhaps democracy in the region has more resilience than think. Hence, the first note of caution is: let us not get caught in the Washington madness. Things look slightly better from the South. We have to be concerned about the political implications of the situation, but we should not panic. We Latin Americans have walked by the scarecrow many times, and we are still standing.

**Second**, a forthcoming paper by Abby Córdova and Mitchell Seligson, from Vanderbilt University, entitled “*Economic shocks and democratic vulnerabilities: Evidence from the AmericasBarometer Survey*”, provides interesting empirical information about the solidness of democratic attitudes amongst different social groups in Latin America, as well as the likelihood that economic difficulties might rattle support for democracy. Their research shows that while such support is generally robust in Latin America (around 70% of the population in the region prefers democracy to any other political system), democratic attitudes are significantly weaker amongst the young and, to a lesser extent, the poor. Both groups show a particular propensity to support violent protests and participate in them.

The issue of the young is clearly disturbing and appeals in every piece of research done on democratic attitudes in Latin America. A study on political attitudes among Central American youth by Florisabel Rodríguez and Johnny Madrigal (2003), showed that “abstract” support for democracy as a system of government was significantly lower among secondary school students than among adults, in some cases by margins of more than 30 points (see Table 2).

**Table 2. Democracy as preferred form of government, Central America, 2000\***

Youth and Adults, by Country  
Percentages

<b>Country</b>	<b>Total Youth</b>	<b>Total Adults</b>
Guatemala	39.0	42.9
Honduras	38.5	73.0
El Salvador	48.2	69.9
Nicaragua	51.4	70.9
Costa Rica	68.9	89.8
Panama	57.2	84.4
<b>Note: (*)</b> In here only shown, “Democracy is preferable to dictatorship.”		
<b>Source:</b> Rodríguez (Florisabel) & Madrigal (Johnny) [2003], “Los hijos y las hijas de la democracia: Estudio comparativo”; in Florisabel Rodríguez, Silvia Castro & Johnny Madrigal, eds., <i>Con la Herencia de la Paz: Cultura Política de la Juventud Centroamericana</i> ; San José, Editorial Fundación UNA, p. 777.		

For the older generation, which lived through a long authoritarian nightmare, democracy was something to strive for. This does not seem to be the case for the young in Latin America. They know democracy and what they see they do not like. They have grown to believe that all politicians are corrupt, that elections change very little, that parties and leaders come and go, and that glaring inequalities and limited opportunities stay the same, while crime and violence get ever worse.

According to figures from the United Nations Development Program, one fourth of the youth in Latin America is neither at school nor at work. To begin with, this

is a security time bomb. But more to the point, this is a lot of people without a stake in the system. Unsurprisingly, the young in Central America strongly feel that they are not being represented at all by political parties (see Table 3). They suffer from an extremely severe case of political disaffection.

**Table 3. Political parties represent much of your interests and aspirations, Central America, 2000**

Youth and Adults, by Country  
Percentages

<b>Country</b>	<b>Total Youth</b>	<b>Total Adults</b>
Guatemala	5.6	19.9
Honduras	7.6	27.7
El Salvador	9.3	26.0
Nicaragua	6.8	27.2
Costa Rica	10.6	26.3
Panama	8.2	10.9

**Source:** Same as Table 2, p. 788.

While the political disenchantment, bordering on hostility, of the young is a real hazard for democratic consolidation, the role of the poor is more controversial. It is open to question how politically threatening is the fact that some democratic attitudes may turn out to be weak among the poor. Blunt as it sounds, the truth is that the poor in most countries are weakly organized and tend to have lower mobilization and political participation rates.

In the current situation, a serious challenge to democracy is unlikely to come from the poor. It seldom has. Quite to the contrary, politicians in Latin America have learned to fear the middle classes, and rightly so. These days particular attention ought to be paid to them. It is important not to lose sight of the dynamics of the economic situation of the past few years. Let us put it this way: your political reaction to the crisis is not just a matter of who you are, or which country you happen to live in; it is also a matter of *how you have fared* in the recent past.

What is most disturbing about the current situation is not the depth of the crisis but the fact that it comes in the wake of the best economic expansion in Latin America in at least half a century. Economic expectations in Latin America have run high in the recent past, particularly among the urban middle classes. Recent research done at the Getulio Vargas Foundation in Brazil shows that, given certain parameters of income, between 2002 and 2008 at least 10 million Brazilians joined the ranks of the middle class almost entirely due to upward social mobility. These are people that have bought houses and cars and dogs, all the trappings of a bourgeois life. If they lose their jobs and the banks repossess their homes, we are likely to see a lot of angry people on the street – poor people as well as middle class people. These will be the same middle classes that in decades past used to bang their pots and ask the military to step in. Simply put,

the middle class are typically more dissatisfied than the poor because they have more to lose. They have made gains and are risk averse. From the standpoint of protecting democracy, what happens to formal employment for the middle classes is decisive.

**Third**, in their paper, Córdova & Seligson put forward a rather dire warning regarding the potential of violent protests to destabilize democracy in Latin America. They rightly claim that it has often been the case that the military and the police, supported by elite groups, react violently to suppress them. This is certainly a possibility and we must beware of it. Yet, there is some room to be more sanguine. When the bad economic news started to come in, the fact that the economic downturn coincided with an election cycle in Latin America could easily have been perceived as a dangerous accident of history. In fact, it may turn out to be a blessing, for it offers a chance to channel social discontent through institutional means. While the crisis is still in its early days, of course, the electoral results in countries that have had elections so far (El Salvador, Ecuador, Panama) have been predictable and/or within the mainstream. More trouble may lurk ahead if the economic problems last much longer. After all, 7 presidential elections and 11 legislative elections will take place between now and the end of 2010 in Latin America (see Table 4).

