



**LATIN AMERICA'S RADICAL POPULISM CHALLENGE:
WHAT'S NEXT FOR A NEW U.S. ADMINISTRATION?**

PANEL I: THE ECONOMICS OF POPULISM 101

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WEDNESDAY, OCTOBER 8, 2008

*Transcript by
Federal News Service
Washington, D.C.*

JAIME DAREMBLUM: (In progress) – the analysis. It is my pleasure to welcome you to today’s conference on populism in Latin America. When earlier this year we planned this event, little did we know of the current financial turmoil. In the midst of these tumultuous times, we have heard official voices in Caracas, La Paz and Quito, claiming the bankruptcy of capitalism championed by the United States and the victory of Bolivarian socialism.

So it is fortunate we have an outstanding panel of experts who will tell us how Bolivarian states are faring in their economies and societies. Our experts will analyze the trio of Venezuela, Bolivia and Ecuador. In addition, we’ll learn about two of Chavez’s favorite clients, Nicaragua and Argentina. We also thought that given the absence of any major discussion of Latin America in the current presidential campaign, we would invite two top experts to tell us the policy implications for a new U.S. administration of the doings of Venezuela and its allies in the region.

After each panel, we’ll have plenty of opportunity for questions, comments and, hopefully, a vigorous discussion. I should mention that we value highly the support we received from the Lynde and Harry Bradley Foundation for this program. I also must inform that our audience, that Professor Pfaltgraff will not be able to join us today. The bios of our experts, professors for the first panel: Professors Myers, Vargas and Corrales; as well as of the experts that will discuss policy implications in the second panel: Nelson Cunningham and Carl Meacham, have been distributed in advance.

And without any further ado, we’ll start our first panel and it’s my pleasure to ask Professor Myers to the podium.

DAVID MYERS: Thank you very much. It’s nice to be here, to look out and to see everybody. I was asked to sort of talk about radical populism in Venezuela, Ecuador and Bolivia. I suppose if we were down in Caracas at the Alba Center, formerly the Caracas Hilton, this would be a seminar on the axis of good. I think that was exactly what President Chavez referred to it and, you know, in some ways, there’s not a lot of agreement between the members of the axis of good and American foreign policy types.

I remember, after Chavez referred to our president at the United Nations as the devil, the president of Ecuador, Correa, came on and he said that he was very angry at Chavez for doing that because he thought that this was depreciating the devil. So, you know, once again, you can see that we perhaps have some work to do to build and rebuild bridges.

And I think this leads into – I’m going to really try to deal with three points. One looks at radical populism as a reaction against the neo-liberal policies that were implemented beginning in the late 1980s. The second, I’m going to look at the structural conditions that sort of gave rise to populism. And I’m also going to look at the appearance of what I would call “the man on horseback” as a catalyst for a lot of the shifts to this radical populism.

I think one of the things we want to remember about radical populism is that it emerged in countries which had liberal democracies for a period of time in what Samuel Huntington referred to as the third wave of democracy. Remember, the third wave of democracy came when people felt that the United States way, the liberal democratic way, the capitalist system as we think about it now, was sort of the way of the future; if they would just adopt the way the United States was, the streets would be paved by gold, everything would be wonderful and we would have a great jump in economic development.

Well, that didn’t happen and people became very disillusioned with it. And, in a sense, you could make an argument that the precursor, perhaps a necessary precondition for the emergence of this radical wave of populism was really, liberal democracy and liberal democracy failing.

Another interesting thing here is that when you had the shift to populism, you had an attack on liberal democracy and you had this attack on liberal democracy and the processes of liberal democracy. I remember Venezuelans and I remember listening to some of Chavez’s speeches and he argued that liberal democracy, because it has checks and balances, allows the people who have the most influence, the most power, to stop those who have the least influence and the least power.

And, therefore, the only way – remember when Chavez was sworn in the first time, he put his hand on the constitution of 1961, modeled on the U.S. Constitution, and he said, I was elected under this degenerate constitution; I promise you I will destroy this democracy within a year. And, of course, he was able to fulfill that.

So I think those are important things to remember because we sort of see this reaction against liberal democracy – granted, it wasn’t exactly liberal democracy as we would like it to be, but it was the best that they could do given not having much of a tradition of that. And you saw that reaction in Ecuador and you saw it, to some degree, in Bolivia.

Okay, now, what about some structural conditions that have led to radical populism? Okay, first of all, the underlying persistence of the poor. And people say, okay, you know, somebody once said, the poor you always have with you, right? Well, we’ve had them for a long time, but the fact of the matter is that in the neo-liberal period, we had significant growth in a number of the economies in Latin America and particularly in the, “axis of good” economies for a period of time.

However, one of the problems always with the capitalist system is, how does the increased wealth that is created, how does it trickle down? I can remember being in Venezuela during this particular period and some of the people were doing very well, the young entrepreneurs. And they actually flew three elephants down from Florida and then we had Ringling Brothers Barnum & Bailey Circus at the 10th birthday party of some of the kids.

And then, if you picked up the interior section of the paper *Nacional*, you saw a study that the University Andres Bello had done talking about the average birth weight of a child in the ranchos had declined 10 percent because of lack of prenatal food. I mean, it was that type of thing that created an impression all over both the axis of good, I suppose, if you want to call it that, that there was something basically wrong with the way the capitalist system was being implemented in Venezuela and, to some degree, in Ecuador and in Bolivia.

