



## The Political Economy of Ethno-Populism

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Economics of Latin  
America  
Econ 3235 Fall 2017

# Goals of lectures 1-4:

1. **Populism in the Americas:** Why a resurgence of left/right/ethno populism in EU and Americas?
2. **Threats/opportunities to/for integration:** NAFTA, Mercosur, the Pacific Alliance, China, CAFTA...
3. **Inequality & mobility:** immigration, education and income redistribution... migration of people...
4. **Slow growth:** Why Latin America fell behind its peers: geography, integration and institutions: the eternal land of the future (Edwards, 2010, chapt 1)

# Tasks: choose a case study or cross-cutting issues

1. Country/region that interests you: NAFTA, CAFTA, Mercosur, Pacific Alliance, Iron/lithium triangle...
2. Cross cutting issues: “shock treatment” education, transfers, CCTS, eco-tourism, gender, immigration
3. Missing case studies: Argentina, El Salvador Bolivia, DR, Colombia, Costa Rica & Chile?
4. The LA-7 matter ARG, BRA, CHL, COL, MEX, PER & VEN.... (80+ % of LatAm GDP)

# Varieties of Populism...

1. **Economic populism:** boom then bust, Dornbusch and Edwards, next slide one step forward, two steps back... poor and workers end up worse off...
2. **Authoritarian populism** suppresses opposition, ends contested elections: Venezuela, NIC?
3. **Populist Nationalism:** Protection & nationalization of industry, especially natural resources in LatAm... so
4. **Ethno-Populism charismatic leaders with a solid base:** Bolivia, Ecuador, U.S. Chile? Interests of a particular ethnic group are promoted... other groups may be excluded (as in Texas/Alabama)

# Populism's positives: a variety of democracy... welcome in moderation

1. **Macroeconomic populism:** public sector deficits sometimes welcome to offset negative shocks: storms, earthquakes, Irma, Harvey, Mitch...
2. **Ethno-populism may enfranchise neglected or excluded groups:** Bolivia and Ecuador empowered indigenous groups long excluded... Chavez's base was the poor... a Bolivarian revolution revived?
3. **Transfers and minimum wages** may bring welcome reductions in poverty and inequality, a worthwhile goal... education and health can be great investments...

# Populism's downside?

- Economic reversals, illusion of economic progress... boom then bust net loss for the poor...
- May end checks & balances creating authoritarian regime, in SOB Chavez says “I am not Chavez, I am ‘the people’ (In Hamilton, Jefferson argues for the French “people” Hamilton & GW see chaos... (next slide)
- Polarization: 2 parties: “the people” and “everyone else” and everyone loses... for example with [Podemos in Spain and Syriza in Greece](#).. [Mudde, 2015](#)
- ***Populist contagion? Perhaps it has common causes (unemployment? See BPEA paper). Brexit then “America first” but not France, Germany and the Netherlands did not follow...***



# But, populism can further exclude powerless groups/minorities...

1. **California Proposition 187; Texas :** Tried to block immigrant access to schools...
2. **Ethno-nationalism** Brietbart news, Brexit, Hungary, Poland, Spain?
3. **Trump frames protection and border wall** as stopping Latino population growth...
4. In both cases, immigrants blamed for unemployment, drug problems, and loss of manufacturing jobs...

# American 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

[Hamilton] Sir [Washington] Draft a statement of neutrality



# Left Populism vs. Social Democratic regimes in the 21<sup>st</sup> century....

- Birdsall, Lustig & McLeod use A
- Surprisingly rare right now:
  - Venezuela.
  - 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<sup>th</sup>](#)

\*contributing columnist teaches International Relations at the Getulio Vargas Foundation in São Paulo wrote *The BRICS and the Future of Global Order* (2015) and *Post-Western World: How Emerging Powers Are Remaking Global Order* (2016).

## It's Not Just Venezuela. Central American Democracies Are Under Threat, Too.

BY OLIVER STUENKEL | AUGUST 30, 2017

Leaders on both sides of the ideological spectrum are tempted by authoritarianism.



FEDERICO PARRA/AFP/Getty Images



The first sign of trouble on my recent research trip to Nicaragua was that almost nobody would speak to me about President Daniel Ortega on the record.

Oliver Stuenkel\* *Americas Quarterly* [August 30<sup>th</sup>](#)

*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? Or slower path to same growth reducing

# Social Democratic Regimes

- **Brazil and Chile** show Social Democracy can be market friendly, redistribution + growth, CCTs, minimum wages, free education? Chile (next)?
- Good news: Brazil, Chile and Argentina change parties in power: election outcomes remain uncertain... as is Chile's Nov. 19<sup>th</sup> 2017 election
- Mexico center right: Ernesto Zedillo (Yale PhD Economist) created democracy as an antidote to populism, we hope, in Mexico.. Amlo?

