

# Development Perspectives for Latin America

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# Outline

1. Where the region is coming from
2. The effects from the global macroeconomic dynamics
3. The influence of advanced economies shaping reform agendas

# Latin America's economic and social performance

- 2004-13: good times for the region
- Recent years have not been so good
- The region is now experiencing a mild macroeconomic recovery

# 2004-2013

- Sharp reduction in indebtedness
- Accumulation of foreign exchange reserves
- Improvements in human development due to increases in Social Spending/GDP
- Improvements in labor markets
  - Regional unemployment fell from 11.3 percent in 2003 to 6.2 percent in 2013 (ECLAC)
  - Employment in the informal sector went from 48.3 percent of total employment in 2002 to 44 percent in 2014
  - The portion of the population aged 15 to 64 with jobs increased by 4.6 percentage points
- Improvements in income distribution in most countries
- Marked reduction in poverty and a rise of the middle class
  - Proportion of people living on incomes between \$10 and \$50 a day grew from 23 percent to 34 percent of the population

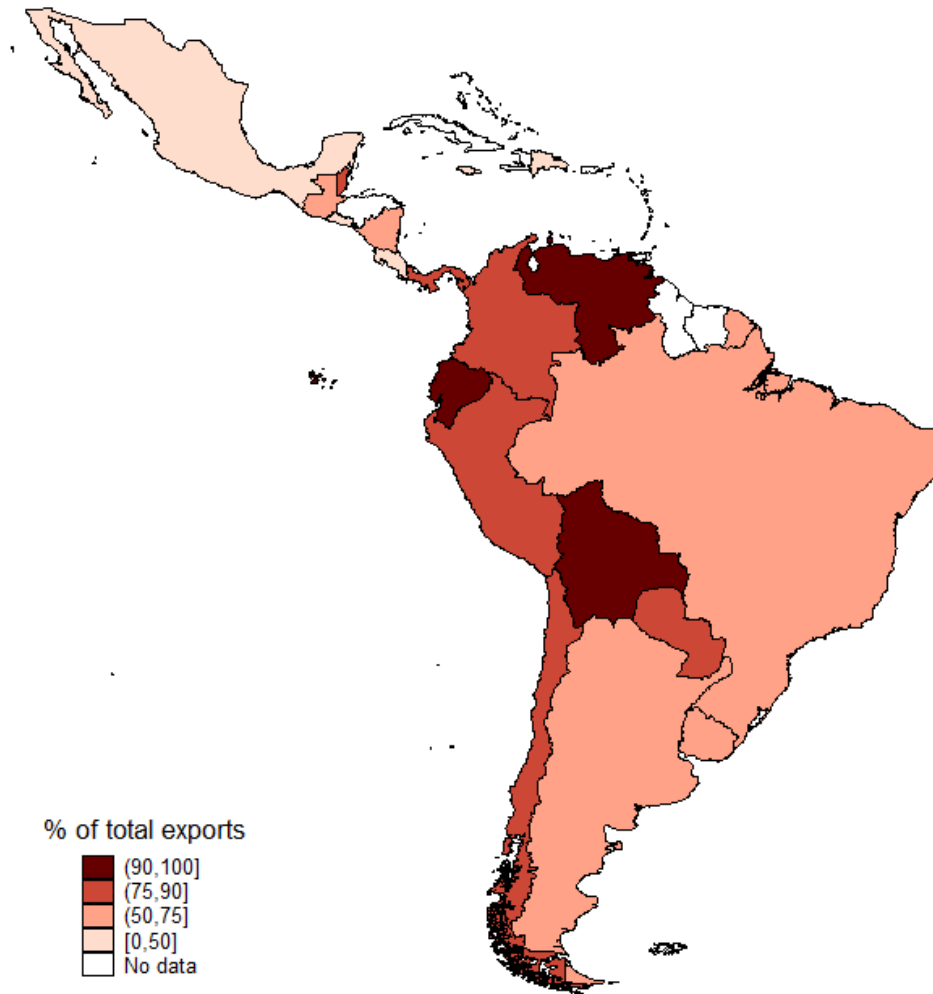
# 2004-2013

- But also:
  - Labor market informality still predominated in many countries
  - Even with the improvements in inequality, Latin America continued to have the worst income distribution in the world
  - The increase in availability of education has not been followed by improvements in performance
  - Good economic performance was not just a consequence of domestic policies, but also of good external conditions—conditions that changed