The other thing that you saw is the – you know, once again, there's a slight – there's more than a slight difference in both Ecuador and, particularly, in Bolivia because, in Venezuela, it's much more a class-based outrage of the poor. In, particularly in Bolivia, you get ethnicity, right? You get between the Amerindians and the Hispanics and the mestizos.

Okay, so you've got these and the question always is, okay, you've had a lot of these conditions; they've existed for a long period of time. Why, you know, didn't you have this movement to radical populism earlier? And I think one of the answers is the whole idea of, I would argue, the man on horseback, the tradition of the *caudillo*. You know, this goes really back to the – you know, there's deep historical roots on this; it goes back to the way in which the Spanish re-conquered the Iberian Peninsula from the Moors. It goes back to the traditions of colonialism. And, once again, what you look at, you put power in an individual.

Another interesting thing in relationship to this is that when most Latin Americans talk about democracy, you get around, you know, you go to a seminar, you hold one, you interchange with them, you go out drinking and whatever, their view of democracy is basically not a Lockean view. This idea of checks and balances, as I said, is considered almost illegitimate.

Their view is much more a Rousseauian view. And, remember, in the Rousseauian view, you have a leader who represents the will of the people. And this fits much – you know, it's interesting how this fits very much together with the idea of the caudillo. You have the caudillo, you have the strongman. At the same time, you have – you move to a democracy and away from the traditional caudillo, but, yet, the idea of the importance of the single individual in the Rousseauian tradition becomes very important.

So what you do is you sort of give power to somebody who you feel will represent the will of the people and, during the time they have power, they can do

anything they really damn well please. And that's part of the tradition. So I think if you put together the structural crisis and you put together this *caudillo* tradition with a Rousseau-ian component into it, there are always strongmen that are, you know, leaders, charismatic leaders, that are waiting to appear. And they did appear. They appeared in Chavez; they appeared in Correa; they appeared in Morales. And it was the structural conditions which made possible these strongmen coming to power.

And I think that was, you know, something which led to the radicalization, to radical populism. And I think that the – and this is the interesting thing. If you asked, has radical populism run its course in Latin America? And I think probably the answer is no. And I think the answer is no because the conditions which led to radical populism in Venezuela, in Ecuador and in Bolivia exist in other countries. For example, it was a very close call in the last presidential election in Peru. You know, Ayanta Humala almost won the election. You've got Lopez Obrador, the same type of thing.

So these conditions can exist and these sorts of *caudillo* leaders, you know, are waiting in the wings. And in a sense, it takes a – something, sort of a jolt. In the case of Venezuela, the jolt was two things: It was, one, the destruction of the banking system and secondly, the discrediting of the middle class opened the way for Chavez. Those types of things, you know, given the financial crisis that we're involved right now, could very well happen in a number of other Latin American countries, which could then open the doors to a type of radical populism like we see.

So, you know, what can be done, I suppose, at this point? U.S. –the more we talk about what Latin Americans should do, the more unpopular we become. I think one of the best things to do is to sort of play a very low profile, try to stimulate and strengthen people who have some – share some of our vision of liberal democracy and try to install checks and balances, try to work with the middle class, try to work with the entrepreneurial sector. And don't enter into a conflictual relationship with the radical populist leaders because we always lose that. We always lose that with a populist and we lose it with the leaders.

I can remember when I had a conversation once with Chavez. He had just come back at that time from the Quebec summit and he had had quite a confrontation with our president, George W. Bush, at this time. And the confrontation had been over two types of things: one over the fact that, can you have – can you use direct democracy as one of the types of democracy that the United States would support in its initiative for democracy in the hemisphere? And we said no, no. We believe that you have to have liberal democracy, checks and balances and so forth.

As I said, Chavez in his heart of hearts believes that checks and balances favor the elite, and you have to do away with that. And I think that that is shared by a lot of the Latin American leaders.

The other thing has to do with the problem of mixing safety nets and socialism into capitalism. The more we talk about that and the more we talk about just neo-

liberalism and straight capitalism, the easier it is to paint the United States as being unconcerned with the plight of the poor.

So, once again, I think the U.S. needs to be very low-key in the way it attempts to influence. But we do have a lot of power still to influence Latin America.

Another factor – two more factors here quickly, and then I'll be done – influence Latin America. One is the return of Russia to the Caribbean and the return of Russia to – I mean clearly after the United States has put the missile shield up in Eastern Europe after we helped to rearm the Georgian Army, after we're involved with Ukraine, the Russians are going to push back and they're pushing back increasingly. They sent some of the, I think the Tupolev bombers to Venezuela; there's going to be maneuvers for the Russian Northern Fleet are going to be in the Caribbean; Chavez continually now is talking about an alliance with Russia to counterbalance the reactivation of the United States Fourth Fleet; and the Russians have also been involved in certain oil deals with the Ecuadorians.

If the Russians are prepared to invest substantially to help radical populous governments, if the radical populous governments will basically challenge the U.S., then I think what will happen is that Russia will play an important role in perhaps stabilizing some of the radical populists.

The other country that I would look at very clearly is Brazil. If you look at, you know Brazil, what, seventh largest economy in the world. Brazil is moving ahead in spite of the recent, I guess last two-day meltdown of the Sao Paulo stock exchange. Lula seems to have been able to play a role where he can – I always said one of the more interesting things about Lula, he went to the social forum the first year he was elected in Porto Alegre, which is not a big capitalist stronghold. And after he went for the capitalist – to the socialist forum, he got on a plane, and he flew to Davos, and he made a big case for investment in Brazil.

