Human Prosperity Faces New Challenges

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About the Hemispheric Think Tank Working Group in Support of the 2009 Summit of the Americas

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The Working Group brought together researchers and policy analysts from the Western Hemisphere’s leading think tanks to engage in intensive debate and dialogue and develop a strong intellectual and policy foundation for preparing and conducting the Summit.

In meetings in Ottawa and Washington, D.C., attended by leading national and multilateral officials, the group explored the critical problems the Summit could address, identified key areas of agreement and disagreement among countries, deeply probed the disagreements, and, where possible, sought to develop pragmatic approaches. These discussions and research have resulted in a series of policy papers that hope to mobilize and raise awareness of the Summit amongst regional governments and civil society.
1. The Draft Declaration of Commitment of Port of Spain: ‘Securing Our Citizens’ Future by Promoting Human Prosperity, Energy Security and Environmental Sustainability includes many of the key goals and proposals that are needed to achieve equitable and sustainable growth.

2. The Declaration will be announced at a time in which some countries in the Americas will be in the midst of a recession and others will be facing a significant slow-down in economic growth. In particular, the United States—a key source of foreign (direct and portfolio) investments, remittances, export markets and revenues from tourism to the rest of the hemisphere and a key contributor to global aggregate demand—will be experiencing a recession defined by most analysts as the worst since World War II.

3. Although Latin America and the Caribbean countries are better prepared from a macroeconomic point of view to withstand external shocks than in the past, they will not remain unscathed. In the past several months, for example, commodity prices have plummeted, remittances are falling or at best growing more slowly, export demand is shrinking and international credit markets are drying up.

4. What does this mean for Latin America and the Caribbean? First and foremost, after five years of experiencing an economic boom (see Figure 1), growth will slow down and in some countries it might even become negative (see Table 1 for some recent forecasts). Real wages are likely to fall and unemployment is likely to increase. Private transfers, particularly from family members living abroad, are likely to shrink. Poverty is likely to rise and the progress made in the nutrition, health and education fronts might be reversed (see Table 2 for the changes in poverty during past crises).

5. The economic slowdown will reduce fiscal revenues and, thus, put restrictions on public spending. In some cases, the resources available to pay for poverty reduction and social protection programs might be insufficient to support existing beneficiaries or to expand them to include the people who became poor or unemployed as a result of the slowdown. In addition, while countries are in better shape than before in terms of poverty reduction and safety net programs, some of the poorest countries do not have poverty reduction or safety net programs or do not have them in sufficient scale (see Figure 2 for existing cash transfer programs in the region).

6. While the financial sectors in Canada and in Latin America have not faced a crisis similar to that which occurred in the U.S. and some European countries in 2008,1 large private corporations in some countries did invest in risky financial instruments or have large dollar debt servicing commitments. When the currencies devalued in early October 2008,
many of the corporations were put in serious financial difficulties. Some of them even faced bankruptcy.

7. The financial vulnerability of the private sector took everybody by surprise and perhaps without the U.S. Federal Reserve’s swaps program announced last October, currency devaluations might have spun out of control and a financial crisis in some countries would have ensued. Even though such crises have been avoided so far, companies and governments will continue to face difficulties in rolling over their debt and extreme scenarios. The so-called “sudden stop” of net capital inflows should not be ruled out in such an uncertain environment.

8. Furthermore, even if countries are able to avoid crises, as long as the global de-leveraging process and the flight to safety continue and the U.S. demand for credit rises (an expected consequence of the stimulus package), access to international credit by governments and the private sector in Latin America will be scant. Large corporations will turn to domestic credit sources and crowd out the medium and small-size firms.

9. In addition, as the ripple effects of the global economic slowdown spread, small, medium and large firms in Latin America and in the Caribbean may face losses and difficulties in servicing their debt. If this happens in a significant scale, nonperforming loans will rise, putting a strain on the banking sectors in spite of their more prudent regulation.

10. Although many analysts hope that recovery in the U.S. will begin during the second half of 2009 and, as a result, global growth will recover shortly thereafter, the overwhelming majority expects a very tepid recovery and little growth until at least 2010. If this is the case, recovery of growth in Latin American and Caribbean is likely to take time.

