CENTER FOR ECONOMIC AND POLICY RESEARCH

After the Monroe Doctrine: The Future of U.S.-Latin America Relations

Press Breakfast Transcript

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With Dr. Mark Weisbrot [1] and Dr. Riordan Roett[2]

DR. MARK WEISBROT: Thanks to everyone for coming to this and for those who are phoning in. I have a few slides here for PowerPoint, but I try not to rely on them very much. It's just a few that I brought. It should have been emailed to everyone who is participating. So if you have that, fine. If not, I'll try to get around it as much as I can.

My first point is that the deterioration of U.S.-Latin America relations, which is pretty well recognized, and the changes-- probably more importantly, the changes taking place there-- have been vastly misunderstood here in the United States, and in policy circles generally. So I am going to try and explain, first of all, how I think it's been misunderstood. I think these are changes that are much deeper than people realize. If you look at the conventional wisdom on this, what you see is that people are seeing this as a kind of a pendulum that's swung some to the left, but for the most part, this is a temporary phenomenon, and –that the economic reforms, particularly in the last 25 years, are basically sound, and that people will go back in that direction, countries will go back in that direction. And I would say that that's probably wrong, that the trends you're seeing are much more deeply rooted. There are important structural changes that have taken place and are continuing to take place. And I guess I also have a more optimistic view that these are overwhelmingly positive changes, and the direction is clear and is going to continue. So let me just explain why I would argue that. And I guess that differs too – the conventional wisdom here is that most of these changes are not good. Certainly, if you read the financial press, that's the impression that you get.

First of all, I think one thing that hasn't been understood is the overall failure that has caused this shift to the left. And that's an economic failure, and it's an economic growth failure. That's very much misunderstood here, especially. Most people look at the inequality in Latin America and they think that that's the driving force. That is, of course, a big driving force, but that hasn't really changed much over the last 25 years. What has changed is that there has been a collapse of economic growth. Of course, the two are related, because it's very hard to do much about the poverty or inequality when you don't have growth.

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So I wanted to show just one slide on that, if I can shift to the second slide here. You can see the growth from 1960 to 1980, per capita. This is the basic measure that economists use, the most basic measure - per capita GDP, or per capita income, grew by 82%. This was not exceptional for developing countries. This was about half of what South Korea grew during this time, and maybe a third of what Taiwan grew, but it was growth - substantial growth that really improved people's living standards across the social spectrum, regardless of the inequality.

This is 1960 to 1980. From 1980 to 2000, you had very little growth at all, about 9%. The far right here shows 2000 to 2005. I have some updated growth data which I can show towards the end, and that's only about 4% for the first half of the decade. If you include last year, you'll probably get another three percentage points per capita, approximately. So it's picking up in the last few years, but still a very bad decade, most likely, unless something that nobody is anticipating were to happen.

So that's what I think this explains, even though it's not mentioned very much in the press and not discussed all that much, This is really, I would say, 70% at least of the explanation for these electoral changes that you're seeing, because this is a huge economic failure. In fact, I just showed this other slide here. Every point on this graph is just 25 years going forward of growth, and you can see that 1980 at the end, or '81, that's the lowest, the worst in over a century. So this is a kind of a rare failure in modern capitalist societies to have this kind of a long-term economic failure. So that's what I think people are responding to, and what I think you're seeing is voters are going over the heads of the political classes who have refused to recognize this failure, really, and they're saying, "we have to do something different." In the elections that you've seen in the last eight years in Venezuela and Brazil and Argentina and Ecuador, Bolivia and Uruguay, these issues were there, and the candidates all ran against what they called "neo-liberalism."

Let me try and define some of these changes. Here are some of the reforms, and I won't spend much time because you are all familiar with them. But I have to emphasize that these changes were really big and that what we're seeing has to be a policy failure.

So what did they do? Well, there was a vast and often indiscriminate opening up to international trade and financial flows. You had much tighter fiscal and monetary policies, independence of central banks, for example - a major change. Privatization, huge privatizations of state-owned enterprise - $178 billion just in the '90's, which was probably 15 times more than what you had in the former Soviet Union, for example, or in Russia, at least. You had labor market reforms; privatizations of Social Security in a number of countries; and probably the most important long run change, the abandonment of what were state-directed industrial policies or development strategies, and that is just starting to come back now.

So these were major changes, and I think until we get a discussion of what went wrong, you're not going to see much change in U.S. policy towards Latin America, because not just the Bush Administration, but I think the consensus here is that, well, "things have not worked as well as they should have; a lot of poor people were left behind," but there's no concept that some of these policies -or most of these policies - might have contributed to this unprecedented economic failure, which, of course, is not even yet recognized. I guess I would compare it to an alcoholic who doesn't know that he has a drinking problem - not likely to change. I think you do see changes, and big changes in U.S. policy towards Latin America in the sense that – we were just talking about President Bush didn't mention it in his speech last night. And of course, you see these other changes where, for example, the United States government doesn't react with the same hostility when a left government has elected -- somebody they really campaigned against, like Daniel Ortega in Nicaragua. They still didn't carry through on any of the threats that they made before the election.