# 2004-2013

- Common mistake: failure to diversify structure of production during the good times
  - The region still exports mostly commodities
  - High vulnerability to external shocks

# Gross commodity exports (% of total exports)



# The continent is now mildly recovering from recession

	2015	2016	2017 (proj.)	2018 (proj.)
<b>LAC</b>	<b>0.1</b>	<b>-0.9</b>	<b>1.2</b>	<b>1.9</b>
South America	-1.2	-2.6	0.6	1.6
CAPDR	5.1	4.6	4.1	4.4
Caribbean				
Tourism-dependent	0.9	1.4	2.8	2.3
Commodity exporters	-0.4	-4.9	-1.9	2.0

Source: IMF Regional Economic Outlook, Oct 2017



# Mild recovery and mild macro risks

- The region debt ratios are moderately rising
  - They remain well below the levels that prevailed at the beginning of this century
  - Heterogeneities: rising debt is indeed a problem for some economies (more notably for Argentina)
- Increases in the US Treasury bonds rates would increase cost of debt roll-over

# **Agenda for reforms in advanced economies**

**and how it gets transmitted to Latin America**

# Awareness is gaining momentum

- There seems to be consensus on the need for changing legislations and policies in order to foster economies that are
  1. Socially inclusive (create job opportunities for all sectors of the population);
  2. Innovative;
  3. Economically and environmentally sustainable
- But there does not seem to be consensus on how to achieve those goals

# An agenda for labor market reforms

- Technological changes are affecting the nature of employment
  - The central issue is how to react to those changes
- Part of the international establishment adheres to the view that there needs to be reforms to labor markets that increase flexibility

# An agenda for labor market reforms

- Klaus Schwab, Chairman of *World Economic Forum* (April 2012):

*“The so-called Nordic model demonstrates that a high degree of labor market flexibility and social welfare systems do not have to be mutually exclusive — indeed, they can actually be combined to very good effect. This type of economic policy also enables countries to invest in innovation, childcare, education and training.”*

*“Capital is being superseded by creativity and the ability to innovate — and therefore by human talents — as the most important factors of production. If talent is becoming the decisive competitive factor, we can be confident in stating that capitalism is being replaced by “talentism.””*

*“The challenge we face is to come up with new forms of social and employment contracts that suit the changing workforce and the evolving nature of work.”*

# An agenda for labor market reforms

- “Human cloud”: workers are chopped into hundreds of discrete projects or tasks, then scattered into a virtual “cloud” of *willing and capable* workers
  - Not jobs but tasks or projects
  - Performed not by *employees* but by independent *task-makers*
- Changing from “labor markets” to “markets for tasks”
  - “Task-makers” are a form of entrepreneurs