11. What all this adds up to is that the goal of promoting human prosperity in the hemisphere faces considerable new challenges which were probably not foreseen a few months ago. What goals, commitments and mandates should be added to the Declaration to fulfill the overarching goal of promoting human prosperity?

   a. First, it is important that countries do not succumb to “beggar-thy-neighbor” policies. In particular, the Heads of State should commit to continue their efforts to lower trade barriers and foster economic integration; avoid the use of disguised protectionist measures (such as subsidies targeted to specific industries); avoid resorting to competitive devaluations or competitive lowering of interest rates.

   b. Second, more than ever before, frequent consultations among ministries of finance and central banks on macroeconomic prospects and macroeconomic policies will be essential to contain
negative side-effects of individual countries’ policies and be better prepared to address challenges individually and collectively.

c. Third, the Heads of State should request that, for example, the World Trade Organization carefully monitors countries’ policies in terms of their commitments to open trade regimes and immediately puts out a public warning when there are violations or potential violations to these commitments.

d. Fourth, the Heads of State should request that the multilateral financial institutions give a realistic assessment of the Latin American and Caribbean region’s external funding needs, where the resources will come from and how will they reach those who need them. Note that the funding needs are not just from governments but from the private sector as well. The assessment should contemplate the worst case scenario, which would occur if Latin America faces a “sudden stop”.

In addition, this assessment should consider whether existing instruments and initiatives (such as the Heavily Indebted Poor Countries Debt Initiative) in the international financial institutions (IFIs) are adequate and sufficient to cope with the current challenges and if not what should change and how.

e. Fifth, the Heads of State should request that the International Monetary Fund (and the other IFIs) helps countries identify which policies can be implemented to mitigate the impact of the crisis on growth without compromising the macroeconomic stance in the medium-term. In particular, the IFI’s should assess whether countries can safely implement fiscal stimulus packages, reductions in interest rates and/or measures to channel credit to the private sector (for example, through the domestic development banks) to prevent GDP from falling too much below its potential. Preventing excessive downward adjustments in GDP growth would be one of the most important ways to contribute to poverty reduction and human prosperity in the hemisphere.

f. Sixth, the Heads of State should request that multilateral development banks provide an immediate assessment of whether individual countries have adequate safety nets—both in terms of the institutional setup and the funding—to help poor and low-income families and vulnerable individuals cope with the effects of the economic slowdown. Where safety nets are nonexistent or inadequate or financing is insufficient, the Multilateral Development Banks should offer their help to quickly assist governments in resolving the binding constraints. Exchanging best practices among countries might be particularly useful.
Specific comments on the document structure:

1. For the purposes of monitoring the implementation of the Declaration, it might be useful to re-organize parts of its contents so that shared goals (both quantitative and qualitative), commitments on the part of the Heads of States and Government, and mandates/requests addressed to their ministries and multilateral organizations are clearly distinguished.

2. In paragraph five of the current version of the Declaration there is a mention of social protection programmes presuming that the concept is all-encompassing. However, in policy circles "social protection programmes" usually refer to contributory and non-contributory safety nets (pensions, unemployment insurance, employment programs, minimum pension schemes, health insurance, etc.) and do not include other anti-poverty policy measures. I suggest changing the wording to: “social protection and poverty reduction programmes.”
Endnotes

1 Primarily because LAC countries did not invest in the so-called toxic assets that decimated or severely crippled some of the most famous names in global finance.
2 Investors shift their funds to instruments perceived as less risky such as U.S. Treasury bills and away from emerging markets.
3 Referring to the abrupt discontinuity in net capital inflows as a result of the combined effect of lower inflows and capital flight.
Figures and Tables

Figure 1- Latin America and the Caribbean: Average Yearly Growth Rates


Figure 2- Cash Transfer Programs in LAC

<table>
<thead>
<tr>
<th>Without program</th>
<th>Pilot</th>
<th>Small scale (&lt;25% poor)</th>
<th>Medium &amp; large scale (&gt;25% poor)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahamas</td>
<td>Guatemala</td>
<td>Argentina</td>
<td>Brazil</td>
</tr>
<tr>
<td>Barbados</td>
<td>Paraguay</td>
<td>Costa Rica</td>
<td>Colombia</td>
</tr>
<tr>
<td>Bolivia</td>
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<td>El Salvador</td>
<td>Chile</td>
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<td>Haiti</td>
<td></td>
<td>Dominican Rep.</td>
<td>Ecuador</td>
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<td>Mexico</td>
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<td>Guyana</td>
<td></td>
<td></td>
<td>Panama</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uruguay</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Venezuela</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