So somebody that can play both sides that way, I think working through Chavez and maybe Bachelet and some other people down there is the way to basically try to create a less confrontational atmosphere with the new radical populist leaders. Because once these leaders are in power, it becomes very, very difficult for them – I mean they're going – it seems to me they're going to go through a cycle. And I think I guess my final parting comment is that I think we can expect to see more, not fewer, of these radical populist governments during the next four or five years. Thank you very much.

(Applause.)

THELMO VARGAS: Good afternoon ladies and gentlemen. I would like to thank Ambassador Darenblum and the Hudson Institute for having invited me to share with you my views on the economic, political and social situation of Nicaragua. The idea will be to present the views of an outsider. I'm a Costa Rican, I'm not a Nicaraguan and I could be more neutral probably than if I were a Nicaraguan. I'm very honored to address this select audience and especially to share the podium with Mr. Corrales and Mr.

Myers. This material that I will be presenting here is public—I found it on the internet checking the websites of the World Bank, IMF, and other institutions. And it's a byproduct of research that I have to conduct elsewhere as part of my job as a consultant in financial and economic matters. I'm not a political scientist, so I hope I won't say any heresy.

I will try to stick to objective information. I will make some inferences. I hope you share those inferences from this information. Initially, I thought I was subjective of my presentation to know which terms should apply to the actions undertaken by the Ortega administration. But I think would like to add to the objective, I would like to make some recommendations on how to improve the situation of Nicaragua, and I hope you would agree with me on the desirability of change in the state of affairs.

Populism, as we all know, is more likely to emerge in countries where you have low or negative growth, and the distribution of wealth and social opportunities is somehow considered unfair by the masses. And when you have those two circumstances, the status quo is undesirable and it needs to be changed. And I will show that Nicaragua shares those conditions, and a lot of countries in Central America, but especially in Nicaragua, share those conditions.

I have seen some alternative definitions of populism. Katherine Burgess, who presented her views here in April, defined political populism in those terms: “top-down mobilization or mass constituency by personalistic outsiders who challenge the lead group on behalf of the ill-defined pueblo.” If we take that definition, Ortega is not a populist, because Ortega is not an outsider to the political situation. He has been there for quite a while. And he was elected with only 38 percent of the vote, so he does not represent the majority of the Nicaraguan people.

I like another definition of economic populism: “policies that prioritize nationalism, demand simulation, and redistribution over macroeconomic stability and creation of investment climate.” I would add to that definition, and if I add that last part, I think it would improve the definition.

I define populism as a set of policies that unintentionally discount too heavily the future. What do I mean by this? When you have a country with a lot of pressing needs, you have to discount the future. The present is more important definitely than the future. But you cannot discount the future too heavily because if you do that, then the future does not count. What this means—a populist is unaware of the cost that some policies taken today or actions taken today will bring in the future, because the future is discounted heavily and it doesn't count. And alternatively, when they see an action that has a lot of benefits today and is too expensive in the future, they take that action because the future is discounted and is not taken into consideration.

And we'll see that that's the case in Nicaragua. They take some actions—economically this shouldn't have been done, but you still see that the actions are taken. I think it's worth comparing Nicaragua with the rest of the rest of Central American

countries because we have the same origin, the same language, and all the same customs and you will see that the Nicaraguan economy is the smallest of the area. The per capita income is the smallest as well as – in other words, Nicaragua is the poorest country in the area. The human development index is very low as well. Here you note that Costa Rica is an exception. Costa Rica has a human development index of a developed country even though it's a middle income country. Nicaragua is a very heavily indebted country, as you can see here. Some – maybe 10 years ago, this ratio was more than 500 percent. That's unbearable. But 1 or 3 percent is still unbearable.

Some people that have analyzed the optimal relationship between external data and GDP have concluded that for countries similar to these ones, 30 percent should be the maximum ratio because with this kind of government revenue, they're not capable of adjusting to external shocks. That's why you have to have a very low external debt.

Nicaragua does not have that. Nicaragua was affected in the last decade; same as the rest of Central American countries, but somehow the rest of the countries managed to get out before a decade passed. Nicaragua continues as if it's not a lost decade, it's a lost two decades – two decades lost. If you see the per capita income in 1978, it's been going down and down and down year by year. And the other countries managed to do better.

If you compare Nicaragua and Costa Rica – if you compare the per capita GDP—this is adjusted by the purchasing power index—you see that Nicaragua has stagnated. It's called a developing country, but I don't know what developing means, because you don't see any development there, whereas Costa Rican's manage to grow faster. And if you take Guatemala, you see the same. If you take Panama, you'll see the same relationship. So it's a pity that Nicaragua stays in that situation.

Okay, I will tell you what it shows. This is a competitive index. You don't see the countries there, but this is 130 countries that were analyzed. The first country is the U.S., the second is Germany. The third that you see that there is Costa Rica. The last one in the second group is Nicaragua, and the other ones are two African countries. I don't know why that is mentioned there, but it makes it more mysterious. (Laughter.) What we can see here is that Nicaragua has a competitive index similar to the worst countries of the world. Costa Rica is above average, but Central America as a whole is not very good in that characteristic. Obviously a country with so many problems has social indicators – low social indicators. There are a lot of things to be done there.

