
REVIEWS

Playing Nostradamus with Latin America

Javier Santiso, Latin America's Political Economy of the Possible: Beyond Good Revolutionaries and Free-Marketeers, MIT Press, 2006

Reviewed by Rodrigo Taborda

If you are an inhabitant of a developed country and plan to attend a cocktail party, Javier Santiso's Latin America's political economy of the possible may be perfect for you. It will give you a shallow description of the region from the early 1980s to the first decade of the present century. You will learn the names of the most important economists, politicians and literary figures of Latin America; and you will pick up the gossip of the region's political and economic circles. Most importantly, you will be able to impress people by describing a quarter of a century of economic policy and political developments with enough generality to make yourself seem like a former diplomat, or former vice-president of 'The Corporation', in one of 'those' underdeveloped countries.

If, however, you are instead looking for a summary of up-to-date political and economic developments in Latin America, then less than half this book will be useful. You will have to dig deep in the sloppy and erroneous literature and historical analogies to see any real facts or obtain any insightful interpretations of the reality of Latin America.

The book is written in three sections. Figuratively, you can think of it as a hourglass that starts broad, arguing that a new development strategy is taking place in Latin America. Then the sand clock narrows to three countries — Brazil, Chile and Mexico. But the clock then broadens again to shed light on this new development process underlying the whole region. (A new development strategy for a continent of 33 countries — but one applied only to three countries!)

The introduction summarises the book's thesis: after a ceaseless search for utopia — characterised by swings between left and right, and the 'political economy of the impossible' — Latin America has in the last two decades gone through a great economic and political transformation, via the 'political economy of the possible' secured in part by a generalised movement toward democracy; a political system that at the close of the twentieth century 'took root in Latin America soil and endured.'

The longest chapter of the book claims that macroeconomic, political, financial instability and debt default are inappropriate stereotypes of Latin America. To underline his contention the author compares GDP annual fluctuation in Argentina during 1900-1913 with the same during 1981-1996 (somehow forgetting the 1997-2002 period). Not finding a great difference, he states that macroeconomic instability is an erroneous stereotype for the region. The error of the political instability stereotype is underlined by the small differences noted in

the terms for parliamentarians, Supreme Court justices, and central bank governors in Argentina and the United States. For the author the financial instability stereotype is also mistaken; that form of instability has been curving down since 'it took Mexico 7 years to recover from the 1982 debt crisis and to return to the international capital markets, but barely 7 months after the episode known as the 1994 Tequila Crisis' (p. 59). Finally, on debt default, the author refers to Spain (which defaulted thirteen times between 16th and 17th century) in order to support his contention that 'the record in government defaults belongs to a European country' (p. 60). A comparison of this 300-year old episode with debt default in the 1980's is thus used to disprove debt default stereotype of Latin America.

The book's second section presents economic and political histories of Chile, Brazil and Mexico as the fulfilment of the great Latin American transformation. For Santiso, Chile's current economic success is not the outcome of market driven economic policies implemented in the late 70's and early 80's, but the 'pragmatic search for growth with equity' (p. 97) after the 1989 consolidation of democracy. For the author, an independent central bank, fiscal stability, labour reforms, a new retirement scheme and export led development have no implications for the current performance of the Chilean economy.

For Santiso the political economy of the possible is observed in Brazil with the presidential transition from Fernando Henrique Cardoso to Luiz Ignácio Lula da Silva. He describes the political hurdles Cardoso had to overcome in order to implement economic reforms in Brazil, an effort that coincided with Argentina's financial collapse. The change of government to Lula's presidency is presented as the democratic consolidation of the country since the new president is the founder of 'the Workers' Party, the largest left-wing force in Latin America' (p. 123). Under Lula's government, social security policies, originally proposed in Cardoso's government, were rapidly implemented, thanks to his new political capital.

The final part of the book is a generalisation on the remaining countries of the region. It presents the new alchemy of policy making. 'Instead of wholly structuralist or monetarist solutions, purely neo-liberal free-market, or idealistic social remedies, the preference now is for more flexible and nuanced economic policies' (p. 167).

