



Inter-American Dialogue

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Featured Q&A With Our Board of Advisors

Q In a draft report, a team of World Bank economists said last week that historically low growth rates and inequality are behind high poverty rates in Latin America. What is the best way for policymakers in the region to boost growth, lessen inequality, and reduce poverty? Is such an approach politically feasible?

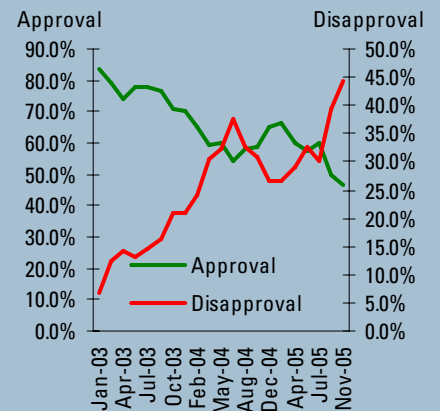
A **Guest Comment: Nancy Birdsall:** "To reduce poverty and inequality in Latin America, in a manner that is politically feasible, requires a focus on job creation for middle-income households—accompanied by an explicit effort on the part of the political leadership to make tax and expenditure policies fair and just. Middle-income households in Latin America are not middle class. By Western standards they are surprisingly poor. Median household income in Brazil is not much above the poverty line (of \$2 per person per day); even in Chile it has only risen above just twice the poverty line (at say \$5 per person per day in PPP terms). Poor and middle-income households are better off than they would be without the reforms of the 1990s that ended inflation. But they have gained little if anything from the structural reforms—trade liberalization, financial sector liberalization, privatization, and so on. Those structural reforms brought aggregate economic gains, but those gains went almost entirely to those with university education and more. Market reforms

helped those with key assets—education most of all, or land, financial wealth, political connections. They did too little for the vast majority of workers and their families."

A **Guest Comment: John Williamson:** "The stability of inequality measures over the decades may give the impression that it is difficult for governments to tackle inequality. However, the only Latin
Continued on page 4

CHART OF THE DAY

Lula's Popularity
Jan 03-Nov 05



Brazilian President Luiz Inacio "Lula" da Silva's personal approval rating fell to an all-time low in November. See related story on page 2.

Source: Instituto Sensus.

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NEWS BRIEFS

Colombian Economy Expanded 4.5 Percent in Third Quarter

Colombia's economy grew 4.5 percent in the third quarter compared to the same three months a year ago, the government's national statistics department, DANE, said Tuesday. DANE said foreign investment could exceed \$6 billion in 2005, helping push growth for this year to 4.5 percent.

Source: Reuters.

Complaints of Police Torture Down in Mexico

Complaints about Mexican police are torture have fallen this year compared to last year, the country's National Human Rights Commission said Tuesday. The Commission has received 12 complaints of torture this year, versus 21 in 2004, seven in 2003, and nine in 2002. Although complaints of torture have fallen steeply in recent years compared to 10-15 years ago, when the number of annual complaints were in the hundreds, Commission President Jose Luis Soberanes said torture "continues to be a grave affront to legality and human rights" in Mexico.

Source: Associated Press.

US' Dana Corp. Ends Joint Venture with Mexico's DESC

US autoparts maker Dana Corp. said Tuesday it and Mexican partner DESC agreed to dissolve their partnership. Dana Corp. said as a result of the deal it will acquire 100 percent ownership of five factories in Mexico that produce light vehicle axles and driveshafts and which had combined sales of \$290 million for the 12 months through September. DESC will take full control of four transmission and aftermarket gasket factories in Mexico and the US.

Source: Dana Corp. statement.

Political News

Poll: Lula Would Lose Second Round Run-Off to Jose Serra

Brazilian President Luiz Inacio "Lula" da Silva would fail to win re-election if the vote were held today amid the lowest approval rating of his nearly three year-old presidency, according to a poll released on Tuesday. The **Instituto Sensus'** nationwide survey of 2,000 people conducted Nov. 14-17 found that Lula, whose administration and ruling Workers' Party have been dogged by scandals in recent months, would lose in a second-round run-off to Sao Paulo Mayor Jose Serra of the opposition Brazilian Social Democratic Party. Serra, who lost to Lula in the 2002 presidential election, would win 41.5 percent of

been accused of taking kick-backs when he served as mayor of the city of Ribeirao Preto in Sao Paulo state, and his economic policy faces opposition by some members of the administration, particularly cabinet chief Dilma Rousseff. Palocci told a congressional committee yesterday that he would "continue to work with the president as long as he thinks I am helping him and the country," according to Reuters. In the past few days, Lula has reaffirmed his support for Palocci.