# Chile case study

- Chile is a wonderful country, vibrant, creative & just a bit arrogant... Camilla Vallejo now in Congress with Socialist Michelle Bachelet (MB) as President...
- A testing ground for new social policy, most recently lower college tuition financed by higher corporate taxes reformer President Bachelet...
- Not going well, [according to SW and VP](#) and see next slide, however copper prices are now rising... next President may do better.

# 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

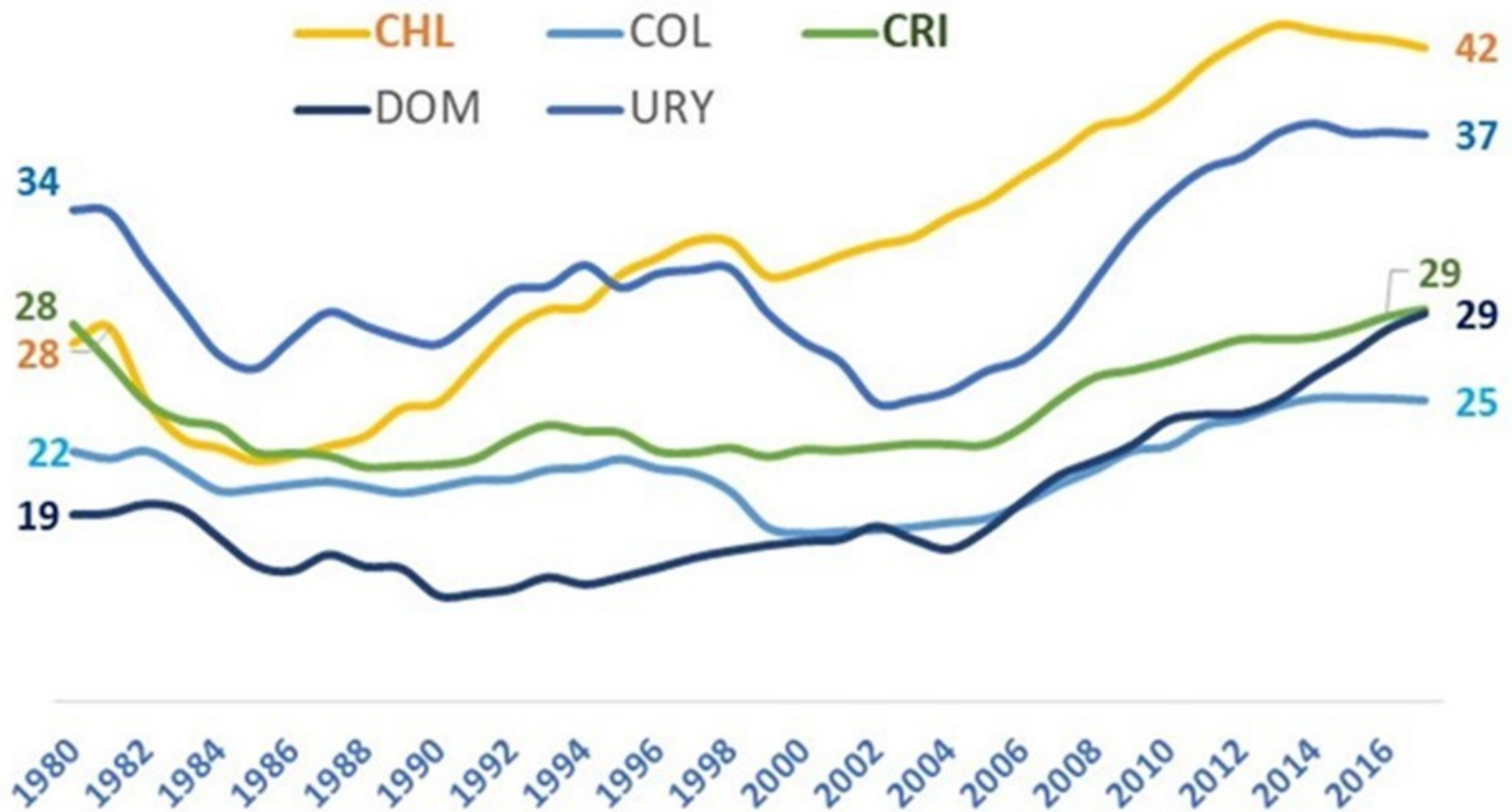


# Lessons from Chile

- Chile shows Social Democratic regimes can be market friendly, Dutch disease & populism not inevitable, fiscal rules temper Dutch Disease...
- Capital flows managed (taxes and controls) Inflation defeated and growth with some redistribution
- Why has growth slowed in Chile recently? Visual Politic (Simon et al. 2017) say higher taxes and education reforms under President Bachelet have reduced private investment

# Income per person as a % of U.S. income 1980 to 2017

Figure C-2 Latin America Top 5 since 1980



# See Chile case study





# Chile: Cont

The region's prospects for prosperity hinge on the economic empowerment of women.