11 2 5 8
Table 1

GDP Growth Forecasts for 2009
Percent change (over a year ago)

<table>
<thead>
<tr>
<th>Country</th>
<th>Credit Suisse</th>
<th>Deutsche Bank</th>
<th>JPMorgan</th>
<th>Moody's economy.com</th>
<th>Morgan Stanley</th>
<th>UBS Pactual</th>
<th>AVERAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>1.5</td>
<td>-0.9</td>
<td>-1.0</td>
<td>3.0</td>
<td>-2.2</td>
<td>0.3</td>
<td>0.1</td>
</tr>
<tr>
<td>Brazil</td>
<td>1.3</td>
<td>2.2</td>
<td>2.0</td>
<td>3.5</td>
<td>0.0</td>
<td>2.8</td>
<td>2.0</td>
</tr>
<tr>
<td>Chile</td>
<td>2.5</td>
<td>2.2</td>
<td>2.5</td>
<td>3.0</td>
<td>1.5</td>
<td>3.2</td>
<td>2.5</td>
</tr>
<tr>
<td>Colombia</td>
<td>2.6</td>
<td>2.0</td>
<td>2.5</td>
<td>2.1</td>
<td>1.5</td>
<td>2.7</td>
<td>2.2</td>
</tr>
<tr>
<td>Ecuador</td>
<td>2.0</td>
<td>0.6</td>
<td>2.0</td>
<td>-</td>
<td>-</td>
<td>-4.0</td>
<td>0.2</td>
</tr>
<tr>
<td>Mexico</td>
<td>0.6</td>
<td>0.1</td>
<td>-0.6</td>
<td>1.4</td>
<td>-1.5</td>
<td>0.2</td>
<td>0.0</td>
</tr>
<tr>
<td>Peru</td>
<td>4.5</td>
<td>5.8</td>
<td>5.3</td>
<td>5.2</td>
<td>4.0</td>
<td>4.3</td>
<td>4.9</td>
</tr>
<tr>
<td>Uruguay</td>
<td>-</td>
<td>2.5</td>
<td>-</td>
<td>2.1</td>
<td>-</td>
<td>-</td>
<td>2.3</td>
</tr>
<tr>
<td>Venezuela</td>
<td>1.9</td>
<td>1.4</td>
<td>1.5</td>
<td>2.8</td>
<td>-1.0</td>
<td>1.5</td>
<td>1.4</td>
</tr>
</tbody>
</table>