Economic News

Final Round of US-Andean FTA Talks Ends With no Agreement

What was intended to be a final round of 18 months of trade talks between the

The Instituto Sensus poll found that Lula, whose administration and ruling Workers' Party have been dogged by scandals in recent months, would lose in a second-round run-off to Sao Paulo Mayor Jose Serra of the opposition Brazilian Social Democratic Party.

the vote in a second round, versus 37.6 percent for Lula. Up until now, Lula had appeared unbeatable ahead of the October 2006 race. But the Sensus poll showed that Lula's popularity continued its steady decline in November, falling below 50 percent for the first time to 46.7 percent. That is versus a high of 83.6 percent when he first took office in January 2003. His government's approval rating fell to a 15-month low of 31.1 percent in November. According to the poll, 64.6 percent of those surveyed said allegations of corruption involving Lula's government would influence their vote, while 72.6 percent said their image of Lula had been affected by the scandals. Confidence in the Lula government has been shaken since June, when allegations surfaced that PT officials and aides to Lula bribed members of Congress in exchange for political support and used illegal funding for elections. Most recently, Lula's investor-friendly finance minister, Antonio Palocci, has

United States and three Andean nations ended in Washington Tuesday without an agreement amid stubborn differences on agriculture and other issues. Colombia's lead negotiator, Hernando Jose Gomez, said progress had been made on some issues, but that more flexibility was required on the US' part in sensitive areas, such as agriculture, Colombian daily *El Tiempo* reported. US and Colombian negotiators are expected to meet again next month to try to hammer out a deal. Meanwhile, Peruvian negotiators continued talks with their US counterparts, while Ecuadorean Trade Minister Jorge Ilingworth said officials from his country would participate in a new round in late January, according to *El Tiempo*. With time running short because of elections in all four countries in 2006, US and Andean officials had been hoping to strike a deal this week, but the Andean governments are reluctant to fully open their economies to US agricultural imports, saying they

would harm local farmers. In addition, last week Colombia warned that a flood of cheap US farm imports could result in increased production of illegal drugs by pushing Colombian farmers into planting illicit crops, such as coca, the raw material for cocaine. To help move talks forward, the US has designated exclusive negotiators on agriculture for Colombia and Peru. The US meanwhile is insisting the Andean countries agree to intellectual property protections, including respect for pharmaceutical patents.

US Says it Would Welcome New EU Offer on Agriculture Trade

US Agriculture Secretary Mike Johanns said Tuesday the United States would welcome a new offer on agriculture by the European Union in negotiations to reach a new global trade agreement, Reuters reported. "We welcome the opportunity to receive a new move on their part," Johanns was quoted as telling reporters. His comments came a day after the EU's top trade negotiator, Peter Mandelson, signaled the EU may make a new offer on agriculture, a key stumbling block in the trade talks. The EU has been criticized by the US, Brazil, and Australia for not making enough concessions on trade in farm goods ahead of a December 13-18 World Trade Organization ministerial meeting in Hong Kong. Mandelson said Monday the EU would not make a new proposal on agriculture before next month's ministerial, but noted that "if the momentum of the negotiation were to accelerate we would need to be in a position to engage further on agriculture as on other issues at some point—either at Hong Kong or after." Johanns yesterday called on the EU to match the US' offer on agriculture trade. However, the EU says the US offer does not address a large portion of domestic farm subsidies and lacks detail in other areas. The EU also says it wants developing countries, such as Brazil, to reduce barriers in areas where European companies are strong, such as industrial goods and service.



Johanns
Photo: White House

Special Advisor Report

Latinobarometro Polls Find Latin American Public Opinion in the Political Center, Not Left

By Devin Finn

WASHINGTON - Latin American public opinion has not steered sharply to the left, despite media reports to the contrary, the head of one of the region's most well-known polling firms, **Latinobarometro**, said Tuesday.

Based on the findings of the firm's polls over the last 10 years, Latin Americans on average see themselves nearly in the center of the a left-right political scale, Marta Lagos told an audience at the Inter-American Dialogue.

"No data supports that Latin America is going radically left," Lagos said.

While some countries may have leaders with leftist objectives, the only revolution taking place in Latin America is technological, she added.