- 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 19<sup>th</sup> 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... )



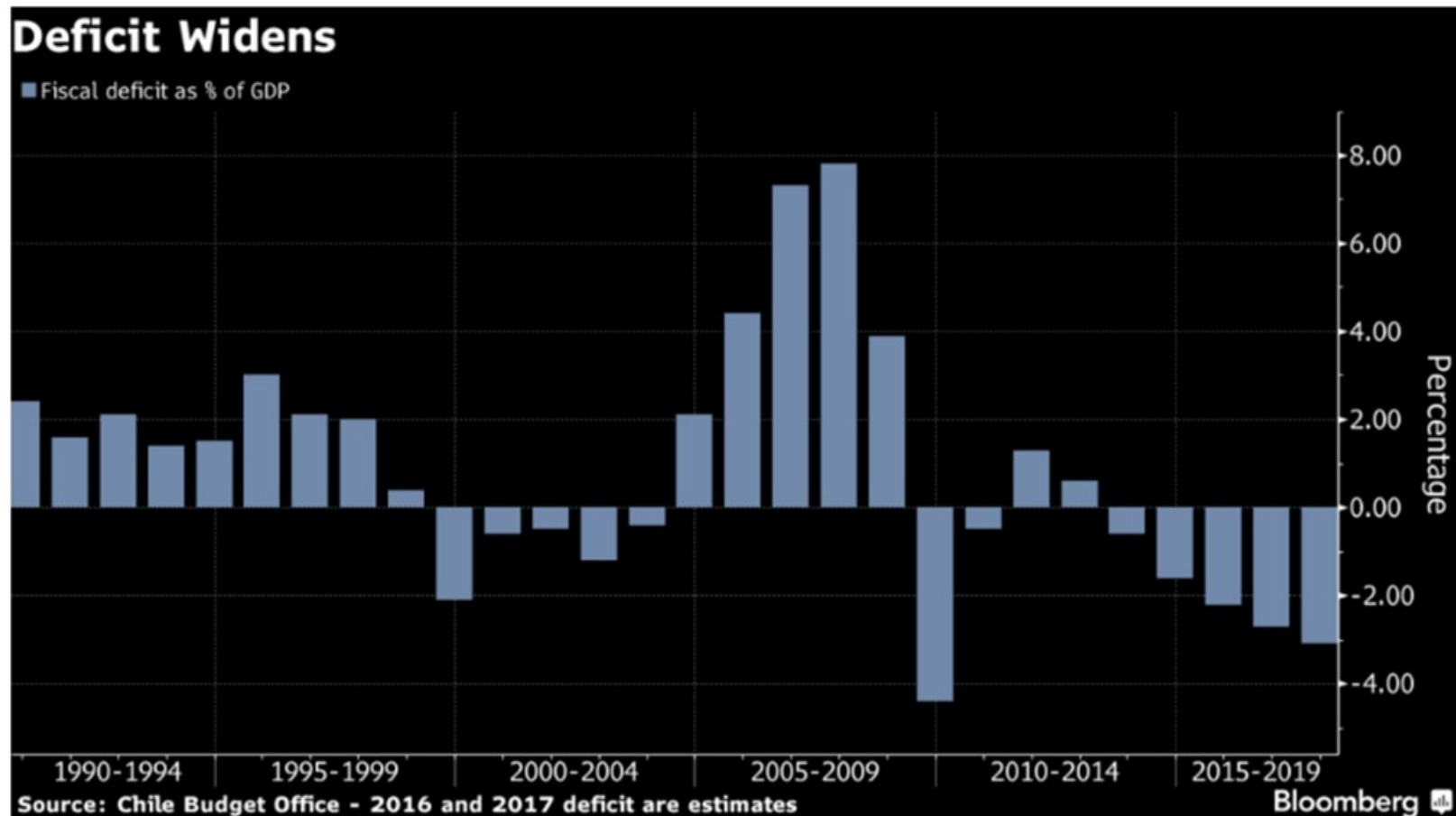
Michelle Bachelet is the first undersecretary general and executive director of UN Women. She served as president of Chile from 2006 to 2010. (Portrait by Janet Hamlin)



Women's political and economic participation strengthens democracy, equality and the economy. And while women's empowerment and full participation in society are important goals in themselves, they are also vital for reducing

# Rare Chile stumble: copper prices fall, growth slows and budget deficit widens: business blames socialists..

The failure to meet the fiscal target and mounting debt led Fitch Ratings and S&P Global Ratings to downgrade Chile in the past two months. Fitch cut Chile to 'A', the same level as Ireland and Japan.



# Chile growth slowdown & the next Nov 19<sup>th</sup> 2017 election



telesur

“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”.