# What does this have to do with Latin America?

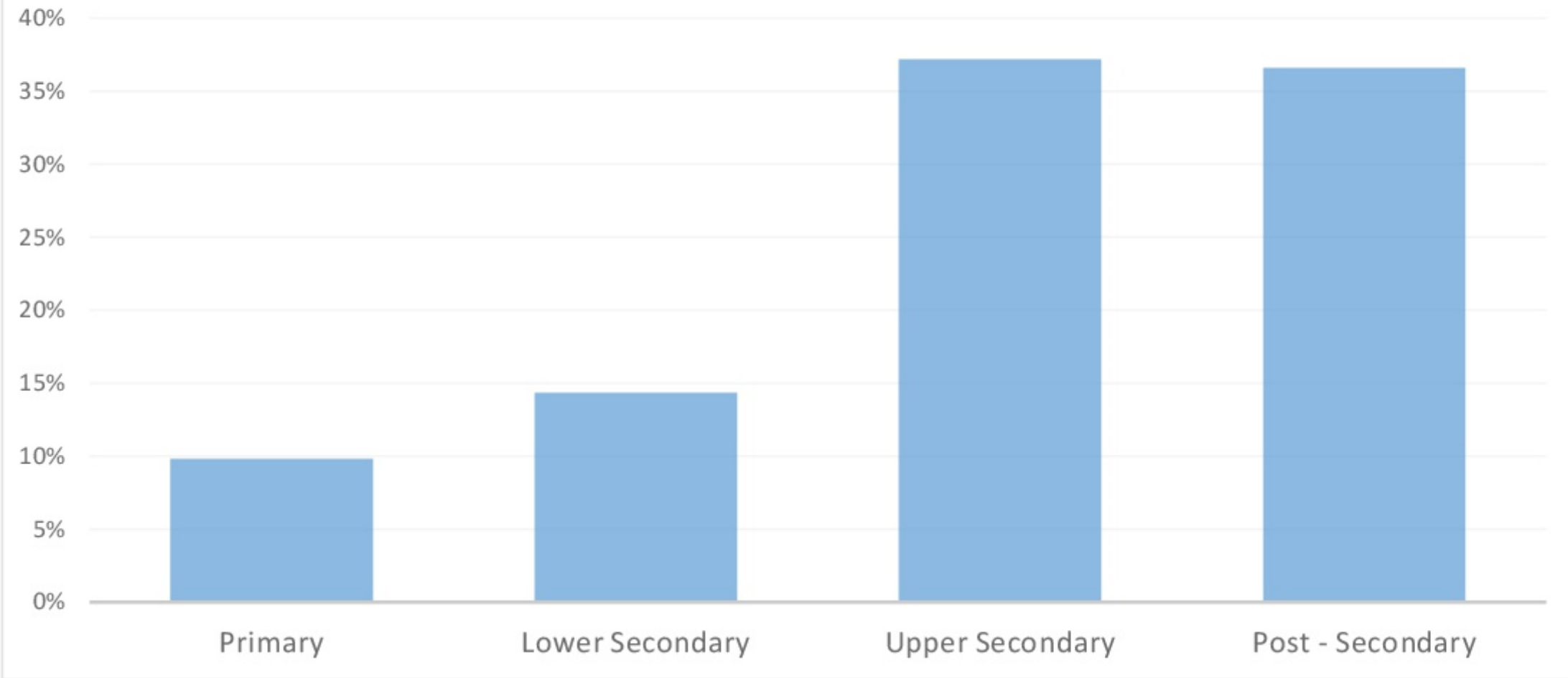
- These reforms are being discussed and pushed in countries in which the prevailing conditions are very different from the ones in which a Schumpeterian view of the world can be applied while safeguarding social inclusion
  - Recently, law that makes labor markets more flexible adopted in Brazil -- pushed by Temer's Administration (June 2017)
- This can have deleterious effects on social inclusion and can harm the future of our societies

# Risks of the labor market reforms agenda in Latin America

- The adaptability of a population that grew up under a *Nordic Model* is different than the adaptability of one that grew up in a *Washington Consensus Model*
- The demographic structure must be taken as a state variable when designing a development strategy
  - Low-skilled non-adaptable workers might become “obsolete” in a free-markets solution