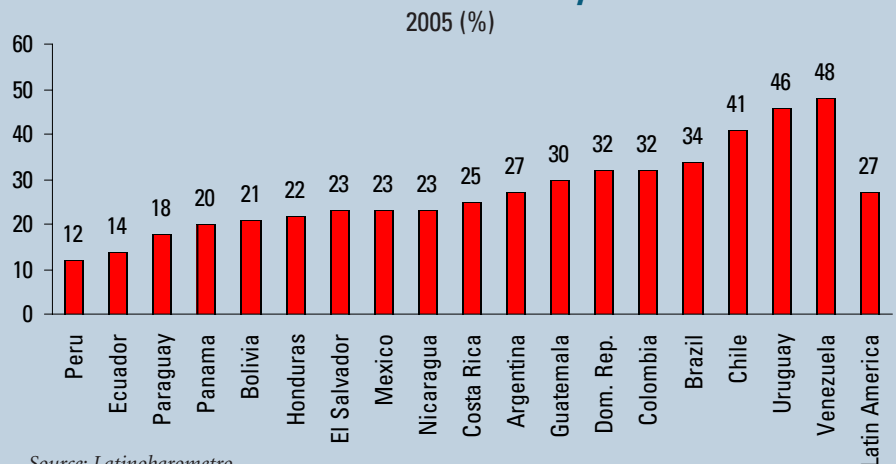
"People are going to follow the leaders who offer computers, not leftist ideology," Lagos stated. "People want refrigerators, computers, cell phones, access to the market They want to be a part of the world they're watching on TV."

Latinobarometro also found that while only 27 percent of respondents this year said they were "very satisfied" or "somewhat satisfied" with the market economy, a clear majority, 63 percent, said a market economy is the only means by which its country can develop, Lagos said [see chart, below].

However, she noted that to poll respondents, being content with a "market economy" is a measure of their ability to go out and buy what they need and want. Intellectuals may perceive their responses as measures of approval of the market as an economic system, she said.

The results of Latinobarometro's 2005 survey revealed a slight strengthening in Latin Americans' faith in democracy, Lagos said, noting that government efforts to reduce corruption are a factor in increasing positive views of democracy.

Satisfaction with the Market Economy in Latin America



Source: Latinobarometro.

Featured Q&A*Continued from page 1*

American governments that have in the past tried to do much have been populist ones, and they have ended up making the problem worse rather than better. What are needed are governments that

“What are needed are governments that both care about the issue and recognize that tackling it is going to take decades rather than months.”

- John Williamson

both care about the issue and recognize that tackling it is going to take decades rather than months. They need to work at reforming the tax system to make it more progressive and, even more important, at reforming expenditures so that these benefit disproportionately the poor and lay a foundation for them to earn decent incomes in the future. The Mexican program 'Oportunidades' and the Brazilian 'Bolsa Escola' show what is possible, though both still represent a small share of public expenditure. By comparison, the stimulation of growth is more familiar, though that is not to say that it is easier. The most important thing that Latin American governments can do is to resist the temptation to overstimulate the economy when times are good, since the regular result of this has been to nurture the crisis that brings growth to a screeching halt a couple of years later. As entrepreneurs get used to the idea that growth is going to continue, they will step up their investment and faster growth will indeed be possible. And surely no one doubts that faster growth and less inequality are indeed the recipe for reducing poverty.”

A **Guest Comment: Claudio Loser:** "The observation made by the World Bank economists is right but in a very superficial and non-operative way. Poverty has been a major burden in Latin America for

many years, and it is also true that economic growth has been at historically low levels in the 1980s and late 1990s. However, poverty had been rampant even in the period of high economic growth of the 1950s and through the 1970s—based on import substitution strategies and heavy foreign borrowing, which was unsustainable. It is also true that income distribution, arguably worse than in any other region of the world, has contributed to poverty. However poverty levels have tended to decline over time, with some interruptions. Moreover, indicators of human development do well compared with many other regions. A significant cause of poverty, other than initial conditions of unequal distribution of wealth, is the persistence of poor policies in areas like education, health, labor laws, and taxation, which reduce the ability of the poor to improve their standing and do not provide for a fair share of the tax burden among the rich. It is the emphasis on these policies that will allow for a change in existing patterns of growth and poverty reduction, as has already been evident in countries like Chile and Mexico.”

Nancy Birdsall is *President of the Center for Global Development*. [Editor's note: for more information on the Center for Global Development's proposals for job creation, and tax and spending reforms, see the policy brief, 'Toward a New Social Contract for Latin America,' at www.cgdev.org.]

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