Americas  
VisualPolitik EN • 10/15 videos

Why has CHILE stopped GROWING? - VisualPolitik EN  
VisualPolitik EN

11 Why TRUMP is Getting it Wrong with CUBA? - VisualPolitik EN  
VisualPolitik EN

12 Why could LITHIUM be a LOST CHANCE for BOLIVIA? - VisualPolitik EN  
VisualPolitik EN

13 Can ARGENTINA lead the RACE for LITHIUM? - VisualPolitik EN  
VisualPolitik EN

14 Why is COLOMBIA Not The Greatest Latin American Power? - VisualPolitik EN  
VisualPolitik EN

15 Why is CANADA the Most Admired Country on Earth? - VisualPolitik EN  
VisualPolitik EN

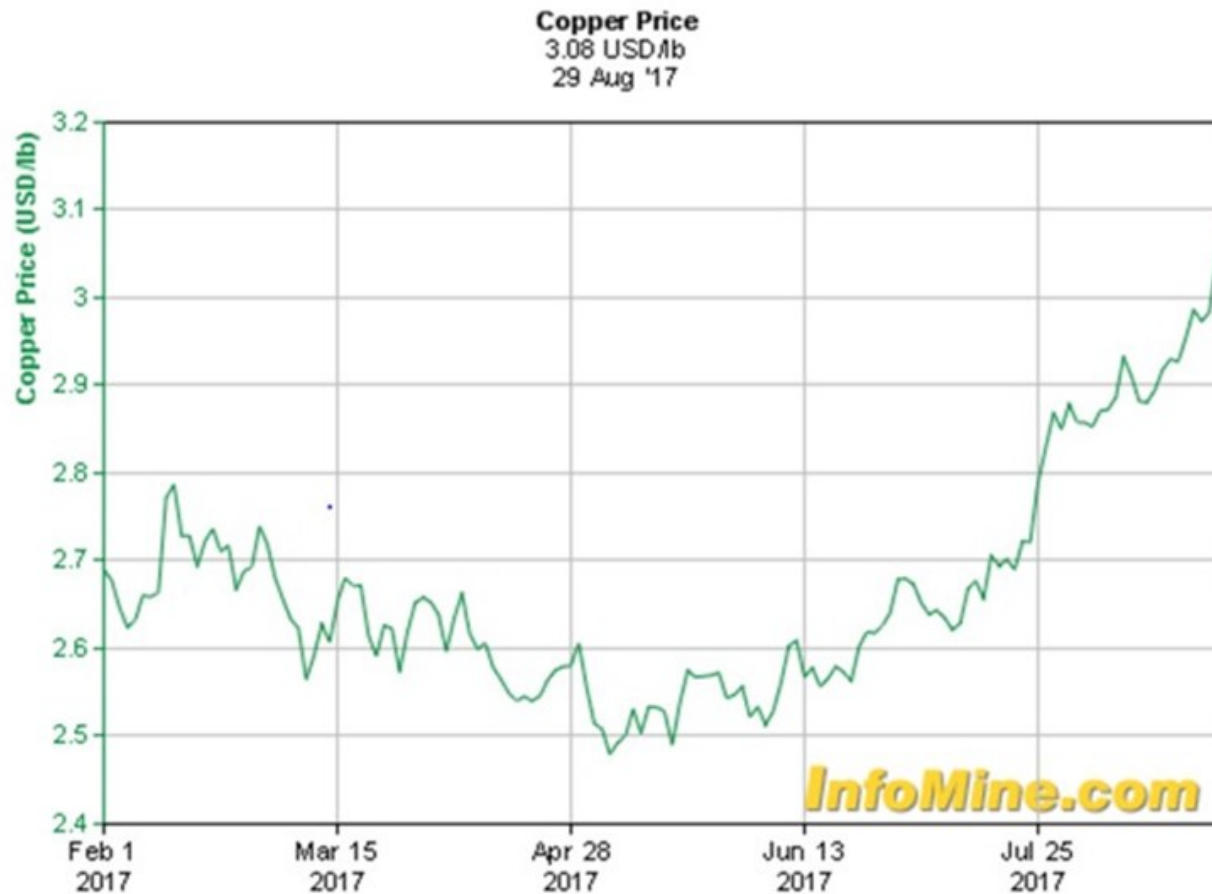
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# Slower growth in Chile, more than just copper prices?