So there is definitely a retreat of some sort, but there is no recognition that maybe the major goals of the United States in the region, the economic goals particularly, have failed and that these changes are a result of that and are not necessarily going to be reversed, and if they were, it wouldn't necessarily be better for the people in the region.

The second thing I think is misunderstood is another epoch-making change, and it's again probably understood if you ask a lot of people here in Washington, but it's not discussed much, and that's the collapse of the IMF's influence in the region. This to me, worldwide, is the most important change in the international financial system since the breakdown of the Bretton Woods system in 1973. In fact, it's even more important than that for low- and middle-income countries.

And from the U.S.-Latin America relations point of view, this was the major instrument of U.S. influence in Latin America for the last 25 years, aside from the para-military and military interventions, and things like that. This was much more the normal course of events by which the United States exerted influence. And here in Washington it's one of those open secrets. Again, few people talk about it, but everybody knows the way it worked was that the IMF had kind of a creditor's cartel. It wasn't the money that the Fund itself loaned, which was relatively small, but the fact that in order to get access to credit from most of the World Bank's programs, the IDB and most bilateral or G-7 government programs and sometimes even the private sector, a government had to agree to IMF conditions. As a result, since the IMF is controlled pretty much by the U.S. Treasury Dept., with only relatively minor input from the European and other developed countries, this was a major avenue of implementing these reforms and having a tremendous influence over economic policy. It wasn't foolproof, but it was huge.

And this collapsed completely in the last several years, not only in Latin America, but in middle income countries generally in the world, and now even some lower income countries - for example, Bolivia, which was under IMF agreements for 20 straight years and … in fact did quite terribly, with a lower income per person today than it did 27 years ago. In March, they decided not to renew their IMF agreement, and this gave them a certain amount of freedom to pursue economic policies that the IMF was very much against, including the renationalization of their hydrocarbons, and gas industry in particular. And that's been a major positive change, I should say, for Bolivia. The amount of money, the revenues that they have gotten already since just the change in the hydrocarbons law in 2005, has been 6.7% of GDP. This would be like $900 billion in the United States. It's enormous, and they're expecting it to triple again over the next four years. So again, this is a major change, and it's the kind of thing that wouldn't have been possible in the past.

Now, another change that has contributed to this, of course, the breakdown of this creditor's cartel, has been the Venezuelan government, because they've provided an alternative source of credit. And you see this in many cases: Argentina borrowing, Ecuador now has already borrowed a little bit but will get more, Nicaragua is getting hundreds of millions of dollars – promised hundreds of millions of dollars in aid - from Venezuela. So this changes the whole economic situation drastically, because this is another reason why these governments don't have to follow economic policies that are recommended by the IMF, the Bank or the U.S. government. In fact, it also changes the situation very much politically, and I think accounts for the fact that there isn't more pressure from the Bush Administration, on, say, on the government in Nicaragua.

Now, what kinds of changes have taken place? If I can just summarize a couple of them quickly, I think they are very positive changes. Argentina, for example, has grown at 8.6% annually since they defaulted on their debt and instituted a whole set of non-orthodox, macroeconomic policies that accumulated growth at 45% and pulled 8 million people over the poverty line. I think these kinds of policies would not have been possible say, eight years ago, or six years ago. Bolivia - I mentioned the huge increase in gas revenue. Of course, they're beginning a whole set of social policies that are enabled by this increase in revenue. In Venezuela, you see the provision of healthcare for poor people, subsidized food for more than 40% of the population, and greatly expanded access to education.

In Brazil, you see more modest changes, but I think you're seeing a struggle right now there over the future of economic policy with the President proposing a $237 billion public spending and investment program, and the Central Bank on the other side with its 13.25% interest rates and wanting to maintain the policies of the past. And that will be something that plays out in the near future. Again, it will be, I think, a political battle within Brazil and won't be so much influenced by outside forces. So let me stop there and I can come back to some more of these changes when we have the questions and answers.

DR. RIORDAN ROETT: Thank you. A major issue for me, and has been for a number of years, is that Latin America is increasingly uncompetitive in the world economy. In a globalized world, you have no choice but to compete. And we have bookshelves of studies that indicate the Latin Americans are falling behind. The World Economic Forum, with which I've worked for 10 years, has just issued its annual Global Competitiveness Index rankings of 125 countries. And if you go down the list, where are the Latin Americans? Mixed in with the poorest of the Eastern Europeans and the Africans, in terms of competitiveness. And the World Economic Forum measures this on seven or eight indicators: institutions, macroeconomic management, access to technology. Ecuador is number 90 out of 125; Bolivia is number 97; Peru is number 74. That is, these countries are falling behind in terms of competitiveness.