Santiso also tries to explain how two countries — Argentina and Venezuela — managed to evade the benefits of the great transformation. The description of the Argentinean crisis is accurate and brief, while the Venezuelan experience is depicted as the well known natural-resource curse. But the political events of Argentina are not explored and those of Venezuela misunderstood: the democratic revolution in Venezuela is clearly the outcome of an inherited economic crisis that started three decades ago, and Chavez is amplifying, not inventing, the crisis. But for Santiso, the current events and decaying position of Venezuela in the world economy are not Chavez's fault.

The last chapter declares that the 'profound and subtle transformation taking place in Latin America — a transformation that stems from surging economic pragmatism — is worth celebrating'. (p. 208). Brazil, Chile and Mexico are again

presented as the countries where this transformation has occurred, while the rest of Latin America is struggling to find its political economy of the possible.

What is Santiso Talking About?

Deep into the book one begins to find some views about Latin America that would raise the eyebrows of anyone who has actually lived in, visited, or seriously studied the region. One example: the description of Mexico City as an 'urbane' and 'peaceful' place (p. 140). Mexico City happens to be one of the five most populated cities in the world, it tops the world rankings for air pollution, and no other word but 'chaotic' describes its public transportation. Santiso recalls how Carlos Fuentes (the celebrated Mexican novelist) calls Acapulco, Kafkapulco to ridicule the bizarre opulence of the coastal city. But does not Santiso remember that in the same book (*Christopher Unborn*, 1989 English edition), Fuentes called Mexico City, Makesicko City? Did Santiso really read the book? This peripheral mistake is disappointing for informed readers, but devastating for the uninformed. What if the central claims of the book are as mistaken as its depiction of cities?

The book has two central claims; the existence of a democratic and political transformation, and a move towards pragmatic economic policy away from neo-liberal policies. Both hard to find in Latin America and poorly defended in the book.

Latin America's Democratic Transformation

Yes, democratic regimes are the norm in the region. But what kind of democracy leads to economic development? Definitely not one where elected presidents are overthrown by their own political allies (Ecuador); or elections are held with immense doubts about legitimacy due to corruption and vote fraud (Mexico, Venezuela); or elections of presidents that render themselves as democratic dictators and impose re-election (Argentina, Colombia, Peru, Venezuela); or elections where presidents last only days (Argentina, Ecuador); or elections where likely winners are unfortunately killed before elections (Colombia, Mexico); and certainly not elections without parties or ideas, but simply a handful of short-term fixes (Bolivia, Venezuela).

For instance, from 1996 to 2006, Ecuador had 7 presidents. Abdalá Bucaram (1996-1997) was overthrown by the Congress arguing 'mental illness'. After two days as president, vice-president Rosalía Arteaga was also overthrown and Fabian Alarcón was interim president up to 1998 (later jailed for 5 years for corruption). Jamil Mahuad won the 1998 elections under strong suspicions of fraud, and resigned in 2000 after a disastrous economic performance. His vice-president assumed power from 2000 to 2002. Then Lucio Gutierrez took over the presidency, but was overthrown in 2005. More recently Rafael Correa was elected after a second round of the presidential election.

Fraud and corruption in elections in Mexico used to be the norm. PRI (Partido Revolucionario Institucional) ruled Mexico from 1929 to 2000. In 1988,

when serious corruption charges finally appeared to be on the verge of ending the 60-year state of single party democracy, PRI forged ahead to a disputed electoral victory. In his six-year rule the PRI candidate, Carlos Salinas de Gortari, faced several corruption scandals. In 1994, Ernesto Zedillo, also of PRI, won after the assassination of the presidential candidate Luis Donaldo Colosio. A truly democratic process was followed only in 2000, when Vicente Fox of PAN (Partido de Acción Nacional) won the election. Recently, in July 2006, only 200,000 votes marked the difference between Felipe Calderon, and Andrés López Obrador.