The millennial development goals adopted by the U.N. have some targets for Nicaragua for the year 2015. And the World Bank has concluded that some of those could be achieved, but unfortunately, some other ones are very unlikely to be achieved. And this means that the deficiency in the social area will continue beyond the year 2015.

Nicaragua is an economy heavily dependent on the rest of the world. The typical measure is the current account balance vis-à-vis GDP. And as you can see, the western hemisphere, Latin America so to speak, is almost balanced in that respect. It means that

the exports of goods and services almost equal the imports of goods and services. Costa Rica has a deficit, El Salvador has a deficit, but Nicaragua has a super-deficit.

The only way to finance this deficit is by – can be in several ways. One way is to attract foreign investment. Thus, the recipe that Costa Rica has followed. Panama is doing the same. But in the case of Nicaragua, foreign investment hardly comes. So the only way to finance this is by donations from the rest of the world. In Nicaragua, you have a lot of partners with programs. These show not only the partners, but the areas where they have programs in. And the color shows the importance of the participation. Yellow is the most important and so on and so forth. You see that Austria, Canada, Denmark, Finland, all of them have programs in different areas – in communications, in energy, in sanitation, in water. In every imaginable field, there is one donor or more than one donor taking part in Nicaragua.

There are more. These are bilateral institutions. If you take IDB only, they have easily 130 programs going on in Nicaragua. So this you see, well, it's very important, it's very humanitarian, but in the end, may not be helpful. And I tell you the problems that these bring. First, a lot of those programs are supply driven. They are created by the donor, not so much by the needs of the country. Those programs are executed by units outside of the main government. That means that when the program finishes, the unit disappears, and the program disappears as well. So there's no institutional capacity created in this way.

Usually the people that run these executive units get better pay – twice as much as if they were serving at the government. So this is some kind of member less process. The other thing is that the dollars – the foreign exchange that it is poured into Nicaragua, prevents the exchange rate córdoba/dollar to reach a higher level than it should otherwise. And thus the exporting sector is not stimulated because the exchange rate is not good enough. And also, the genuine import substitution activities are not stimulated either, because the exchange rate is relatively low. That means the potential to create jobs in the exporting sector and in the import substitution sector are killed somehow, and that's bad for the country in the long term.

Of course, if you are a populist, you don't care about the long term because you discounted it heavily. Tomorrow does not exist. It's only the present. But what I try to say is that this kind of aid is harming the country in the long term.

Nicaragua's poor performance is explained obviously extended factors, like deterioration of terms of trade, high increase in the oil invoice and all that. Also by natural catastrophes. They had an earthquake in December 23 of 1972 – very strong earthquake. I remember that date because that was the day that I got married.

But Costa Rica had had that too. Costa Rica had in 1991 and 1990; we had two very strong shocks. Guatemala had some, El Salvador, and the terms of trade deteriorated for the whole region. But somehow, Nicaragua suffered more. That means

that the explanation lies somewhere else. It lies in domestic factors, in manmade factors, especially *caudillismo*, poor governance, and corruption.

Nicaraguans are not more leftist than the rest of Latin Americans. If you take the Latinobarometro and you rank them by right and left, they are almost the same as the average Latin American citizen. In fact, they are more pro-market economy than the rest of Latin Americans. But they don't trust the government. They feel poorly governed. When asked, do you think the government is capable of solving problems, 28 percent – only 28 percent yes – answered yes, compared to 39 for the rest of Latin America. And the other factors show the same degree of not relying in the government.

And especially in governance indicator, Nicaragua is so low compared with the other Central American countries and with Latin America as a whole. You see accountability only 51 percent of the people feel that the country – the authorities are accountable, versus 62 of Central America. Government effectiveness, quality of regulation, and rule of law – that's very important. You know, if you want to have economic growth, you have to have a very high index both in the rule of law category.

The quality of institutions is very important. The IMF conducted a study and they simulated what would happen to the Central American countries if they improved the institutions to the quality of those of Chile. And the result was that Costa Rica could grow by 0.5 percent faster than in the point if the institutions were improved. In El Salvador, the figure is 0.9. In Guatemala, four-point-two (4.2) – I mean in Honduras – four – three on Honduras, four-point-two in the case of Nicaragua. In other words, there's a lot of room for improvement in the case of Nicaragua if they improve the institutions.

Okay, now the question is, are they willing to improve the institutions? I think there are three approaches possible to the case of Nicaragua. The first one is to have a strict compliance with the Washington Consensus One – the phase one and phase two – under the aegis of the multilateral and the donor community. I would like to distinguish between Washington Census one – phase one and phase two. Phase one is basically macroeconomic balance and phase two is governance. Nicaragua is good at phase one, somehow good – somewhat good – at phase one, but very bad in governance. So they don't want to comply with the second portion. I mean if you open sectors for competition or if you want to privatize formally state enterprises and you have widespread corruption, then the result is not going to be good. So you have to act in that part of governance to fight corruption.

The other possibility is to break up with that matrix of donors and say, listen, from now on, I'm not going to take any dollars from you. I'm going to be sincere – I'm not going to take any dollar from you. The result would be that they have to make a very strong macroeconomic adjustment, high devaluation, they will have to reduce the fiscal taxes, which are very, very high, and they have to accept initialization. And they will face increasing poverty in the short term and a lot of migration to other countries – basically to Costa Rica – that's the easiest country to reach.