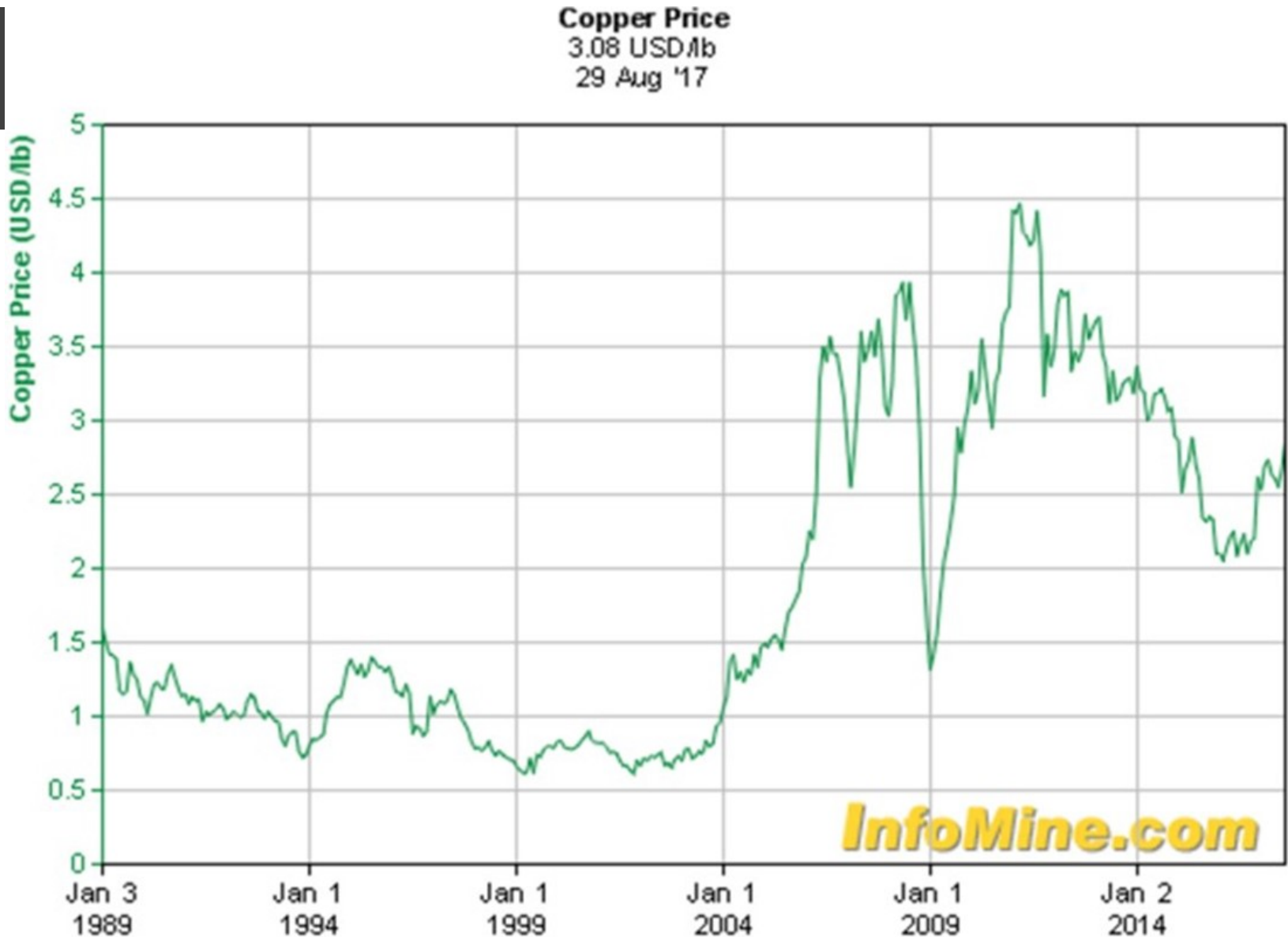
## 6 Month Copper Prices and Price Charts

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)



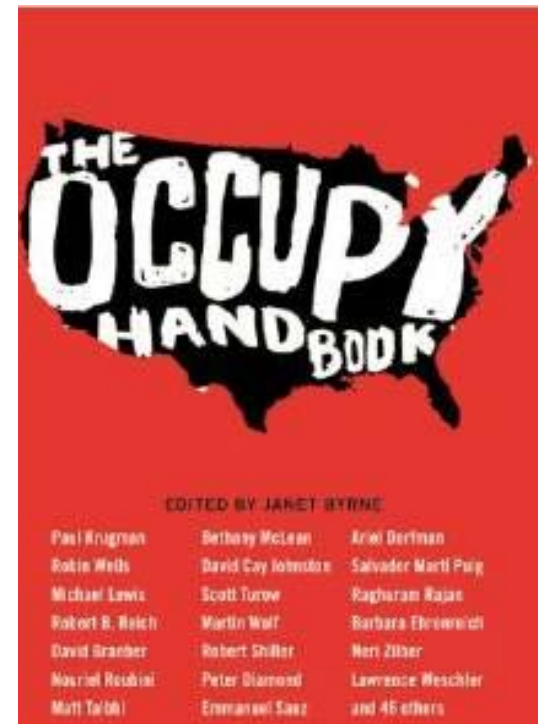
# Michelle Bachelet road student protest back into Presidency in 2013 (see “[Basta](#)”)



# Student leader Camila Vallejo blames the Neoliberal Washington Consensus (see Lustig et al. “[Basta](#)” 2012 Occupy Wall Street)



**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:**





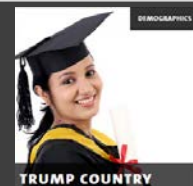


## See Chile case study

- In 2011, Chilean Students say “basta” (“enough”) on page 224 and in street protests *“Because education is a major gateway to social mobility, students want not only access to a college education but assurances that what they get is affordable and of high quality. The members of the new middle class created by Chile's strong economic growth over the past twenty years do not want to lose their status either because they cannot afford to pay back their loans when the economy is failing or because of inferior training. Students essentially protested because the Chilean educational system-in spite of its undeniable progress-had failed to reduce entrenched inequality of opportunity in one of the most unequal countries in the world.”*