**Table 4. Presidential and Legislative Elections in Latin America, 2009-2010**

<i>Country</i>	<i>Presidential Election</i>	<i>Legislative Election</i>
Argentina	None	June 2009
Bolivia	December 2010	December 2010
Brasil	October 2010	October 2010
Chile	December 2009	December 2009
Colombia	December 2010	March 2010
Costa Rica	February 2010	February 2010
Dominican Republic	None	May 2010
Ecuador	April 2009	April 2009
El Salvador	March 2009	March 2009
Honduras	November 2009	November 2009
Mexico	None	July 2009
Panama	May 2009	May 2009
Uruguay	October 2009	October 2009
Venezuela	None	December 2010
<b>Source:</b> IFES Election Guide, <a href="http://www.electionguide.org/index.php">http://www.electionguide.org/index.php</a>		

If the economic patterns persist, rather than democratic breakdowns on the streets, what can happen is that some of the weakest party systems in the region may suffer at the polls. New political actors, or political entrepreneurs - some of them with a populist bent - may well emerge. We just saw a glimpse of that in Panama, with the decisive electoral victory of Ricardo Martinelli, a self-made

magnate with a populist touch and his own political machine. It should be borne in mind that Panama does not have a particularly feeble party system. There may be more trouble in stock for countries like Argentina, Bolivia or Colombia, whose party systems are rather unstructured. On the other hand, it is hard to see anything unusual happening in places like Uruguay, Mexico, Honduras, Costa Rica and Chile, which have solid party systems. Even Brazil, which in the past few years has pulled its party system together, seems to be safe

**Fourth**, opinion polls suggest that a more active role for the state is something that would be welcome in Latin America in the context of the current crisis. This gives some leeway to the region's governments to act in ways that would be resisted in other contexts. Yet, it is vital not to get carried away. In fact, attitudes towards the state are very ambivalent in Latin America. Yes, Latin Americans are very pro-state, and believe that, in principle, a whole lot of industries and services should be in the hands of the public sector. According to figures presented in Latin America Public Opinion Project's *AmericasBarometer 2008*, every Latin American country scores at least 55 points on a scale of 0 to 100 when it comes to supporting an active state role in the economy, a figure that climbs to the vicinity of 80 in countries like Paraguay, the Dominican Republic, Argentina, Colombia, Chile, and Uruguay. The comparable figure for the United States is 39. Yet, according to another regional survey, *Latinobarómetro 2008*, only 23% of those surveyed in Latin America think that public institutions work well or very well, and 56% believe that the market economy is the only path to development. Moreover, many people are more than willing to justify tax evasion, presumably because they get very little from the state in the way of public goods. On a scale of 1 to 10, where 1 means that tax evasion is never justified and 10 means that it is always justified, Latin American countries are, on average, at 3.5. This is not good, but what is worse is that this figure has increased from 2.2 in 1998 to 3.5 in 2008. In other words, the region's legendarily bad fiscal ethics is getting worse. In sum, people in Latin America are very statist but also have a dismal opinion of the state.

When it comes to the state, attitudes in the region are reminiscent of the quip uttered by an Argentine friend of the author: "*Queremos un chancho gordo, que pese poco*" (We want a fat pig, that's not heavy). That is a tall order. If we are too cavalier about state intervention in Latin America, we might end up in a place that is not unfamiliar to the region: the place where the worst of socialism and the worst of capitalism meet. That is, we may end up with a state that is big, but weak; intrusive but not able to collect taxes, provide decent public goods, and reduce inequality. That would be a really unfortunate outcome.

There are other reasons why we must beware of a merry expansion of the state in Latin America. One is that the vehicle of choice to make it happen would be, in all likelihood, a great expansion of executive powers, a dangerous thing in Latin America. One of the truly important discussions in Latin America these days concerns, precisely, the need to strengthen checks-and-balances. This is an

urgent discussion in Venezuela, Nicaragua and Bolivia, but also in Colombia. So let us be careful with what we wish for in terms of state intervention, because we may wind up in a place where we Latin Americans do not want to go.

Certain kinds of state intervention are, however, needed. It is vital, for example, to reactivate public investment in infrastructure, which is a dire need in the region, not just in the current situation, but also for the long term. Even this, however, is not bereft of problems. It is well known that planning, designing and executing public investment projects are highly problematic in Latin America and are never done quickly enough. And when they are, it is normally for all the wrong reasons. One of interesting quirks of this crisis in Latin America is that it is reminding us of the value of those old fashioned creatures, the Ministries of Planning, which for ideological reasons were all but dismantled in the 1980s and 1990s. In spite of these experiences, the basic point remains: much more public investment in infrastructure is in order.

Even more important is increasing support for social programs, ranging from conditional cash transfers for the poor, to job training for the young; day care facilities so that more women can join the labor market; and programs to prevent students from dropping out of school. This is critical in the current circumstances and, in all likelihood, can be done more easily than infrastructure projects. Equally crucial, but more complex, is putting in place creative responses to employment losses in the formal sector. This can be done either through direct subsidies to firms to retain employees or through the introduction of a proper system of unemployment insurance, still a rarity in Latin America. The latter can, and probably should, be coupled with greater flexibility in labor regulations and renewed investments in job training programs. Dealing effectively with the job losses that the current economic crunch will almost certainly inflict on the poor and the middle class is a political priority of the highest order in Latin America.

These are merely a few thoughts to open up a debate that will unfold over the next months and years. The current economic crisis will allow us to find out if democracy is indeed the only game in town in Latin America, and if younger Latin Americans are willing and able to preserve the remarkable political achievements of the previous generation. We can only hope so.

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The "Perspectives on the Americas" series is assisted financially by the Bureau of Educational and Cultural Affairs of the United States Department of State.