The second, I think very useful, report that the World Economic Forum also now produces is the Global Information Technology Report that is how you leverage ICT for development. And once again, Bolivia is 109 out of 115; Paraguay is 113 out of 115; the Dominican Republic is 89; Peru is 85, and dropping quickly in these rankings. So if you put together the institutional framework for competitiveness, combined with the access and ability to use ICT in terms of moving up the productive scale, which would then create jobs and attract investment, Latin America is going nowhere. And that was brought home in a report that was issued out of Brasilia just last week in which, in 2007, Brazil's positive trade surplus with China will turn negative. Why? Because the Brazilian market is being flooded with ICT products from China and Brazilians will go on producing and exporting the stuff that it's been producing since the 1800's: soybeans, agricultural products - they weren't exporting iron ore in the 1800's – iron ore and natural resources and commodities. That is not the way in which you become an increasingly competitive economy in the world. And the comparison of course is the famous Asian Tigers. And where are the Asian Tigers? They're up in the 20's and 30's in terms of competitiveness, access to and the ability to use ICT, to become an increasingly competitive player in the world market.

Second, the IDB published a very interesting report, their annual report at the end of 2006, the "Politics of Policies." And their argument, I think, is a very astute one - long overdue, but banks operate that way. And the *policies* of the 1990's were a mixed bag, but they weren't bad, particularly on a macroeconomic side. What was rancid, in most cases, were the *politics* of those policies: the inability of political leaders to build lasting coalitions, the inability of labor and government to come together on some reasonable deregulation of labor rules, which are outdated from the 1940's and the 1950's; and, of course, the critical issue which the World Economic Forum does indeed highlight, once again - how far behind Latin America is in terms of investment in education and health.

What has happened in Latin America, for those of us who are there months every year, is that in most countries in Latin America, the – what we called in the old days when I was a student -the "bourgeoisie," the upper classes, the elites, call them what you want, have now built a parallel state. They have private schools, private hospitals; they don't go to courts; they use private arbitration. So they've built a parallel state, which is a very costly issue, costly in many ways. It is costly because it costs money, but two, because they're no longer stakeholders in the public sector. They're no longer stakeholders in the basic institutional underpinnings of their own society. And you can find that country, by country, by country. There are very few countries in which I have friends, where their grandchildren are being sent to public schools. I was in Argentina last summer and got sick. I got very sick. The last thing my friend said is, "don't go near a public hospital; go to the German hospital," which is where I went and was beautifully taken care of, at a cost.

So what you're finding in Latin America is a tremendous deficit in terms of the ability of the elites to come up with the appropriate politics within which the policies are going to work. That I think is a very, very damning comment on the leadership of the region and they must take responsibility for that. You can't blame that on the IMF, or on the United States.

Second, there is an inability of Latin Americans to come together for group purposes. If you look at the landscape of Latin America over the last 40 or 50 years, all of the collective efforts have come to naught - that is, they've all failed. Whether it be ALADI on the trade side, whether it be the new Community of South America Nations, which met in Cochabamba recently, have accomplished nothing. The Andean community is in tatters; the Summit of the Americas, which last met in Mar del Plata, is going nowhere; the Free Trade Area of the Americas is dead; and the most important symbol, I think, was the Mercosur Summit in Rio de Janeiro in December, which was an absolute disaster. Even members of the Brazilian foreign ministry, Itamaraty, who normally support these kinds of collective actions, were publicly scornful of the decision to admit Venezuela as a full member, even before Venezuela agreed to the basic tenets of Mercosur. And such disagreement there was that they postponed the admission of Bolivia under pressure from the Paraguayans and the Uruguayans and, to some degree, the Argentineans. My own sense is that Mercosur, as a trade and integration entity, is dead. And because of the entrance of Venezuela, and the colorful language of Hugo Chávez, who wants to "cleanse it of anti-imperialism" and "restructure Mercosur," Mercosur once again is going to become nothing more than a political outlet for Chavismo in the Americas and similar trains of 1960's rhetoric and talk.

And while we can talk about Mr. Chávez being able to provide a billion dollars here and a billion dollars there -that's still real money in the real world. When one reads, say, Veneconomía, which Toby Bottome publishes still – God knows how - in Caracas, Toby is arguing that inflation may well go to 45 or 50% this year in Venezuela. We know there is no new productive investment in the oil industry. The oil companies are being taxed time and again. There is uncertainty about the investment climate. And of course, oil production is dropping in Venezuela. So the degree to which Mr. Chávez is going to become the savior of Latin America, in terms of beneficence, I would look at the numbers by the end of 2007, where oil prices are, where the Orinoco development is going in terms of those oil companies, and where he is going to get refineries to actually produce the new production of crude.