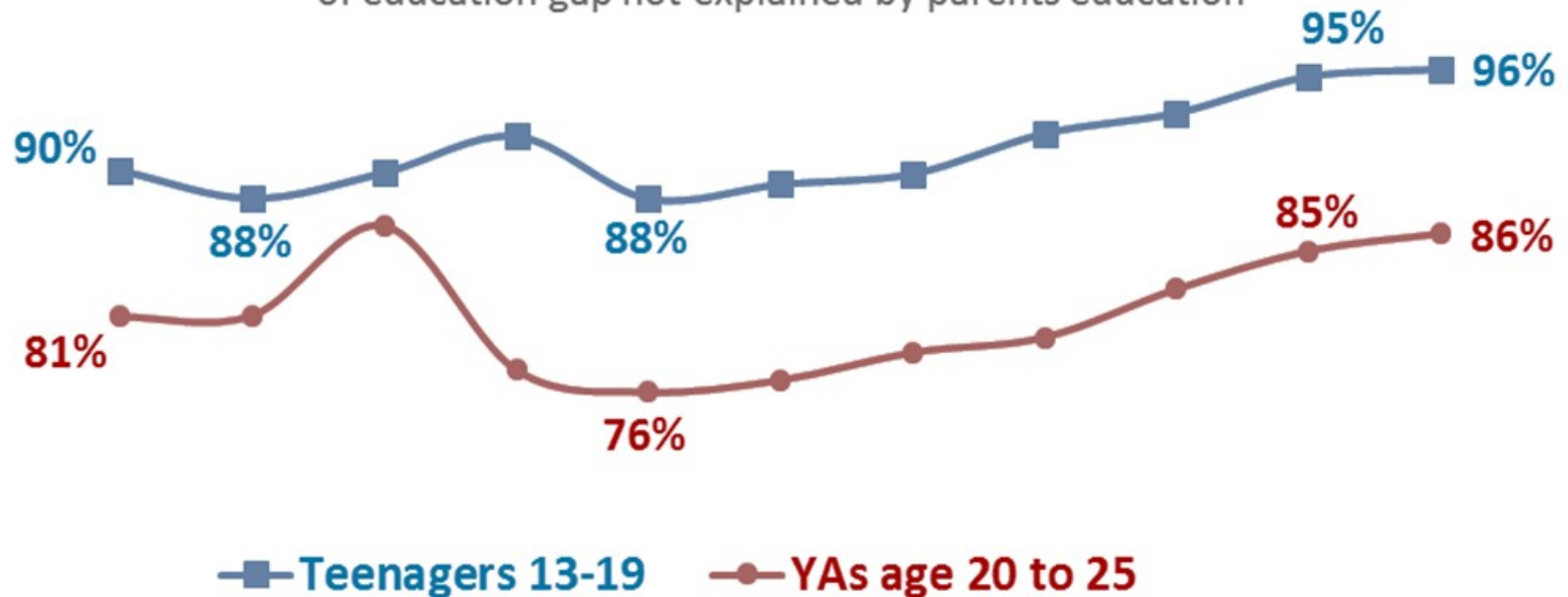


Michelle Bachelet road protest  
wave into Presidency in 2013  
(see “Basta”)



