

# **Winners and Losers: Economic Development in Latin America**

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# Latin American Politics & “Magical Realism”

- “Magical Realism” is default position of Latin American politics
- Fanciful notions & myths
  - America was enriched by exploiting Latinos
  - Globalization forced Latinos from idyllic rural life

# Reality versus “Magical Realism”

- Political thinking resists modernity
  - Recycling redistribution & anti-imperialism
  - Reliance upon international aid
  - New bogeymen based on global myth
  - Wealth is not manna from heaven
  - Key opinion makers unaware of nature of wealth
- Is sustained development sustainable...?
  - Aiming for “green growth”
  - Real choice is growth or stagnation

# Losing Latin America

- Traits: economic stagnation, rapid inflation & unstable financial systems
- Causes: Populism & paternalistic protectionism
  - Promise
  - Realities

# Winners

- Winners consist of mixed bag of policies
- From 2003 to 2007, Latin American economies averaged growth rates of 5%
  - Commodity boom
  - Mostly from increased interdependence

## Winners Cont.

- From late 80s to early 90s, opening stock markets to foreigners → lower capital costs → more investment → rising growth rate of capital stock → increased rate of output per worker (higher productivity) → rising wages & living standards
- Open trade & competition → increased domestic efficiency
- Higher per capita income but greater income disparity

# Latin America's Illiberal Democracies

- The Rise of 21<sup>st</sup> Century Populism
- Venezuelan & Bolivian leaders seek to be presidents for life
- Populists will be blamed outsiders or global economic turmoil for their failures
- Economic consequences of Populism
  - Public sector imposes increased burdens on relatively-smaller private sector
  - Efficiency losses

# Lessons...?

- Democracy neither necessary nor sufficient for prosperity
- Short-run economic benefits of authoritarianism offset by political instability
- Long-term prosperity requires economic freedom more than democracy