The political turmoil in Venezuela and its recent 'democratic demonstrations' are another example of how wrong Santiso is in positing a democratic transformation. Elections in Venezuela in the last 5 years have been a shameful mockery of any democratic institution in the world. The current president, who led a failed military coup in 1992 and was jailed for two years, was elected in 1998. After writing a new constitution in 1999, new elections were called in 2000, so the initial presidential term of 6 years became an eight-year term. In 2002 a coup overthrew Chavez, but he re-instated himself two days later with the help of loyal high-ranking members of the Venezuelan Armed Forces. After months of popular demonstration against the policies enacted by Hugo Chávez, a referendum was held in 2004 to decide if the president should continue in power. Numerous charges of tampering with election results were raised by local and international institutions, but Chavez remained in power. In December 2006 Chávez was elected again as president and immediately claimed he would reform the constitution to allow his indefinite re-election, the initial 6-year presidency has become a 'democratic dictatorship'.

In Argentina, Carlos Menem was initially elected for six years, but as usual in the region, after rewriting the constitution, re-election was introduced. Since his departure in 1999 the country has had 6 presidents. In the midst of the economic crisis, from December 2001 to January 2002, the country had four presidents. Some stability finally came when Eduardo Duhalde acted as interim president until the subsequent election of Nestor Kirchner in 2003. Is this presidential instability Santiso's 'democratic transformation'?

In Peru and Colombia, incumbent presidents acclaimed themselves to be saviours and called for constitutional change to ensure re-election. Elected in 1990, Alberto Fujimori was re-elected in 1995 and 2000. But challenged by corruption charges and human-rights abuses, he fled the country. In Colombia Álvaro Uribe forced the approval of a law in congress in order to be re-elected to a second term from 2006 to 2010, notwithstanding that re-election was ruled out by the new constitution of 1990. Is this political turmoil, in which each new government makes rules to suit itself, Santiso's 'democratic transformation'?

Latin America's Pragmatic Policy Making

The second main argument in Santiso's book is the transformation into pragmatic economic policymaking by Latin American governments. A barely informed reader would not realise that virtually every country in Latin America endorsed the

Washington Consensus, and applied 'neo-liberal' economic policies to restore economic growth and stability in the region. I do not claim success of the Washington Consensus, but to mask such a cocktail of policies as social pragmatism is simply aberrant

In Mexico, Colombia, Ecuador, Bolivia, Argentina and Chile, privatisation of state owned enterprises (public utilities, hospitals, pension funds, ports, highways, and public education) are the norm. Macroeconomic policies to control careless politicians have been widely used; central banks are independent of political pressures, monetary policy no longer finances populist measures to hold power, and hyper-inflation seems relegated to textbooks. It is precisely the orthodox macroeconomic management that helped Mexico and Argentina to overcome the 1994 and 1999 currency crises

Santiso describes the new pension schemes of Chile and Colombia (introduced in mid 1990's) as skilful combinations of socio-economic policymaking free from the forced recipes of the IMF or World Bank. He omits to point out that these reforms are based on standard actuarial studies that conclude that in developing countries pension schemes can only be sustained on the basis of individual savings accounts, while the pay-as-you-go systems have collapsed in the region, and developed countries can finance them only with immense budget efforts. Pragmatism, or prosaic financial orthodoxy?

Santiso claims that free trade agreements (FTA) have become an 'anchor' for good policymaking in Mexico, and that the creation of other trade agreements has been supported by the need of Latin American countries to have a reference point, a mast, with the United States. But the author forgets the increasing economic dependence of Central American economies that have a FTA with the United States, up to the point of not having autonomous policymaking. He assumes that a single FTA will bring growth and income distribution to a country. Pragmatism? Or an anchor that sinks the boat?

A final word on style. While it is charming to think that an economic advisor is interested in art and literature, the misleading parallels offered between these and Latin America is annoying. He has ruined attempts at beautiful description with wrongful selection of passages that reveal his lack of knowledge of Latin American literature. There are more modern Latin American authors than the three famous writers (Gabriel Garcia Marquez, Carlos Fuentes, Octavio Paz and Mario Andrade) used by Santiso.

It remains to ask: what were the editors of MIT Press thinking when they published this book? Who recommended this manuscript for publication? We will never know, but a hint can be grasped when we see that the book is at the forefront of the latest MIT Press 'Economics and Finance' brochure; and its reviewers are worldwide recognised economists. To not be a commercial disaster the book needs to be sold fast, in high volumes and requires a shallow reader. Such a reader need only go through the front and back matter, and will be ready for the party.