# 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



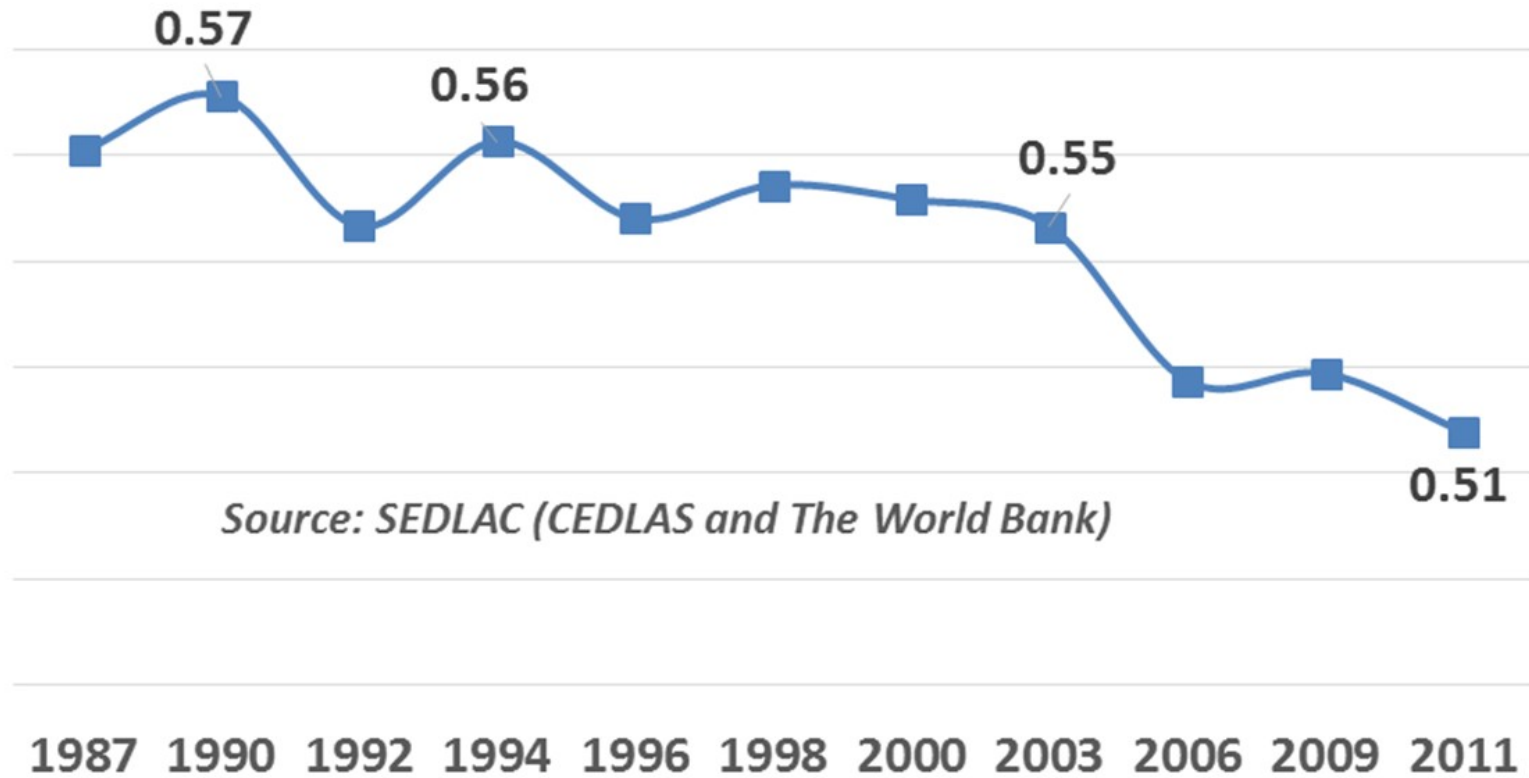
1987 1990 1992 1994 1996 1998 2000 2003 2006 2009 2011

Source: SEDLAC/CEDLAS Education Stats Mobility\*  
<http://sedlac.econo.unlp.edu.ar/eng/statistics-detalle.php?idE=37>



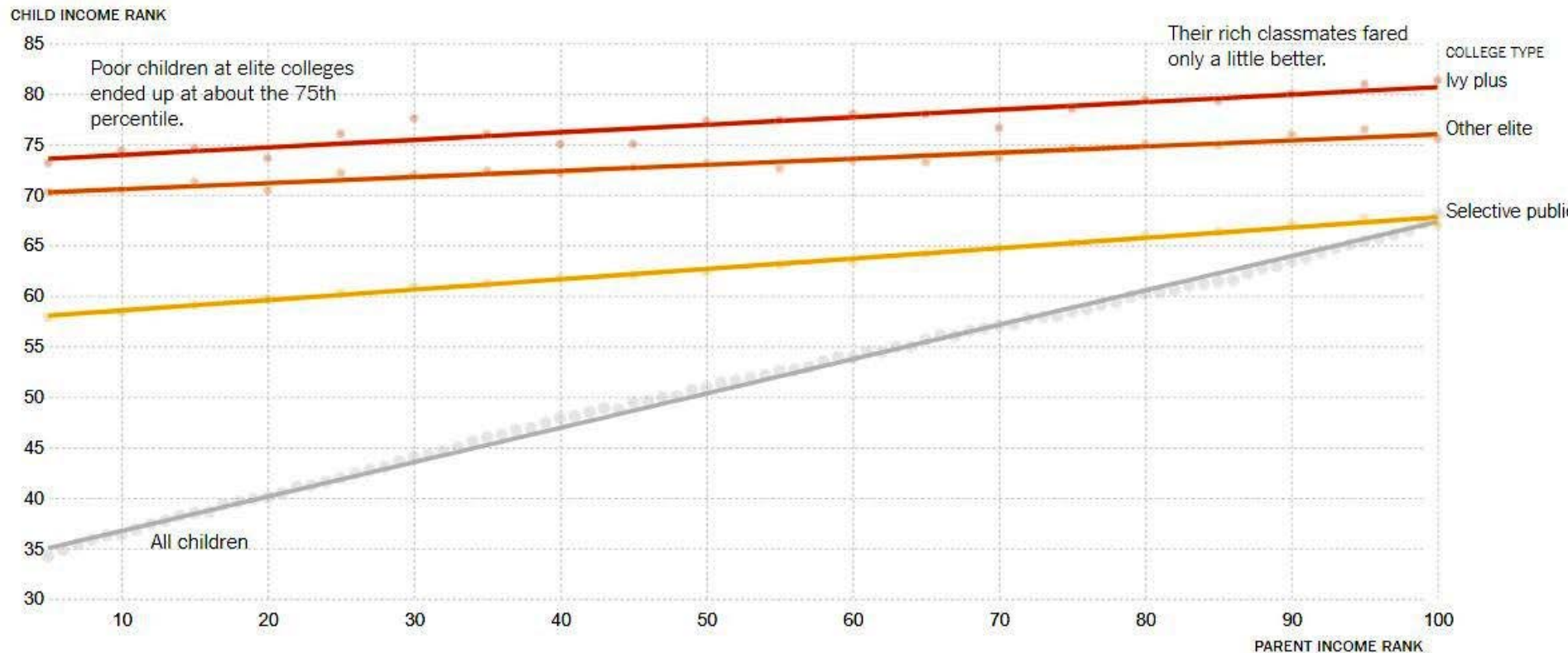
# Chile inequality is falling...