The third issue I think is one that I mentioned earlier - China. There is no question that China has become a major player in driving trade surpluses. To my point of view, what that has done is allowed the political elites in the region to postpone reform measures, because once you have surpluses of the size you do in Brazil and Argentina and Chile, you're able indeed to provide a modicum - and Chile is always the exception of all these rankings. = The World Economic Competitiveness ranking for Chile is up with the Asian Tigers. This year Chile came in at 27, in the same league as Malaysia, Korea and Taiwan - the only Latin American country that seems to have "gotten it" in the 1970's, '80's and '90s, for obvious reasons.

The China card is going to be a very difficult one for Latin Americans to deal with. As I mentioned, because of the flow of raw materials and commodities priced outside of Latin America to China, Brazil will now have a trade deficit, because the Chinese have been recognized as a market economy. In 2004, when Hu Jintao went to Latin America, their markets have now been flooded with technology driven goods and indeed they will be putting some Brazilian businesses out of business in 2007/2008. So the real question becomes: "you can't compete, you lose." All you need to do is look at Mexico in terms of it losing its share of world trade to the Chinese. And you look at the Central Americans, they're also going to lose out in terms of the arrival of not just China - we have India behind it - and a growing sense of integration among the Asian countries, which in no way is matched in Latin America.

Finally, U.S. policy. It's easy to say we should have a policy towards Latin America, but increasingly it seems to me the Latin Americans' don't have a policy towards the United States. There isn't very much the United States can do, no matter who's in the White House. The next president, he or she, is going to have to deal with that issue, of course, because this war in Iraq is going to kick forward to the next president. Once that's resolved, they may they want to turn back to Latin America, not guaranteed, but they may want to pay some attention to it. And they are going to find, I think, a far less competitive, and far weaker, and more dependent Latin America, with all of the inevitable social consequences that indeed do feed immigration, that feed corruption, misery and drugs. And until we recognize the relationship between the inability to grow - and while yes, look at Argentina in terms of its tremendous growth, but there are many people who argue it's fool's gold, and you can't freeze prices forever in any economy, and you certainly can't follow any of the policies that the Argentineans are following in terms of not having an independent Central Bank, and therefore monetary policy is made at the presidential palace.

Mr. Correa may or may not default on Ecuadorian debt February 15, when there's a coupon payment. Is a billion from Venezuela going to resolve its standing? Correa's government in Ecuador has just been downgraded both by Standard & Poor, and by Moody's.

Now, if that's the kind of game that Correa wants to play in the real world, that's fine; it's his choice. But to be downgraded as quickly as this in the first few weeks of your administration, it seems to me, is not a particularly favorable sign in terms of your insertion into the world financial system or into the world economy. So once again, I've got to agree with the IDB that it's the politics that are rancid. I don't agree with defaults, either. That's not a good policy. But in terms of generally, one can argue, we've had some good policies; we've had terrible politics in the region for a long period of time. I'm going to stop there – I think it's more important to open for questions.

IRA ARLOOK: Do you want to do a couple of minutes of back and forth and then open it up?

DR. MARK WEISBROT: Well, I agree with Riordan on the uncompetiveness, but I guess I would see that as a result of policy failure, again, this is the part that's ignored. I mean, Brazil and Mexico would be at the level of Europe in terms of their development -- per capita income -- today if they had simply continued to grow at the reasonable pace that they grew prior to 1980, and we'd be looking at very different countries. Brazil is a good example. You mentioned them being flooded with Chinese goods. Well, that's policy too. Their industries could compete a lot more in world markets if they didn't have a terribly over-valued currency as a result of the Central Bank holding interest rates up and having the highest real interest rates in the world – 13.25 percent and their inflation is about 3.1. So this is a terrible policy mistake, and it cripples their industry and their ability to develop.

I guess competitiveness to me is a result of development. It's not something you can introduce just by opening up to the forces of the world economy. China didn't do that. That's the fastest growing economy in the history of the world, and they didn't liberalize until they were ready. In 1992, they still had an average tariff of about 40%, which I think is about four times what Latin America had back in 1974, before they started liberalizing. So they had a very gradual transition: they decontrolled prices gradually; they had experiments with foreign capital; they had performance requirements -they still do - technology transfer. They used foreign investment to benefit their country and not just as a place for foreign investors to make money.

So these are the kinds of things that we have to look at when we talk about competitiveness. It's not just "compete or lose," it's how you compete.

And one last point, about the debt question and what Correa might be doing with regard to debt. I think we forget here in Washington that the purpose of foreign borrowing, to go back to the economics textbooks, is to get more resources so that you can grow faster, and therefore, pay back the debt with interest and still have something left over that is a net benefit to the economy. When you are just borrowing to pay off debt and that's what the future looks like, it's sometimes better to start over, to renegotiate, or in Argentina's case, of course, they had really no choice but to default. And I'm not advocating default, but I do think we have to keep in mind what the purpose of foreign borrowing is. It's to actually contribute to development, not just to foreign creditors.

