The Political Economy of Populism & fear of diversity

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Economics of Latin America
Econ 3235 Fall 2017
Goals of lectures 1-3:

1. **Political Economy:** the rise and fall of right and left populism in the Americas (from William Jennings Bryan to Evita and Juan Peron)

2. **Inequality & mobility:** How people move up (or down, within and between countries (immigration and social mobility... why youth risk death daily...)

3. **Left behind:** Why LatAm fell behind its peers & the U.S.: Geography, integration and institutions: “Left behind” or “LatAm in the rear view mirror.”
Econ 3235 you tell me:

1. Case study country or region that interest you (e.g., Iron triangle, CAFTA, Mercosur, Pacific Alliance, lithium triangle...)

2. Focus on a key problem or opportunity: for example, education CCTs, services or manufactures, eco-tourism, leaders & conflict

3. Become familiar with benchmark case studies: the Argentina, Bolivia, Cuba, DR, Colombia, Costa Rica, Chile, Mexico

4. The LA-7 matter ARG, BRA, CHL, COL, MEX, PER & VEN.... (80+ % of LatAm GDP)
Goals of Inequality lecture:

• Find ways to picture inequality, mobility and poverty (GICs, growth incidence curves, Gini, Poverty rate)
• Use #1 tools to understand changes in Latin America status since 2000 & colonial times
• Compare your favorite Latin American country, compared to its peers and the United States..
• Income is not everything, what about happiness, education and social media (is youtube SM)?
What’s wrong with Populism?

- Economic reversals, illusion of economic progress... boom then bust net loss for the poor...
- The end of checks and balances: Authoritarian regimes, in South of the border Chavez tells Oliver Stone, I am not Chavez, I am “the people”
- Jefferson argued for the “people” Hamilton and Washington resist... (next slide)
- Two parties: “the people” and “everyone else” and everyone loses... for example with Podemos in Spain and Syriza in Greece... Mudde, 2015
- Is populism contagious, like the Zika virus? Brexit then “America first” Trump but the France and the Netherlands... (see HW #1)
Resisting populism: Jefferson vs. Hamilton

[Jefferson] Mr. President—

[Washington] We’re too fragile to start another fight

[Jefferson] But sir, do we not fight for freedom?

[Washington] Sure, when the French figure out who’s gonna lead ‘em

[Jefferson] The people are leading—

[Washington] The people are rioting. There’s a difference. Frankly, it’s a little disquieting you would let your ideals blind you to reality, Hamilton

Three Tests for Populism...

• **Economic populism:** booms then bust, one step forward, two steps back... poor and workers end up worse off... check against peers or the United States

• **Political test:** multi-party competition? and politically contested elections: Chile? Bolivia?

• **Policy test:** Active move toward protection, migration and trade restrictions... some in the U.S. so far, but not supported by Courts or Congress...

• So far only Venezuela, Cuba and Nicaragua...??
3 Test for Left Populism v. SD

• Surprisingly rare right now:
  – Venezuela: fails three, outlook terrible.
  – Bolivia and Ecuador: surprise, probably not, political perhaps but not economic... how do we know....
  – Central America? Cuba? Nicaragua, Honduras, GTM?
  – ABC ctys (Argentina, Brazil, Chile, Colombia?): none politically or economically... Peru, no...
  – Of LA-7 only Venezuela right now...
  – Dominican Republic, Haiti? Guyana?
Oliver Stuenkel* worries about Central America in *Americas Quarterly* **August 30**th

Indeed, while the battle between left and right dominates the public debate in Latin America and elsewhere...the greatest threat to democracy these days – unrestrained executive power – transcends normal ideological boundaries.

Be it inspired by a left-wing narrative in Caracas or a right-wing law-and-order narrative in Budapest or Tegucigalpa, nationalism in Ankara, or the lofty vision of Singapore-style developmentalism in Managua or Kigali, where Paul Kagame just won the presidential elections with 98 percent of the vote: the final objective is always to concentrate power and stifle and eliminate opponents, be they in the legislature, the judiciary, or in civil society. The essence of authoritarian tendencies is very much the same and aims at upending the key principles of democracy: checks and balances, and ultimately, the alternation of power.
Social Democratic Regimes

• Democracy please...
• Can be market friendly, redistribution with growth, CCTs OK, minimum wages, free education can be problematic (but not if done correctly)
• Still many parties, as with Chile’s elections and
• A good sign: we are not sure which party will end...
• Ernesto Zedillo (Yale PhD Economist) and Mexico
• Alternative to right or left populism... we hope
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Chile case study

• Chile is a wonderful country, vibrant, creative & just a bit arrogant... Camilla now in Congress with Socialist Michelle Bachelet (MB) as President...

• A testing ground for new social policy, most recently free college tuition financed by higher corporate taxes courtesy of Socialist MB... (as promoted by BS and Mario Cuomo...)

• How is it going? not well according to SW and VP (next page) but then copper prices fell but now rising...
Chile’s vulnerabilities

• Reliance on Copper & FDI despite competitive trade and Fx rate policies, diversified but not quite enough

• Reluctance to welcome foreign professionals, Ricardo Hausmann “Chile’s problem is that it is full of Chileans…” lack of diversity reduces entrepreneurship and innovation

• Geography? Inequality? Institutions?