**Figure G-1 Chile Inequality Gini Falls**



# 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.



Chilean students  
protest high tuition  
and high interest rates  
on college loans...

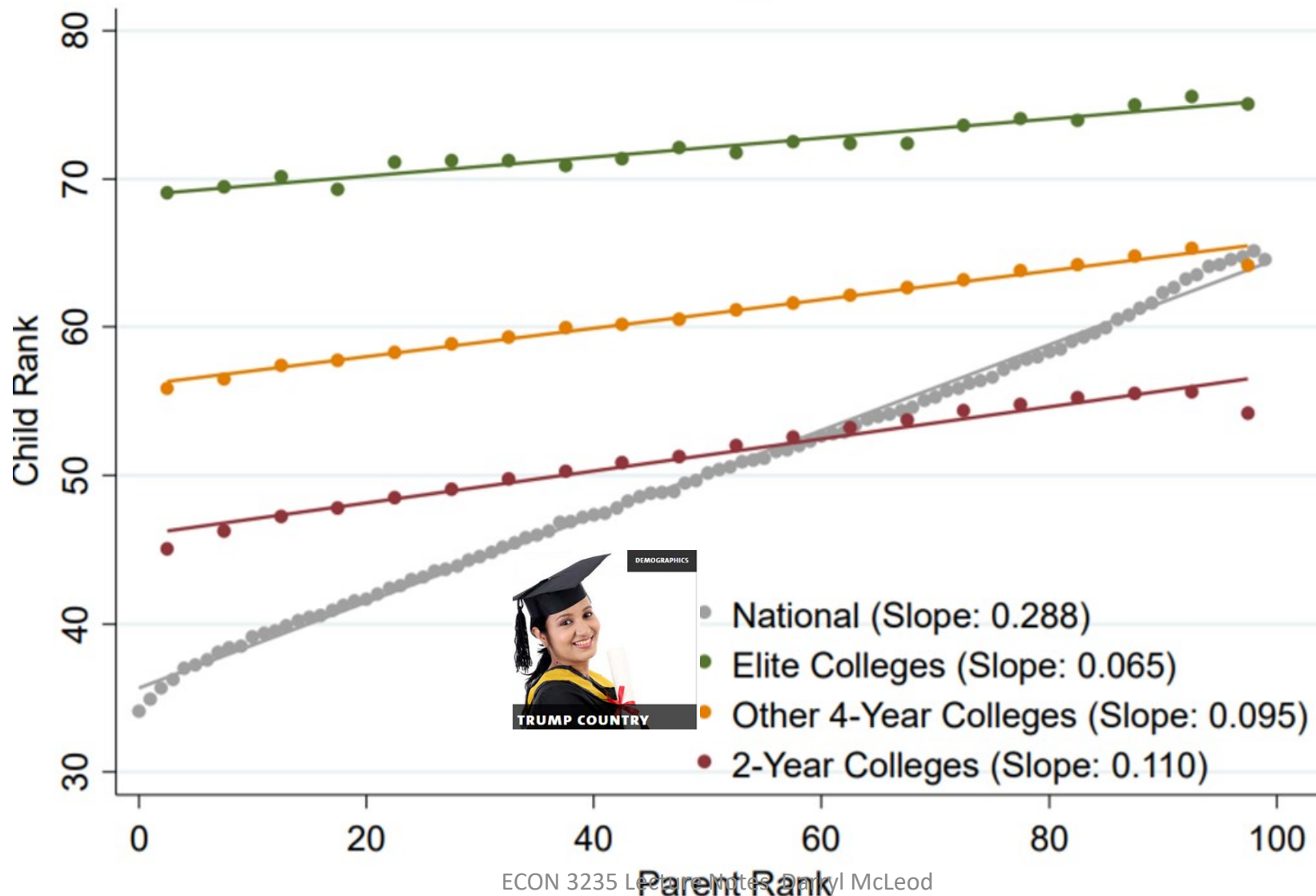
Student Protests in Chile



9/11/2017

# Chetty, 2017 on College mobility

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





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

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[Video version](#)