DR. RIORDAN ROETT: That may be the purpose of foreign borrowing, but the end result in Latin America has been extraordinary mendaciousness and corruption in terms of the flows of revenues into the countries because they have not gone into productive investments. That is why Latin American educational systems are terrible, why the public hospitals are a tragedy, and why those issues of the institutional basis are why the countries can't compete. And it seems to me we really aren't very different. We are taking a very strange approach to this, Mark. It seems to me that the failure of economic growth is exactly what the IDB said: it is the politics. The policies themselves, in great part, were not terribly bad. It was the politics, and until somebody -and we can't do that – nor can the IMF — the Latin Americans have got to choose better governments who are transparent, and honest governments that indeed will then apply, in a relatively consistent way, the policies that will lead to greater competition. It's not a matter of opening crazily to the world. That's not the issue at all. The issue is having the appropriate set of policies that are politically sustainable. And in most countries these policies are not sustainable. So Correa in Ecuador can walk away from their international debt and start over? The cockamamie politics of Ecuador means that you're not going to get any set of consistent policies, because the politics don't function. It's a failed state politically. And that, it seems to me, is the issue we have to face up to very, very squarely, which we ignored for decades in Washington.

Q: I was just wondering if each of you could address the latest measures that Chávez has announced, notably the nationalization of the phone company. You can argue what you may, but generally speaking, the phone service in Latin America seems to have improved over the past 10 to 15 or 20 years. This seems to go against the grain and puts the state in a sector where most governments have been walking away from it. So what do you think is behind this? And also, you can also address the electricity and oil. At least oil, you can see as a strategic, sort of non-renewable resource.

DR. MARK WEISBROT: Well, it remains to be seen. We don't know what nationalization means for the telecommunications company. I think it's become exaggerated in the press. This isn't that huge of a thing. There were something like 40 enterprises privatized in the '90's and we're talking about a couple of them now reverting back to the national government. The CNTV has a monopoly or a near monopoly, 80% or so, on fixed phones, cell phones and the Internet, and it hasn't done all that well in expanding these. The fixed lines, the last I looked, it was something like 3.8 million, that's pretty low. And the Internet coverage in Venezuela is very bad compared to even other countries in the region. So will the state be able to do better? We don't know. Obviously, if it's like the past, it won't, but I don't think that the government is going to just put some incompetent person in charge and destroy the thing. We'll see what happens. But it's not entirely unreasonable if you have a development strategy that depends a lot on knowledge, for example, being more accessible, that you would want to increase Internet access.

In terms of oil, this is an ongoing process and it's been very successful so far. I mean, since the government got control over the oil industry (which they had to suffer a military coup and a devastating oil strike before they did) the economy has grown quite rapidly: 17.8% in 2004; 10% each of the last two years. And sure, inflation – I mean Veneconomía has been predicting doom and collapse since the whole last eight years. So has the media, and there's this whole story that oil prices are going to collapse and it's all going to go down the tubes, but I'm betting that's highly exaggerated. They have $50 billion in reserves if you count the development fund, and with a GDP of $164 billion, that's a pretty huge reserve. And they also budgeted for oil at about half of what it's come in at in the last couple of years, and the same for this year. So I think that things are a lot better there than the kind of wishful thinking that you see here in Washington that it's all going to come crashing down.

DR. RIORDAN ROETT: Having the appropriate approach to all of this is what Felipe Calderón is doing in Mexico. He's put the conglomerates, the national conglomerates, on notice that he wants to create a competition. I believe he can enhance the private sector for greater competition so that prices are going to come down and be more competitive. That's an intelligent approach to development, it seems to me, in an economy that desperately needs greater competition in certain sectors. Obviously, there are 10, 15 different sides to what's happening in Venezuela. One, Mark, for most of my colleagues is that Chávez took a world-class oil company, PDVSA, and basically ruined it. Now, it serves its purposes politically, for nepotism for political appointees, but it certainly isn't the kind of competitive entity that it was, even under the terrible political regimes of [Acción Democrática] AD and Copei. PDVSA was never touched, and it was a very important part of whatever contribution to the world economy Venezuela made.

Second, the Venezuelan economy has not diversified a note under Chávez. It was driven by oil in the '80s and '90s; it's driven by oil in the 21st century. That's all it has, and it seems all it will ever have, given the Dutch disease problem in Venezuela. And finally we'll see whether or not his relationship with Iran and China will indeed prove successful. I was in China when Chávez was in China in August, and he made great promises about diverting petroleum production towards the Chinese market. It got reported on page 4 or 5 of the China Daily, because, my colleagues in China told me, they don't pay much attention to Chávez anymore. Their comments were quite clear: 1), transportation costs are enormous; 2) there are not refineries in China for the heavy crude; and 3) geography does make a difference in world politics.

