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"LATIN AMERICA IN THE GLOBAL ECONOMY" CONFERENCE

Prominent Policy Makers Analyze Latin America's Economic Performance

If there is one thing everyone seems to agree on, it is that the economic maladies afflicting Latin America have defied easy solutions.

Zedillo

Although it has been a generation since Latin America began to implement structural reform, difficult questions remain: Was the region given the wrong medicine, not enough of the right medicine or did it fail to follow the prescribed treatment regime?

This was the heart of the discussion taken up at the Kellogg Institute's conference "Latin America in the Global Economy." Joining the debate were former Mexican President ERNESTO ZEDILLO and some of the hemisphere's most prominent economic policy makers, including high-level officials from the World Bank, the Inter-American Development Bank, the International Monetary Fund, and private banks.

The conference, held on April 19, was sponsored by the Kellogg Institute and the Federal Reserve Bank of New York.

"In 2004, we had the highest year of economic growth (in Latin America since the late 1970s)," observed Zedillo in his keynote speech. "But, when your economy (citing the example of Venezuela) falls by 25 percent and then rises by 15 percent, that is not something to be proud of."

Despite the strong growth that some Latin American countries have experienced recently and in the early 1990s, overall growth remains at unimpressive levels and below the rate typical in the region during the 1960s and 1970s. Meanwhile the economies of the Asian 'Tigers' have roared to life, vastly outperforming all of Latin America except Chile.

Central to the debate at the conference was the effectiveness of the "Washington consensus," a phrase coined by economist John Williamson in 1990 that summarized the prevailing view of Washington-based international financial institutions. Among the ten recommendations were proposals to promote macroeconomic discipline, while encouraging trade openness and market-friendly microeconomic policies. (See related Q&A article on page 15 for more on the debate.)

Due to the region's anemic growth in GDP and the slow progress in raising living standards from 1990 onwards, the market-oriented policies have become something of lightning rod for its critics.

"The disappointing progress in raising standards of living and the related phenomenon of reform fatigue

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International Scholars Program

A Valedictorian Who is 'Exceptional Even among High Achieving Students'

It is safe to say that even among overachievers, the 2005 Notre Dame class valedictorian, Enrique Schaerer, is exceptional.

For most class valedictorians, finishing top of the class—never mind doing it with a 4.0 GPA as Schaerer did—would be an extraordinary accomplishment; but doing it and writing the equivalent of a master's thesis in political science puts him in a whole new league.

"I nearly fell out of my chair," said TONY MESSINA, associate professor of political science, KI Faculty Fellow and Schaerer's advisor on the project. "And that was when he turned in his *first* 55 pages.

"I doubt the Department of Political Science has ever had a thesis from an undergraduate of this size and quality in its history."

How Schaerer managed to complete his project can be traced in part to an innovative new Kellogg program designed to nurture

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Policy Makers Analyze Performance ...
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are taking their toll on Latin America as large numbers of voters voice their frustrations at the ballot box or on the street," said E. GERALD CORRIGAN, managing director at Goldman Sachs and former president and CEO of the Federal Reserve Bank of New York.

'Much change has been good'

Although there was general agreement that the economic reforms of the last 15 years failed to deliver the expected results, panelists disagreed about the reasons for this underperformance. Moreover, some felt that focusing on the failures obscures the positive results.

As Corrigan pointed out, the region is now less prone to the searing financial shocks that characterized the 1980s and 1990s, and it now enjoys a higher degree of political stability. He argued that the market-oriented reforms have been beneficial to the region.

Corrigan

"Much has changed in the region in 25 years, and much of that change has been for the good," he said. "State-dominated economies, governments controlled by the military and weak democratic political institutions once were the norms."

Despite the shortcomings of growth and poverty reduction, the question remains whether there is a better path to prosperity than the one laid out by the "Washington consensus," he said.

"What many view as the fundamentals for growth and development are under serious challenge, if not attack," noted Corrigan.