The other possibility is a local possibility they have been analyzing is to adopt a different model. And they have a name for that model – it's called a structural human development model. And I saw the characteristics of the model in a draft paper that they produced in the national development plan. And the characteristics of this model are the following: they compare that with the neo-liberal model. And I took only maybe 20 – no, less – maybe 10 characteristic – but the model has more differences. Okay, the first one – the objective. Neo-liberal is wealth accumulation and the supposedly structural human development model, the objectivist survival and realization of human beings.

The success criteria, GDP growth rate, and they have another criteria, which is growth rate plus poverty reduction, which is all right. Basic values that individualism, competitiveness, elitism – the other one is solidarity, community, redistribution, so on and so forth. And the neo-liberal is founded or based on economic variables. The other one is based on political variables. This is mercantilistic, the other one is aimed at the production of public and private goods and services – free trade versus fair trade. And okay, that's the rest of the characteristics. You see, there's a marked difference one and the other.

So which model seems to – the administration to favor? Okay, if you just by the – (inaudible) – of the speech is the structural development model. However, if you listen to some of the comment that he makes and by some remarks made by the Minister of Finance Alberto Guevara, is not Ernesto – not Che Guevara, it's Alberto Guevara. You see that they favor the Washington Consensus, phase one. In fact, they just signed a letter of intent with the IMF recently, a couple of days ago.

What's interesting is that okay, I took this exactly as it was in Spanish. It's an interview to the minister of finance. The first part is Washington Consensus. He said there that they need to have – Nicaragua needs to have economic stability, a good ambience for investment, good, and also they have to create employment through the private initiative. This is Washington Consensus, the top part. Maybe two minutes after he said that, he makes the other statement, praising Hugo Chavez and the revolution of Bolivia, revolution, and so on and so forth. And so one doesn't know what to trust, the first part or the second part – this is very colorful and I find colorful the name of the interviewer is Tortilla con Sal. I don't know if they give tortilla with sal – (chuckles) – for this lunch but it should be good if it comes from Nicaragua.

So my conclusion – I have to stick to 20 minutes that Mr. Daremblum asked me to talk. Even the official slogan is “En Nicaragua, el pueblo es el presidente,” in practice, what you see is a poetic, belligerent, incoherent official message along with a manifest willingness to concentrate power in the president. So these actions fuel political incredibility. Nicaragua's very poetic. In fact, the government is split between Daniel Ortega and his wife, Rosario Murillo. She's the poetess. (Laughter.) In all the statements, they are very general, very poetic and they have concentrated the power in the hands, especially of Mrs. Ortega by the creation of – (in Spanish) – sells that they move from the presidency. They have been using the official – the budget for advertising, the

public budget for advertising to praise the people that praise the government and to penalize the media that does not approve their political stand.

I would argue that political incredibility can be more damaging than corruption because corruption, as far as it is, can be discounted as a transaction cost. If you know that you have to pay 10 percent for every operation that you do with the government, that's 10 percent higher, that's all. But political incredibility is that you don't know what the rules are because they tell you one message here and one minute after that, they give you exactly the opposite message. Political incredibility severely undermines economic calculation, entrepreneurship, investment, employment creation, and poverty alleviation. That is why you don't see that in Nicaragua, they receive foreign direct investment, not even from Nicaraguans that move to Miami because they say, you know, I don't trust, you know, the rules of the game that we have there.

So unless political forces enter into an agreement and comply with an agreement with economic and social logic, I think Nicaragua will continue to be stagnated for the foreseeable future. So it seems to me that this pact should have the follow elements. Since the misery, so to speak, is so widespread in Nicaragua. The actions you have should be proper but also pro-growth. Actions have to be directed at two areas to solve the present problems and to create a necessary environment for the future. And it seems to me that the international community of donors should condition all the aid to Nicaragua to governance and to proper pro-growth policies. I hope you share those points but if you don't, we can discuss. Thank you, Mr. Daremblum.

(Applause.)

AMB. DAREMBLUM: Javier?

JAVIER CORRALES: Thank you very much for having me, Jaime, and my fellow panelists. I want to talk about Argentina. Remember, seven years ago, Argentina was the talk of town and we kind of forgot about Argentina. And the point that I want to make in these 15 minutes is that Argentina has in the 2000s, experimented with a return of populism – I'm going to argue that it was light compared to the most extreme versions we have seen and which my two previous panelists discussed. And I want to conclude speculating as to what's next and I'm going to argue that in Argentina, we're moving in the direction of populism lighter. Now, I say that with uncertainty because a lot can go wrong but I think that for the first time in Argentina, I see signs of the dilution of populism and I want to argue why I see that, but again, with enormous uncertainty.

Now, if you take a measurement of populism that's very popular, the Index of Economic Freedoms published by the Heritage Foundation, what you see is that in the 2000s, Argentina and Venezuela were the countries in Latin America – in South America that moved the furthest away from the neo-liberal model, measured at least with this index. Now, the problem with this chart which I think says a lot is that in many ways, it exaggerates how much Argentina has changed. And let me start by saying that one way

to think about Argentina is that it has changed a lot. Another way is to think in terms of it hasn't really changed that much, even from the 1990s.