So many of the things that Chávez promises, or offers, we shall see. In December, at the Mercosur Summit, he and Lula agreed to a 5,000-mile pipeline from Venezuela to the Southern cone. Does anyone understand what the cost of building a 5,000-mile pipeline is going to be from Venezuela to Brazil? He has promised a number of projects, none of which have even begun yet. So let's wait and see what he does with his billion-dollar commitments, and where the Venezuelan economy is in 2007-2008.

Q: I have a question on the Argentineans' experience. Given the growth we saw Argentina reach after default, do you see any risk for other countries to follow Argentina's experience, going into default and huge opposition towards the IMF policies, and after that, working for getting better growth?

DR. RIORDAN ROETT: Again, there are two schools of thought, that the Argentineans got away with murder and the haircut which they forced on the creditors was deserved, given the malfeasance of previous governments. Let's wait and see if this policy, medium- to long-term, pays off. When does Argentina go back to the capital markets? If Venezuela is going to fund Argentina, perhaps it never has to go back to the capital markets, but from the history of globalization and world finance of countries the size of Argentina, at some point they're going to have to have access to capital markets, and they're not going to do so given their current standing on Wall Street and in the markets.

Second, it seems to me very dubious if any country can prosper long- to medium-term unless they have an independent monetary policy; and Argentina does not have an independent monetary policy. The Central Bank is controlled by President Kirchner and his gang of four or five in La Casa Rosada in Buenos Aires. And it's very clear that there is a very distinguished central banker in Argentina who spends most of his time going to international meetings with no policy to defend. So I'm skeptical, dubious, but we may have indeed an anti-historical example of the Kirchnerista model becoming a new one for the region. I would listen and watch carefully over the next year or two.

DR. MARK WEISBROT: I would disagree actually. I think that the monetary policy of Argentina has been a key element of its success, and I talked about this at some length at the previous breakfast (the transcript is on our website) with Michael Mussa. So I won't go into great detail here. We don't have time. But basically, the stable and competitive exchange rate and having the Central

Bank target that, and not simply target inflation, has been key to the Argentine recovery. That was one of the key policy changes that they made. I don't agree, in general, that a Central Bank should be independent of the government in a democracy; it should be accountable like any other institution. I think this is one - if you had to pick one of the biggest changes - the most important changes responsible for the economic failure that I showed you in that graph, the unaccountability of the Central Banks, and their extreme anti-growth monetary policies, is probably the most important cause of the policy failures of the last 25 years. So reversing that was a very important part of Argentina's growth. And again, you can go through the record and you can see how the IMF, and the others who advised against what the bank did, turned out to be wrong consistently throughout this process of economic recovery.

As for default, I don't think it's going to cause a rush to default, but I think that any country should consider it has to be an option. If you're stuck in a debt trap and all you're doing is paying interest – I mean, if you're a student and you borrow money for a student loan and you don't get to use that for tuition, but all you can do is spend it on your rent and food, and you're stuck in a debt trap, it's the same kind of thing if you're bankrupt. People declare bankruptcy in the United States. Countries can be better off in some situations and they can't just take it as a given that access to foreign capital markets *is* the most important thing. The goal is development. The goal is raising people's living standards - that's the goal. These other policies are means to that end.

Q: Good morning to both of you and thank you for this forum. I understand, of course, that the White House's attention, the Bush Administration's attention is focused on Iraq right now. But what, if anything, can the United States be doing, even if there isn't much of a coherent policy from Latin America towards the United States? What, concretely, can the Bush Administration do that it isn't doing right now when it comes to Latin America and healing relations?

DR. MARK WEISBROT: I think it's still the same as it's been, in the sense that "first, do no harm" should be the first policy. They still have this, for instance, this Office of Transition Initiatives, which is the covert action wing of the U.S. Agency for International Development, which only operates generally in places like Afghanistan, but somehow has operations in Bolivia and Venezuela and won't tell us where the money is going, even though it's not technically a covert intelligence arm of the government - it's part of the U.S. Agency for International Development. So I would put an end to those kinds of things. And I think I would reconsider the economic policies, these so-called "free trade" agreements that try to impose all kinds of policy constraints on governments. I think those are a mistake as well.

So again, it's more harm reduction still. Even though the United States is playing a much more reduced role in Latin America, it's still not a positive one yet.

DR. RIORDAN ROETT: Given our twin deficits there's nothing much we can do until some president comes into office and understands that you can't run a country on deficits. There are two issues that they may be able to move forward on. Tom Shannon, the Assistant Secretary for Latin America, spoke at CSIS yesterday and was asked a question about drugs and Calderón in Mexico, and he said, given the very aggressive policy of President Calderón with regard to the drug cartels in Mexico and the United States, we'll be more forthcoming in terms of finding ways to cooperate with the Mexican government, which I endorse. And second, of course, which is an initiative of the president: immigration. That is, since the White House could lead during the final two years of the Bush Administration in coming up with a comprehensive immigration program. The president already has spoken positively about this. The old Congress basically ignored him, particularly in the House. Now that there has been a shift, I think there may well be flexibility in terms of coming up with an appropriate political response to the immigration issue, which would be, I think, a welcome one from the private sector's point of view, as well as for the future of the region.