### Table 2

**Poverty/head count ratio**

<table>
<thead>
<tr>
<th>Country</th>
<th>Pre-crisis</th>
<th>Crisis</th>
<th>Post-crisis</th>
<th>Post-crisis per capita GDP&lt;sup&gt;b&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Year</td>
<td>Ratio</td>
<td>Year</td>
<td>Ratio</td>
</tr>
<tr>
<td>Argentina (Greater Buenos Aires)</td>
<td>1980</td>
<td>10.1</td>
<td>1985</td>
<td>20.6</td>
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<tr>
<td>Argentina (Greater Buenos Aires)</td>
<td>1987</td>
<td>25.2</td>
<td>1989</td>
<td>34.6</td>
</tr>
<tr>
<td>Argentina (Greater Buenos Aires)</td>
<td>1993</td>
<td>16.9</td>
<td>1995</td>
<td>24.8</td>
</tr>
<tr>
<td>Brazil (All metropolitan areas)</td>
<td>1989</td>
<td>27.9</td>
<td>1990</td>
<td>28.9</td>
</tr>
<tr>
<td>Chile (Metropolitan areas)</td>
<td>1980</td>
<td>40.3</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Costa Rica&lt;sup&gt;d&lt;/sup&gt;</td>
<td>1981</td>
<td>29.6</td>
<td>1982</td>
<td>32.3</td>
</tr>
<tr>
<td>Dominican Republic&lt;sup&gt;d&lt;/sup&gt;</td>
<td>1984</td>
<td>37.3</td>
<td>1985</td>
<td>n.a.</td>
</tr>
<tr>
<td>Dominican Republic&lt;sup&gt;c&lt;/sup&gt;</td>
<td>1989</td>
<td>35.7</td>
<td>1990</td>
<td>n.a.</td>
</tr>
<tr>
<td>Guatemala&lt;sup&gt;c&lt;/sup&gt;</td>
<td>1980</td>
<td>65.0</td>
<td>1982</td>
<td>n.a.</td>
</tr>
<tr>
<td>Mexico</td>
<td>1984</td>
<td>28.5</td>
<td>1986</td>
<td>n.a.</td>
</tr>
<tr>
<td>Mexico&lt;sup&gt;c&lt;/sup&gt;</td>
<td>1994</td>
<td>36.0</td>
<td>1995</td>
<td>n.a.</td>
</tr>
<tr>
<td>Panama&lt;sup&gt;d&lt;/sup&gt;</td>
<td>1980</td>
<td>40.6</td>
<td>1983</td>
<td>n.a.</td>
</tr>
<tr>
<td>Panama&lt;sup&gt;c&lt;/sup&gt;</td>
<td>1986</td>
<td>44.0</td>
<td>1988</td>
<td>n.a.</td>
</tr>
<tr>
<td>Peru&lt;sup&gt;c&lt;/sup&gt;</td>
<td>1979</td>
<td>46.0</td>
<td>1983</td>
<td>n.a.</td>
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<tr>
<td>Peru (Urban)&lt;sup&gt;d&lt;/sup&gt;</td>
<td>1985</td>
<td>32.2</td>
<td>1988</td>
<td>n.a.</td>
</tr>
<tr>
<td>Uruguay&lt;sup&gt;c&lt;/sup&gt;</td>
<td>1981</td>
<td>11.0</td>
<td>1982</td>
<td>n.a.</td>
</tr>
<tr>
<td>Venezuela&lt;sup&gt;c&lt;/sup&gt;</td>
<td>1982</td>
<td>25.7</td>
<td>1983</td>
<td>32.7</td>
</tr>
<tr>
<td>Venezuela&lt;sup&gt;c&lt;/sup&gt;</td>
<td>1988</td>
<td>40.0</td>
<td>1989</td>
<td>44.4</td>
</tr>
<tr>
<td>Venezuela&lt;sup&gt;c&lt;/sup&gt;</td>
<td>1993</td>
<td>41.4</td>
<td>1994</td>
<td>53.6</td>
</tr>
</tbody>
</table>


- **Country:**
  - **Argentina (Greater Buenos Aires)**
  - **Brazil (All metropolitan areas)**
  - **Chile (Metropolitan areas)**
  - **Costa Rica**
  - **Dominican Republic**
  - **Dominican Republic (Greater metropolitan areas)**
  - **Guatemala**
  - **Mexico**
  - **Mexico (Greater metropolitan areas)**
  - **Panama**
  - **Panama (Greater metropolitan areas)**
  - **Peru**
  - **Peru (Urban)**
  - **Uruguay**
  - **Venezuela**

- **Year:**
  - 1980
  - 1987
  - 1993
  - 1989
  - 1988
  - 1984
  - 1985
  - 1981
  - 1982
  - 1994
  - 1983
  - 1990
  - 1995
  - 1996
  - 1992
  - 1997
  - 1999

- **Ratio:**
  - 10.1
  - 25.2
  - 16.9
  - 27.9
  - 40.3
  - 29.6
  - 37.3
  - 35.7
  - 65.0
  - 28.5
  - 36.0
  - 40.6
  - 44.0
  - 46.0
  - 32.2
  - 11.0
  - 25.7
  - 40.0
  - 41.4

- **Change:**
  - +
  - n.a.
  - +
  - +
  - +
  - +
  - +
  - +
  - +
  - +

- **Post-crisis per capita GDP:**
  - vs. year of crisis
  - vs. pre-crisis

- **Notes:**
  - **a.** Head count based on individual per capita household income unless otherwise noted.
  - **b.** + means an increase; – means a decline; n.a. not available.
  - **c.** Based on household.
  - **d.** Based on consumption.
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