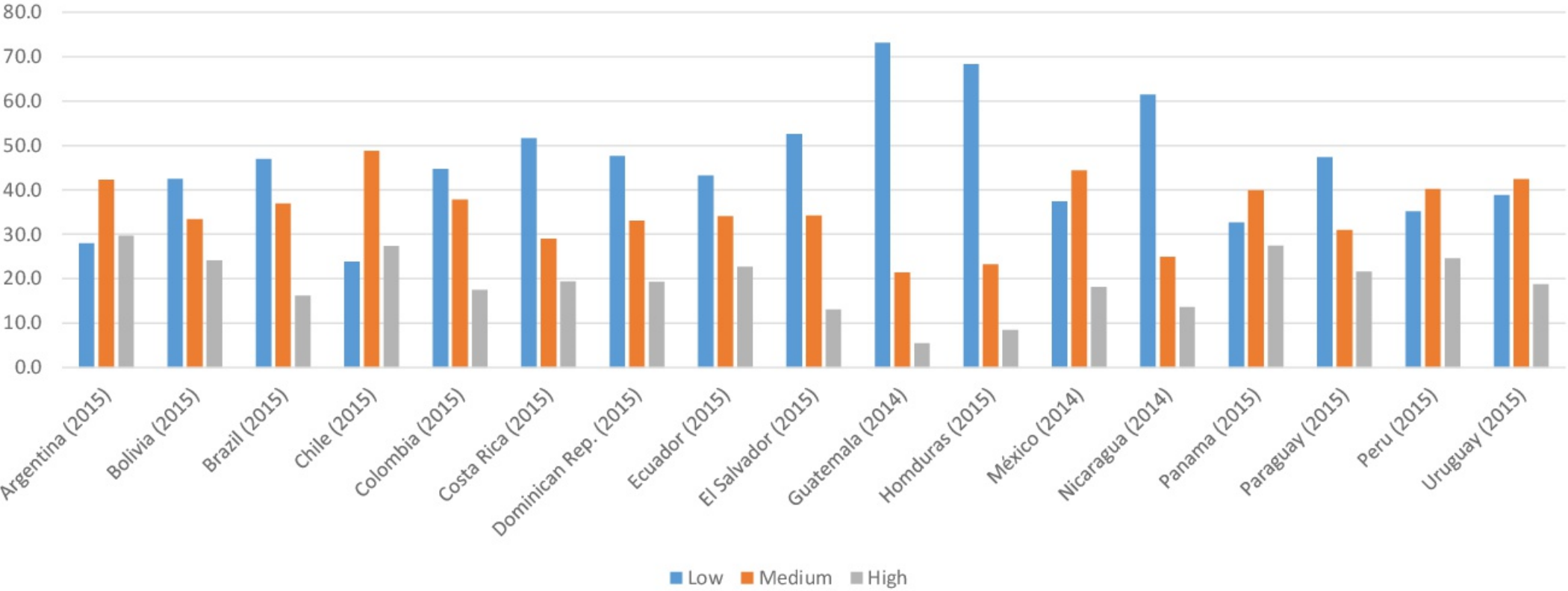
## Educational Structure Sweden (2015)



**Note:** Population between 25-65 years old

**Source:** UNESCO

# Educational Structure Latin America



**Note:** Population between 25-65 years old  
**Low:** < 9 years of education  
**Medium:** between 9-13 years of education  
**High:** > 13 years of education  
**Source:** [SEDLAC](#) of CEDLAS

# Risk of ignoring trade-offs in Latin America

- Example: McKinsey Global Institute Report  
[“How to counter three threats to growth in Latin America”](#), April 2017

*“Latin America’s economies need to engage fully in the current wave of digitization and automation”*

- There needs to be a careful appraisal of trade-offs between
  - Social inclusion through labor markets
  - Productivity growth
  - Macroeconomic consistency

# Conclusions

- What are the main risks in the near term?
- Populism increasingly often invoked as main risk
  - Example IMF:

*“With elections in several Latin American countries over the next 12–18 months, a key risk pertains to the uncertainty of policy stances following the elections. In particular, the risk of **populist agendas** and reversal of ongoing reform and adjustment efforts, which these economies can ill afford, could undermine sentiment and fledgling economic recovery.” (IMF Regional Economic Outlook, October 2017)*

- Will we enter into a new wave of *pretense of knowledge*?
  - Like the one we experienced in the 80s-90s with the Washington Consensus policies but adapted to the new times?

# Conclusions

- Main risk in my view: badly articulated agenda for the prevailing conditions of the region
  - That undermines development prospects
- Need for articulating an agenda for development in Latin America in the era of the digital economy
  - That appropriately defines the goals
  - That carefully appraises the relevant trade-offs