If you take, for example, the relationship between the state and the market, look at this table. You know, here's Menem in the 1990s and Kirchner's the two – Kirchner administration and I try to classify policies that confirm with the Washington Consensus and policies that defy the Washington Consensus. And the main point, I have no trouble filling out each one of these cells. In other words, the main point is that in relation to the market, even the neo-liberal – (inaudible) – of Menem had enormous violations of the market and the supposedly populist Kirchner has had policies in place that comply with the IMF and the market.

Let me just give you some examples. Take a look at the deficit, an incredibly important element in the Washington Consensus, not achieved under the neo-liberal era of the 1990s but fully achieved a Kirchner administration. The IMF loved this. Not all the populists in South America had this record. In addition, they did this with growth up until 2008. Growth has been higher than Brazil and this is an index of stock market capitalization. It's one way to look at the state of the market, you know, Argentina's market capitalization did okay in the 1990s then really well prior to the default in 2001. Then it dropped down under the Kirchners. It actually looks better than under Menem – not Chile, but not Venezuela, as another example of radicalism.

They have been nationalizations but there aren't that many and most of these were – losing money or the foreign owners were signaling that they wanted to retreat. So there is this element but again, in some ways, what you have is flipping the coin— whereas in the 1990s, you did a lot of privatizations with debt and deficit. In the 2000s, you do some nationalizations with an effort to try to settle debts and without deficits.

Now, on this relationship with democracy that Professor Myers discussed and also Mr. Vargas – again, it's easy to fill in all these cells. Both Menem and Kirchners have had policies that are very pro-democracy and both have had policies that are anti-democracy and just to borrow the definitions from my previous panelists, the crucial point for me with populism is the relationship that the leader has with the political system and especially checks and balances, as Professor Myers explained, and with unorganized groups of society, the idea is that you're going to concentrate all our power, undermine checks and balances, and we disfavor organized opposition and try to govern with less organized opposition.

Now, you can see lots of examples of this kind of populism, political populism, under both Menem and Kirchner and of course, we can debate you know, gradations and who err more on which side. But again, we can spend a lot of time debating it but the main point is that these two administrations don't appear to be that different in the end even if the elements in each of these cells were different.

Now, here's the thing. There's no question that under the first Kirchner administration from 2003 to 2007, the government pushed very hard in the direction of

populism. But as is typical of Argentina, this was initially well received – the – (inaudible) – was well received but a backlash followed very soon. And this backlash really took – started in Argentina in January 2007 with one of the most amazing protests I have seen since I've been studying Latin America – a protest that was organized by the workers of the institute of Argentine government that produces figures for the inflation. What the government did was very populist. They didn't like inflation figure and transparency, fired the staff, changed the formula, and lied with the figures.

All right, these protests – when have you seen Latin Americans protesting on behalf of transparent information on macroeconomic issues? And there you have them. Since this point on, the backlash against this style of governance has gotten stronger in Argentina. This is predictable, I could argue and explain to you how you always go through these cycles in Argentina for president who comes in, restores order, people clap, and then people challenge the government. Here's another picture of this protest – El INDEC, which is the institute – belongs to the people, not to the government.

Now, this of course, started to hurt Argentina internationally. I don't why they thought they were going to be able to get away with this. The sovereign debt rating started to decline instantly and they have noticed that this is now producing cost. The measure of lying about inflation figures was done hoping that they could save some money with bonds but because the ratings have declined, then this is kind of offsetting any gains they might have yielded by lying about the inflation figures.

Let me just say one more thing about the luck. One element that has been fueling populism not mentioned previously and I want to stress is of course, the commodity boom, which has ended – you're all aware. But it was in fact something that accompanied the Kirchner administration and which Menem didn't have if you look at trade weighted Argentine commodities. It is very funny because populism was very expensive, for you to be able to concentrate this much power and to silence your critics, you need to have a lot of money. And Kirchner was able to have a lot of money as a result of a favorable international environment. But it's ending.

Now, the protests, of course, got bigger against the populist – (inaudible) – with very famous marches in Argentina, the beginning of 2008 against a decision made by decree, in typical populist fashion, by the new President Cristina Fernández de Kirchner to raise the tax, the export tax for farmers and this generated – (inaudible) – which were last seen in Argentina during the recession of 2001 and early 2002. It is extraordinary, I was there. I, too, banged pots because I thought that you know, I should try, my friends were doing it, so I thought, give me one, I'll bang one pot too. And it was really interesting because I missed the ones in 2001. But for the ones in early 2008, I enjoyed the show and participated in the show. But this is in the countryside.

Now, this, I think has produced a turnaround under the administration of Cristina Fernández de Kirchner. This crisis generated a terrible cabinet crisis. The vice president voted against the government and resigned, bringing back memories of what happened to de la Rúa when he had his problems with his vice president. And there has

been a change in communication and it seems that Cristina Fernández de Kirchner has experienced an interesting change of heart. The aggressive approach of trying to maximize power seems to now be under reconsideration.

But now, here's one thing that anybody has to keep in mind, at least during the duration of the Kirchner era. I'm quoting a very good analyst from Argentina, some of you may know him, Mariano Grondona, who said when the popularity ratings of the president decline, he mentioned a conceptual problem that's kind of peculiar to Argentina. Some people say we have it in this country with Bush and Cheney, but I don't want to get in that direction but basically, the idea is we have a person who is the president but who is not in command – *que no manda* – that would be Cristina and a person who is in command but who is not the president.