"This drumbeat of criticism strengthens the hand of those who hold out some easier road to broad-based prosperity and rising standards of living. While that promise is seductive, it is a dangerous illusion."

'Benefits to all'

In analyzing the reforms, ANNE O. KRUEGER, first deputy managing director of the International Monetary Fund, agreed with Corrigan about the beneficial impact of market-oriented reforms. She observed that the nature of the implementation varied greatly between countries, as did the enthusiasm with which the reforms were implemented in Latin America.

Indeed, she argued, just because the treatment regime was not followed as prescribed, it shouldn't detract from the need to press forward with multilateral trade liberalization as expressed through the Doha Development Round of world trade talks.

From Krueger's perspective, the experience of East Asian countries, as well as Chile, points to the benefits of unilateral trade liberalization and a need to continue toward greater openness.

"The progressive reduction of tariff and nontariff barriers has benefited individuals, firms and national economies. Those benefits are greater for the economies that are more open, but there are benefits for all."

Krueger

'We oversold them'

Regardless of the practical or theoretical benefits, there continues to be palpable disappointment and widespread concern that there hasn't been a significant reduction in poverty rates.

"The reforms paid off, and they paid off more in countries that did more reforms, but we probably oversold them," reflected GUILLERMO PERRY, chief economist for Latin America at the World Bank and a former minister of finance and public credit in Colombia. He argued that the market alone will not suffice to resolve Latin America's economic problems.

Capital inflows and export growth were expected to promote the development of labor-intensive sectors. "This has not occurred," acknowledged Perry.

"The reforms produced a decline in poverty rates, but this development seems to be more a consequence of the decline in inflation rates and modest growth, rather than of the distributive consequences of trade and financial liberalization."

Perry

From Perry's vantage point, trade liberalization should continue, but it should be complemented by the need to invest in education, promote the rule of law, and continue investment in infrastructure.

"Modern economic growth is basically about more and better knowledge and production," said Perry.

'Medicine without pain'

As many countries in the region are enjoying renewed growth today, President Zedillo pressed for continued institutional reform in Latin America. In Mexico's case, he suggested, the time is right to move forward on tax reform, promote the rule of law and continue to practice fiscal conservatism.

"This would be the time to apply the medicine without the pain," said Zedillo, who holds a PhD in economics from Yale.

He called for strengthening Latin American states to offset the increasingly globalized economy. The rise of democratic pluralism in the region does not imply that the state must be less powerful; instead the state's power must be deployed to promote conditions conducive to global business and trade, reduce poverty, and increase investment.

"Too long we have lived under the belief that our states were strong," said Zedillo. "Authoritarian regimes do not equate to strength."

'Mini-Wall Street?'

Amid suggestions that Latin America's woes can be blamed on a failure to undertake even more radical economic reform, AUGUSTO DE LA TORRE, a senior regional advisor to the World Bank, and former head of the Central Bank of Ecuador, was skeptical.

"Latin America has reformed quite a lot," he countered.

Instead, de la Torre, who has a PhD in economics from Notre Dame, suggested that access to local financial services for small-to-medium-sized enterprises should be a key component to growth. Capital, he argued, continues to flow toward much larger companies.

de la Torre

Without access to capital, globalization can magnify the weak currency problems and have the potential to undercut local development, he argued.

"I think, sometimes, that the goal of market reform is to transform Latin America into a mini-version of Wall Street," he said of global financial institutions. "This should not be the goal."

"We need a little more modesty when we claim to understand what is wrong with Latin America," concluded de la Torre.

The following speakers presented at the conference: ***Guillermo Ortiz,*** *governor, Banco de México;* ***Lawrence Brainard,*** *senior advisor, WestLB AG;* ***Dennis Flannery,*** *executive vice president, Inter-American Development Bank;* ***Michael Gavin,*** *managing director, UBS;* ***Brian O'Neil,*** *managing director, JPMorgan Chase & Co.; and* ***B. Gerard Dages,*** *vice president, Federal Reserve Bank of New York.*

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