• Swings in economics policy? Still best performing
Lessons from Chile

- Social Democratic regimes can be market friendly, political populism is not inevitable Fiscal rule can help mitigate Dutch Disease
- Capital flows can be managed (taxes and controls)
- Inflation defeated and growth with redistribution (check this...)
- Swings in economics policy? Still among top 5 best performing LatAm countries
Income per person as a % of U.S. income 1980 to 2017

Figure C-2 Latin America Top 5 since 1980

- CHL
- COL
- CRI
- DOM
- URYY

1980: CHL 34, COL 28, CRI 22, DOM 19
1982: CHL 28, COL 28, CRI 22
1984: CHL 28, COL 28, CRI 22
1986: CHL 28, COL 28, CRI 22
1988: CHL 28, COL 28, CRI 22
1990: CHL 28, COL 28, CRI 22
1992: CHL 28, COL 28, CRI 22
1994: CHL 28, COL 28, CRI 22
1996: CHL 28, COL 28, CRI 22
1998: CHL 28, COL 28, CRI 22
2000: CHL 28, COL 28, CRI 22
2002: CHL 28, COL 28, CRI 22
2004: CHL 28, COL 28, CRI 22
2006: CHL 28, COL 28, CRI 22
2008: CHL 28, COL 28, CRI 22
2010: CHL 28, COL 28, CRI 22
2012: CHL 28, COL 28, CRI 22
2014: CHL 28, COL 28, CRI 22
2016: CHL 28, COL 28, CRI 22
Chile: Cont

- Michelle Bachelet served two terms as President of Chile 2006-2010 and 2014-2019, in between she was the first under-secretary general of UN Women, a new agency combining all UN agencies focused on Women’s empowerment (Portrait right is from a 2012 Americas Quarterly article)
- The next election is November 19th 2017, it will be a referendum on her coalition’s reform Policies. Recent polls have center right Sebastián Piñera in the lead...he was President 2010-14.
- Since MB will not be running this year (term limits) she may be back in New York next year...(she would be a great graduation speaker... )
“62% of Chileans consider the government of Michelle Bachelet must put off or at least 'moderate' the reforms which have been forced in the country, especially the educational reform.”
A note on Chile, cont.: 6 Month Copper Prices and Price Charts

Copper Price 3.08 USD/lb (6,797.07 USD/t; 5,711.14 EUR/t) 29 Aug 2017 - 52 Week Low 2.07 USD/lb 52 Week High 3.08 USD/lb
A note on Chile, cont. (30 yr Copper Price)
Student leader Camila Vallejo blames the Neoliberal model (see Lustig et al. “Basta”)

You can’t change this neo-liberal model, implemented so violently and with such inequality in our country, without collective action.
See Chile case study
Michelle Bachelet road protest wave into Presidency in 2013 (see “Basta”)
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Chile mobility increases: share of education not explained by parent’s SES

Figure C-1: Intergenerational Education Mobility Chile: share of education gap not explained by parents education

Source: SEDLAC/CEDLAS Education Stats Mobility*
College reduces inequality in the U.S.

Poor students who attend top colleges do about as well as their rich classmates.

Data here comes from the 1980-82 cohort, roughly the college classes of 2002-4. By this stage in life, income ranks are relatively stable.
Chetty, 2017 on College mobility

Mean Child Rank at Age 34 vs. Parent Income Rank
All Colleges

- National (Slope: 0.288)
- Elite Colleges (Slope: 0.065)
- Other 4-Year Colleges (Slope: 0.095)
- 2-Year Colleges (Slope: 0.110)
Later, we use the traded-nontraded (TNT) goods model to cure the Dutch Disease.
Composition of global inequality changed: from being mostly due to “class” (within-national), today it is mostly due to “location” (where people live; between-national).
References

- Economist (2016) Global inequality: Shooting an elephant via@TheEconomist
- Lakner, Christoph, and Branko Milanovic (2016). "Response to Adam Corlett’s “Examining an elephant: globalisation and the lower middle class of the rich world”.
- Giles and Dannon (2016) Globalisation ‘not to blame’ for income woes, study says Financial Times, Sept 13th 2016 Video version
Chile inequality is falling...

Figure G-1 Chile Inequality Gini Falls

Source: SEDLAC (CEDLAS and The World Bank)
Chilean students protest high cost of college and student debt...
Answer: student loans lower income students into college and middle class or higher: example Camila Vallejo Dowling Chilean student leader now congress-woman under President Bachelet:
Education: gender convergence opens new gender gap... starting with 1968 cohort, Latin women become more educate than men (Nopo, 2012)

Changes from 1990 to 2010

<table>
<thead>
<tr>
<th>Year</th>
<th>Females 21-30 Yrs Educ</th>
<th>Females 21-30 change</th>
<th>Males 21-30 Yrs Educ</th>
<th>Males 21-30 Change</th>
<th>Ratio F/M Level</th>
<th>Ratio F/M Change</th>
</tr>
</thead>
<tbody>
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<td>Argentina</td>
<td>2011</td>
<td>12.4</td>
<td>2.5</td>
<td>11.6</td>
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<td>107</td>
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<tr>
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<td>9.8</td>
<td>4.1</td>
<td>9.2</td>
<td>3.5</td>
<td>107</td>
</tr>
<tr>
<td>Chile</td>
<td>2009</td>
<td>12.6</td>
<td>2.5</td>
<td>12.4</td>
<td>2.4</td>
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<tr>
<td>Mexico</td>
<td>2010</td>
<td>10.4</td>
<td>2.5</td>
<td>10.3</td>
<td>1.5</td>
<td>101</td>
</tr>
</tbody>
</table>

Source: CEDLAS/SEDLAC Education and Gender Statistics
LatAm Middle Class emerging....

Figure 2B LatAm & Caribbean middle class
(% >$10/day $PPP 2005)

Source: World Bank, Povcalnet March 2012
(http://iresearch.worldbank.org/PovcalNet/index.htm?1)
References


Source: Figure 1.3 from Ferreira et al (2010), modified by Ferreira (2012). Data source: World bank 2011