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Indigenous Labour Supply

*John Taylor and Ben Scambary, **Indigenous People and the Pilbara Mining Boom: A Baseline for Regional Participation**, Centre for Aboriginal Economic Policy Research, Research Monograph No. 25, ANU E Press, Canberra, 2005*

*Reviewed by **Greg Barrett***

This Research Monograph is a very timely addition to the literature on Australia's indigenous labour supply. Many parts of remote Australia, that have significant indigenous populations, are experiencing rapid growth in labour demand. The mining industry has recognised the indigenous population as a potential labour force and some firms have set indigenous employment targets. On the supply side of the labour market, the Howard government is putting additional incentives in place to move people from income support into employment. These will affect a high proportion of indigenous adults living in remote areas and the monograph highlights some of the issues that will be faced in achieving this goal. But can the indigenous populations supply the required labour? Taylor and Scambary from the Centre for Aboriginal Economic Policy Research at the Australian National University, examine in detail the labour market and the potential indigenous labour supply in Western Australia's Pilbara region. Their approach is descriptive with each chapter focussing on a particular issue and there is no attempt to formally synthesise the information.

Pilbara Iron commissioned this study and has set an indigenous employment target of 15 per cent of their workforce (525 indigenous workers). While the Pilbara's adult indigenous population is nearly 5,000 persons and is growing by over 100 persons per year, Taylor and Scambary identify and analyse the substantial constraints on potential indigenous labour supply. These constraints include demography, income status, education, housing, health and crime.

Crime and interaction with the justice system excludes a large part of the potential indigenous workforce. Around 310 persons are likely to be in custody or under supervision at any one time and around 1,050 are arrested each year. Virtually half of all indigenous males aged between 15 and 34 years are arrested at least once a year. The nature of these crimes makes employment more difficult (for example, the loss of a driver's licence).

Poor health excludes many indigenous people from employment. Around 1,020 persons are disabled and a similar number have diabetes. Around 2,800 are hospitalised each year. Life expectancy for indigenous males is around 55 years. A 15 year old indigenous Pilbara male has only a 50 per cent chance of reaching retirement age. In addition, poor health outcomes for children limit their ability to participate in schooling.

The condition and availability of housing in the Pilbara also excludes many from the labour market. Much housing is poorly located, poorly maintained, without basic services and extremely over-crowded. Indigenous labour supply is

dependent on an adequate housing infrastructure which is often lacking. Overcrowding has also been identified as a significant factor in creating health problems.

Professionals, tradespersons and clerical workers are three significant occupational groups in the Pilbara. Each of these occupations requires a relatively high level of education and training but indigenous people in the area do not have the necessary educational background. Around 4,200 have no post-school qualifications and 1,500 have less than year 10 level schooling. Of concern for the future are the low apparent retention rates for indigenous students from Year 10 to Year 12. Less than 100 indigenous students in the Pilbara complete year 12 each year. Jobs in the mining industry require skills that the indigenous workforce lacks.

Income status and demography provide 'deeper structural hurdles' to greater labour force participation. Around 3,600 indigenous persons receive Centerlink income support. This may have incentive impacts on labour supply. Dependency ratios (children, aged and disabled) are high and discourage workforce participation.

Without significant policy interventions to address the indigenous labour supply constraints identified by Taylor and Scambary, it is likely that the mining companies' indigenous employment targets will be hard to achieve, especially as many individuals face multiple disadvantages.

There are, however, some grounds for optimism. Indigenous employment growth was 6.5 per cent per annum between 1996 and 2001 (including Community Development Employment Projects scheme under which indigenous people work part-time for their welfare entitlements). The mining companies have set employment targets and funded training for indigenous people. Successful indigenous businesses are being established. There are several innovative and successful education and training programs in the Pilbara.

Taylor and Scambary have produced a well written and presented research monograph which will be of most interest to specialists. It contains numerous tables and much detailed description of the position of indigenous Australians in the Pilbara, an example of a growing regional labour market with potential for employment. This is in contrast to many other remote labour markets where the potential for employment growth remains limited. The monograph provides a useful basis for more analysis of the difficulties faced in promoting indigenous employment in the booming mining sector. The general readers will find much of value, especially the direct quotes from indigenous people on each of the chapter issues, but I suggest they begin with an overview in the summary in the final chapter.

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