Q: On Nicaragua, right now, it looks like both the United States and Venezuela are very busy courting Ortega. The first thing he did after he was elected was meet with private investors, foreign investors, but much of the attention that he showered on visiting dignitaries during his inauguration went to figures such as Chávez and Morales and Ahmadinejad. Is he walking a tight rope? And which way do both of you see him going? Which direction is he leaning in?

DR. RIORDAN ROETT: There's lots of speculation about that in the press. He certainly had a very cordial conversation with Tom Shannon, as well. So I think that Ortega is still trying to make up his mind given the poverty in Nicaragua and the uncompetitiveness of the Nicaraguan economy. Ortega, as always, is an opportunist, is up for grabs, and whoever offers them the best deal, that's the way he is going to go.

DR. MARK WEISBROT: I think he can have relations with both sides, if you will. I think the Bush Administration tried this policy of saying, "you're with us or against us" in Latin America, and tried to isolate Venezuela, and ended up just isolating themselves. I don't think that works. You see all of these pictures of Chávez with Ahmadinejad all over CNN, but what you had to go to the Internet to dig around is to see the photo ops with Lula, who made his first foreign trip after his reelection to go to Venezuela and to support Chávez, quite openly, in his own reelection bid. So again, this is a country that has good relations with the United States, will pursue its own interests with the United States in forums like the World Trade Organization or elsewhere, bilateral commercial relations, and at the same time, has a very strong, close relationship with the government in Venezuela. And I think the most fascinating thing is that now even small countries in Latin America, like Nicaragua (who in the past, as you know, our government spent hundreds of millions of dollars to literally destroy the country in the 1980s to get rid of the same president, even after he was democratically elected in 1984) now, he can pretty much do what he wants. And I think he will probably pursue his own interests and to a certain extent, the country's interests with both sets of relations.

Q: A question for both of you: I would like to you to please comment on the use of rhetoric that all of these Latin American leaders are making, the emphasis of Chávez on the tag "socialist" and so on. It appears to be for home consumption but might also underline and stress the differences with the U.S. Why this emphasis on confrontational rhetoric beyond actual actions?

DR. RIORDAN ROETT: I think there has been an over-emphasis on the rhetoric of Chávez. It's certainly colorful, and there is no question that it certainly drives the White House crazy. Nor do I think the Brazilians, or the Chileans, or the Peruvians, or the Colombians are particularly happy with Hugo Chávez. And my own sense is that Chávez may be at the edge of overplaying his hand in South America. That's why you'll never see a Venezuelan-Mexican *cordial entente* while Mr. Calderón is in office, with Hugo Chávez. Chávez is a very complex person. Quite clearly, he is not a micro-manager. He believes in broad, ideological macro thinking, which seems to shift from day to day. And as long as he has oil money and doesn't really think much about the long-term future of his own economy, he just wants to spend oil money; he is having a glory day. At some point, I believe there will be a day of reckoning – not like tomorrow possibly, perhaps a year or two. When you have the major highway between Caracas and the international airport collapse when the government had been told by engineers under Chávez that there had to be a major investment in physical infrastructure to preclude that happening and the government did nothing, rhetoric doesn't get you very far given the extraordinary extra costs now for doing business if you've got to get to the airport, in Caracas, to the coast, or to Maiquetía.

DR. MARK WEISBROT: I was inconvenienced by that collapse myself on my trip from the airport. Yeah, I think the government is going to have to put some money into infrastructure. For the first few years they were basically fighting for survival. And since then, as I said, they had to get control over the oil industry. There's really nothing they could without that. Since then, they've done pretty well. They've focused on the basics first: healthcare, food and education. I think they will now attempt to pursue more of a development strategy. Whether they will succeed or not remains to be seen. I think that's the tough question for all of Latin America and developing countries generally. It's not easy to have a development strategy that works for a particular country, in this case an oil producer that, as Riordan correctly pointed out, really needs to diversify away from oil production.

Q: I'd like to focus specifically on the plan announced this week by President Lula to boost Brazil's economy. I would like to hear from you if you believe that that is the right path for Brazil actually to reach economic goals similar to those of its neighbors. Brazil has had a sluggish growth while you have Chile and Argentina growing at a very high level. And the other thing has to do with Brazil's foreign ministers about to meet in Davos with U.S. representative Susan Schwab, the Trade Representative – and Brazil has been calling for a long while now to decrease the subsidies offered to U.S. farmers. That has not been reached. It has been somewhat of a blame game: the U.S. blames the European Union, which blames back on the U.S., that blames Brazil, and so on. What do you believe will be the outcome of that, if there will be any, or have we reached a standstill with that?