You know, the problem with this is that you know what you're looking at. In a political system, this produces a lot of confusion – you at first – (inaudible) – you want to keep looking at it to see exactly what you find but after a while, it starts to annoy you and you don't want to look at this anymore. And it can – (inaudible) – be that in Argentina, they're going to take care of this problem kind of like move the former president to the side and maybe – especially because he was the former president who, if there is a Kirchner doctrine of populism, it definitely came from him. And she's discovered that in order to fix this problem of mixed signals to your eyes, somehow the person who is not the president but who is in command needs to somehow go away. But until this is completely solved, I think we're going to have too much uncertainty in Argentina to really be totally confident.

But here's the good news and this is my last point. To Mariano Grondona's diagnosis, I want to add that there's one element in Argentina that it's very important to keep in mind. And that is the role of political parties and how political parties shape the type of populism that you may end up having. Of all the populist presidents that we have covered today, this is the only one – this is the only case whose president comes from an institutionalized ruling party. And one of the things that we have observed is that when the ruling party's institutionalized, the ruling party can exercise checks even on the incumbent. It's when the ruling party is a completely personalistic avenue mechanism that the president is completely without checks.

So that if you compare Argentina with other Latin American countries in terms of the institutionalization of both its ruling party and the opposition, you see some signs of progress and let me first of all notice that this is a party. This is a picture of Perón. It's hard to tell but that's what the caption said. You know, never wanted to be on the right, never wanted to be on the left. I don't know what that it is but it doesn't necessarily mean that they're centrists. It means that they probably reject whatever extreme comes but only – but never reject it too much because there are extreme forces within the party. But I don't know if this is too small for you to really be able to read but I want you to compare what I do here is to distinguish different leftist governments that are very famous.

And if you look at the column –well, I tried to make an analysis of where is it that the ruling party has strong institutionalization that will be a score of high and the opposition parties have strong institutionalization. And if you notice the evolution of Argentina since 1999 with the – (inaudible) – the first yellow line – there, you have a ruling party, back then the *Allianza*, was very not institutionalized with a very strong opposition party, the Peronists and of course, governance failed and that regime collapsed.

Then with Kirchner, what you get is a reversal of institutionalization. The Peronists returned to power but there, the accountability mechanism that failed was the opposition. The opposition was in shambles. So in some ways, Kirchner enjoyed a huge honeymoon. His party went along in the beginning with that because he restored order and prosperity and there was no opposition. Soon however, even within the party, the first Kirchner administration started to experience reservations and now, on Cristina Fernández de Kirchner, what you get is a recovery of the opposition and so Argentina, now, in terms of political parties, is starting to look a little bit closer to some of the cases at the very top and those are cases that are very moderate in the extent to which that they have tried to leave the Washington Consensus and the extent to which they apply the populist tactic.

And so this to me is the best sign of hope in Argentina. I would venture to guess that in addition to the structural and international conditions that give rise to populism, political parties can serve a mediating role if the incumbent party is highly institutionalized and the opposition recovers ground and gets organized and becomes an effective strategy, you will have the necessary checks and balances to avoid future excesses. And this is the one sign that I see in Argentina to convince me that from populism light, the next step is going to be perhaps populism lighter. Thank you very much.

(Applause.)

AMB. DAREMBLUM: We have now a few minutes for questions and answers. Please tell us who you are and your affiliation.

Q: I'm the ghost of Christmas past. Can you hear me?

AMB. DAREMBLUM: Yes.

Q: I would like to raise an issue. It seems to me that this event today and others at Hudson on Latin America have been dancing around on the head of a pin and it's time to start calling things as they are rather than using politically correct words like populism. You know, populism is fine, we even heard "radical" populism. Come on, we're talking about socialism. We're talking about socialism in Latin America. That's what we're talking about. When we start talking about nationalization in Argentina, we're talking about socialism. When we're talking about the Bolivarian Revolution, we're talking about socialism and we have some light socialism as in Chile but in other areas, we have

some very radical socialism that's going on. And it's time to recognize it and quit dancing around talking about populism.

AMB. DAREMBLUM: Would you –

Q: Populism is – no, let me –

AMB. DAREMBLUM: Excuse me, sir. We have a space for questions. Ask your question please.

Q: My question is very clearly – why are you not using socialism, which was the training school of the Sao Paulo Forum in the 1990s by Fidel and Lula? I mean, that's what's really going on? Why are you calling that –

AMB. DAREMBLUM: Mr. Vargas will answer your question.

MR. VARGAS: I think you're right. You know, a lot of the components of this new model are socialist. But if you have socialist changes internally consistent and what Hugo is doing here is so incoherent, so inconsistent that it does not deserve that description of socialism.

AMB. DAREMBLUM: Any more questions? Yes. The gentleman here.

Q: Mario Loyola, U.S. Senate Republican Policy Committee. Mr. Corrales during that wonderful presentation, there was a slide that went sort of very fast before my eyes that said that Argentina had achieved fiscal balance according to the IMF in what year?

PROF. CORRALES: It must have been 2003 on, from that point on, yeah.

Q: Like a year after the bond default?

PROF. CORRALES: Yeah.

Q: So is there any relation between the bond – because I think if Bush declares that we will be in default on treasury bonds tomorrow then we'll be fiscal balance by the end of the week.

(Laughter.)

PROF. CORRALES: Well, yes, of course there was a relationship but part of the reason for the – I think there was little bit of moderation on the spending side but an enormous expansion on the revenue side, precisely because the economic recovery was far greater than anyone expected. And they kept it that way. They – I will give them credit for the fact that they didn't overdo this and then the normal tendency under populism is to be hyper-counter-cyclical and they haven't been doing that. They have

played other gimmicks but in that regard, this is an example of a conscious decision to keep a – to manage the economy well.

Q: But did they ever pay their creditors back?

PROF. CORRALES: Well, you know, they had the deal in 2005 from which a quarter of those who held Argentine bonds did not participate and, since then, this has been a polemical issue. It has – not compensating those holdouts has excluded Argentina from international credit markets and they try to adhere to that position but even recently, as recently as within this month, the Argentine government is now discussing the possibility of coming to some settlement with those holdouts. But they have paid the IMF and they have paid the Paris Club and they settled a default. So this isn't too bad.

Q: I hope neither Washington or Beijing are paying a lot of attention to what Argentina just did there.

(Laughter.)

Q: Hi, Hannah Cross, National Defense University. Given the inherent tensions that exist, what potential does UNASUR have to effectively be force for them in South America? This is a question for Mr. Myers.

PROF. MEYERS: The potential that we have to be a force for good in Latin America?

AMB. DAREMBLUM: UNASUR.

PROF. MYERS: Oh, UNASUR, okay. Well, UNASUR is basically a mechanism to try to – I think to freeze out U.S. influence in South America. It's interesting because originally, we were trying to get Brazil into an expanded version of NAFTA and Brazil didn't want to come into an expanded version of NAFTA because they felt that their bargaining power and the terms they could get if they came in individually would not be near as good if they could come in as sort of part of, you know, a Latin American common market or a South American common market.

So the Brazilians then went to work on Mercosur. Now, clearly, what Chavez would like to do is push Mercosur substantially to the left and turn it into sort of a mechanism to reduce the United States' influence through South America. And I think up to the present time, you know, Lula, who's the key person here, has resisted doing that and in this case, they – you know, Chavez tends to move towards an alternative mechanism. Now, UNASUR also has had a very strong military component, much more so than an economic component. And once again, I think it's to go – remember, we had our UNITAS exercises, we've had various under the 1947 Rio Treaty, we have military agreements sort of like NATO. They've never been implemented exactly like NATO but if you read the print, they sound like NATO.

And I think one of the goals of some of the, you know, radical populists if you want to call it, or radical populist/socialist regimes would like to be to reduce United States military influence. I see it as a potential for keeping the U.S. out but they may not be all bad in certain instances because for example, the South American countries can basically take care of the Bolivian situation by themselves and produce the stability they're in. Of course, the Brazilians want the natural gas out of there. You know, that might be a more positive outcome than for the United States to be involved. So there's potential as well as, you know, I suppose – I'd like to use the word danger. But it's sort of like a two-edged sword, I would argue.

AMB. DAREMBLUM: One last question? Ambassador Winsor?

Q: I'd like to address this to the whole panel. To what extent are we looking at a phenomenon that we're calling populism generally but that is this populism not dependent upon one individual and that is Chavez? Are we not talking about a string of puppets here to a large extent? Could the panel comment on that?

MR. VARGAS: Yeah, I think is heavily financed by the petro-dollars. So when the price of oil comes down to less than \$80, I think this will disappear because already Venezuela is facing some problems and it's just living because the prices are high but the moment it comes down, they cannot internally finance those adventures of Chavez. That's – (inaudible) – and I hope.

PROF. CORRALES: I mean I think both factors play a role. There's the external stimulus by I also agree with Professor Myers. We're never going to get rid of populism. We may not have populism with deep pockets, which is what we have had, but that's being – sort of like they can spend because they have a lot of money and this is as a result of external factors. But the demand for populist regimes is homegrown and it won't necessarily disappear. It's not majoritarian and – except in Venezuela – these governments don't achieve overwhelming support, maybe perhaps in Bolivia. But it's not majoritarian, but it's here to stay for a long time.

Q: But will they be able to function as they are without the Venezuelan money?

PROF. CORRALES: Probably not. (Chuckles.)

PROF. MYERS: Well, they certainly wouldn't be able to function as they are functioning without Venezuelan money but I sort of would resist using the word puppet with that point because you know, if you look Correa, he'll say certain things with Chavez and appear to be with Chavez and then of course, when Chavez wants to interfere or appears to be interfering in certain things in side of Ecuador, he moves away. He's refused to go into some of the – I think he's refused to go into ALBA the way that Chavez wanted him to go in. And also, if you look at Morales, I mean, you know, I mean, as long as Chavez writes checks, Morales is happy to cash them and I'm sure Correa is happy to cash them.

But you know, when Chavez talked about sending irregular Venezuelan forces to support Morales if things didn't work out well between Santa Cruz and the Highland, you had everybody and almost everybody in Bolivia got very upset about that and you had some strong statements. So yeah, I think going back to the comment, we've got deep pockets with one particular radical socialist populist and those – as long as he has them, people are going to cash his checks. But you can't say because of that, they're puppets of Chavez. I think that's moving it too far.

AMB. DAREMBLUM: Well, we thank our speakers of this panel for a good job. Thank you very much and we'll invite our next speakers.

(END)