DR. MARK WEISBROT: Well, on the growth issue, and this is something that I care a lot about, I think the real question is how the Brazilian economy manages to grow at all with the interest rates that they have, and the over-valued exchange rate that is a result of that. So, yes, I think Lula has been taking a big step forward, and he has a new finance minister, and that's part of the change in policy. They're starting to loosen up just a little bit on the primary surplus. But again, the conventional wisdom that you see, especially in policy circles and the financial press, is that the way the Brazilian economy is going to grow is not through lowering interest rates, and thereby increasing the competitiveness of its industries both domestically and internationally and increasing employment, but by cutting spending, including public pensions, so that he can then eventually get these interest rates down. And you don't know how long this will take or when the financial markets would allow this to happen.

So the big question is: when will the Brazilian economy no longer be subordinate to financial interests? This is a question in every country. In the United States we have this problem too. Sometimes the Federal Reserve causes a recession unnecessarily because it's looking out for the interests of the financial sector more than the real sector of the economy. And the thing is it's just exaggerated a hundred times in Brazil.

On the second question of subsidies, I think it's too early to say whether some kind of an agreement will be reached, but I think this issue has been played up because it's politically the most convenient one for countries like Brazil. Like in the G-20 when they walked out in Cancún in 2003, they focused on the subsidy issue because the hypocrisy is very clear: the United States and Europe won't cut their subsidies and they're telling these other countries to open up. But in reality it isn't that important from an economic point of view. The more important issues in the WTO are the non-trade issues: intellectual property, government procurement, all of the other issues - investment measures - things that really have an impact on development policy much more than these subsidies will.

DR. RIORDAN ROETT: It's very confusing in Davos this year. Klaus Schwab, the founder of the World Economic Forum, doesn't like people with the same name wandering around Davos, so Susan Schwab must be under some pressure. Putting that aside, we can debate all day about the level of interest rates in Brazil. Critical other components to that picture are tax rates (which are the highest in Latin America - 38% - you can't go very far with those kinds of tax rates), labor deregulations (no progress on labor deregulation, and that's extraordinarily important for competitiveness), and the Congress, which I follow very carefully. There is absolutely no appetite in the Brazilian Congress for further social security reform. And all of the independent economists that I know in Brazil have made it clear in their writings and their comments that unless you really have a comprehensive plan for social security reform and labor deregulation, and a restructuring of the cascading tax system, which is absolutely nonsensical in Brazil - and wherever you stand on interest rates - Brazil barely will be able to grow at five percent.

I think the issue of subsidies has become a game between the developing countries who don't want to give in on demands for intellectual property rights and other issues, and the developed countries that find it convenient to blame each other for the agriculture subsidy issue, although it plays into domestic politics in all countries. It just so happens, if you look at the red/blue state issue here in the United States, most of the agricultural subsidies for the last couple of years have gone to red or Republican states – not all, but many.

So therefore, the domestic political issue is a very important one. If you talk to anybody in Paris about agricultural subsidies, their face turns red and blue at the same time, given the importance of subsidies in France on the domestic political scene, and not much less colorful in Berlin, when you raise that issue, as I have, in Berlin as well. So the domestic politics drives so much of this that it is very difficult to come up with a high road in terms of agricultural and farm policies that are going to satisfy both groups, developing and developed.

Q: I have a question on the Washington Consensus. Mark mentioned the failure of the IMF in the region. Do you find any reasons for that failure in the Washington Consensus?

DR. MARK WEISBROT: Yes, I think those policies have failed. You can go through them one by one, and talk about each one. I mentioned already monetary policy – I think that's a disastrous failure. Obviously it's brought down inflation, and some of those policies were very useful, at first, in countries where you had hyperinflation, but when it becomes your normal development policy to have the highest real interest rates in the world, it's not feasible. I think the abandonment of development strategies, industrial policies - I mean, there is almost no country in the world that became a developed country with the kinds of policies that the IMF, the World Bank and Washington economists generally, with few exceptions, have recommended. And that's why you're going to see this region continue to drift away from those. And by the way, if you look at the last three years of growth that were successful, relatively successful in Latin America, if you take

Argentina and Venezuela out of it, it goes down by almost a percentage point. So the countries that reject those policies will tend to do better if they can come up with sustainable alternatives. I think it's now much more likely.

DR. RIORDAN ROETT: As we all know, there were 10 points of the Washington Consensus that the IIE and the fellows who put together (not many women in that group) 10-12 years ago. There are two things that Latin-American countries ignored, and we ignored as well: number two, I think, which was if you've got a surplus, transfer that surplus into social spending. It didn't happen anywhere in Latin America. And number 10, I think, was the issue of judicial reform. That, of course, has gone nowhere in Latin America. Judicial reform in terms of recognizing contracts, in terms of regulatory frameworks - the kinds of things that you need to do, to do business well. And those two were totally overlooked, and Latin America is now paying a price for that.

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