Latin America: Captive to Commodities

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The countries of Latin America remain highly susceptible to international political and economic trends. Since 2002, the region has prospered: growth has been close to 6 percent per year—the highest since the 1970s, and far above the lackluster, long-run average of 3 percent. This growth spurt is traced in large part to a bonanza: high international prices for commodities. But credit must also be given to governors who have pursued sober macroeconomic policies. To date the region has navigated the shoals of the concomitant weakening of its most important trading partner—the United States—and the mess in the international credit market. Still, the boom from robust commodities prices, in everything from oil to copper to soybeans, raises unsettling questions.

A healthy average growth rate masks weaknesses. Not all countries in the region have a valued commodity. Moreover, within each country there are sectors that are stagnant—or worse. In particular, the region's incipient industrial sector is not faring well, with stiff competition from China and other countries in Asia—the same set of countries credited with lifting commodity prices. Other sectors, including construction, suffer from the rise in those prices. Energy and food costs are up, and this hurts consumers. Political conflict and violence are debilitating. Some countries are more dependent on the health of the U.S. economy—and its porous borders—than are other countries. Most worrisome, though, is dependence on a handful of commodities as an "engine" of growth. "This time is different," many believe. Is it? Can commodity prices remain high? Is prudent management of the region's economies inured to a weakening of commodity prices? Can commodity-led growth contribute to broad-based economic development?

Economists fear that the commodity boom undermines efforts to develop well-balanced, robust economies propelled by innovation and able to compete in the international economy. Economies may be dominated by a handful of industries, but at the least these industries—whatever they may be—should be constantly increasing both their production and their productivity. In the absence of such gains, the region's economies are especially vulnerable to a sudden fall in commodity prices. And economists worry that commodity prices will—sooner or later—fall. This boom-and-bust pattern has plagued Latin America since the colonial era.

In addition to the risk of being blinded by the gush of funds from commodity exports, there is the temptation to succumb to a naïve romanticism about agriculture and about what remains of the peasantry, *los campesinos* (literally, the people of the fields). With food prices soaring, including the prices of basic grains—maize, beans, and rice—questions are being asked about the desirability of importing grains. There is renewed talk in the region of "food security," of "food sovereignty." Peasants should not be encouraged to leave the fields but to cling to the land, to grow more food, and so protect their urban brethren from the ruthless international market. Peasants are often seen as the guardians of national culture, a bastion of defense against "globalization"—so it is all the more tempting to suggest that they stay put, especially when, as one colleague put it, "neither I nor my children are peasants, living in mud and misery." Similarly, some argue that opportunities to export grains to take advantage of the rise in prices should be shut down. Instead, the surplus should be used to force prices down for the nation.

Surprisingly, the three countries said to be governed by the "left" are most dependent on the commodity boom. Venezuela and Ecuador are dazzled by their oil revenue, and Bolivia is euphoric with the value of its natural gas. (Their junior partner, Nicaragua, has little of its own, but has placed its hope in Venezuela's sharing its oil—and oil revenue.) In Venezuela, Ecuador, and Bolivia, hydrocarbon resources are firmly in the hands of the state, and their respective heads-of-state—Hugo Chávez, Rafael Correa, and Evo Morales—intend to use this valued resource for a social transformation. However, the reigning ideology is little more than social resentment and a distrust of private initiative. There is no new model for how to organize the economy.

A Salvadoran friend, dark-skinned and of short stature, recounts—in private—a telling conversation with a minister in the Morales government:

> "Whites have never respected us—now we are teaching them to respect us through force."
> "But your economic policies are not working; they are creating hardship."
> "Whites have been robbing Bolivia and leaving nothing but misery for centuries."
> "Yes, but what you are doing is not making things any better."
> "We have earned the right to be wrong."

The Salvadoran was duly impressed with the accumulated rancor in Bolivia—and the extent to which it is shaping public policies, especially those that target the private sector.

Venezuelans perceive something similar in their country. However, in Venezuela—and in Ecuador—social resentment is not based on race but on social class. Indeed, one Venezuelan academic reports that the "revolution" is about exacting revenge, not about improving the welfare of the poor. He asserts that most poor Venezuelans don't really expect that their lives will be made more comfortable, but they are pleased that those held responsible for their poverty will be castigated.

In each of the three countries, the private sector is being intimidated, forcefully regulated, or outright dismantled. Attacks on the private sector are most pronounced in Venezuela, and they take diverse forms. For example, the center of industry in the country is in Guayana: half the factories in the region's industrial park have closed, the others suffer from shortages of raw materials, labor agitation, and raids by gangs looking to steal anything of value. The shortage of inputs is tied to state control of foreign exchange, necessary for purchases abroad. Despite the country's healthy reserves, there are delays of months for the approval of imports. Most labor agitation is held to be politically inspired and coordinated. There is even speculation that organized crime is politically driven. The net effect is a decline in the production of everything but petroleum. The state does not have an alternative "model" of production, but Chávez doesn't seem worried: gaps in foodstuffs and consumer and capital goods are simply made up with imports funded by oil revenues. Venezuela's "development model" is an extended charity program paid for by the international sale of a single commodity—oil. What happens, though, if the price of oil falls? Whatever else he may be accomplishing, Chávez is increasing Venezuela's dependence on the export of oil.

In Ecuador and Bolivia, political rancor—and a generalized hostility to the private sector—has exacerbated regional divisions. In Ecuador, the impoverished highlands area (*sierra*) is largely sympathetic to the indictment of the private sector. In contrast, the humid coast, where entrepreneurs produce bananas, shrimp, and other products for export, largely opposes the Correa government. Likewise, the more recently settled, and more productive, lowlands of Bolivia oppose Morales, whose base is in the arid highlands—home to the country's indigenous population. In a bid to consolidate his hold on the country, Morales held a referendum: the joke is that he won what is left of Bolivia. In fact, Morales is said to be unable even to visit four of the country's nine departments, the four that have declared their "autonomy." In both Ecuador and Bolivia commodity revenue—real or anticipated—seems to have generated a kind of political intoxication and contributed to divisive policies.

Social resentment is neither an ideology nor a development strategy. Venezuela, Ecuador, and Bolivia are not faring well. Their future is ominous.

Brazil, Chile, and Costa Rica take a very different tack. These three are also governed by leaders who aspire to redress poverty. Brazil's "Lula" da Silva is from the Workers' Party; Chile's Michelle Bachelet is from the Socialist Party; Costa Rica's Óscar Arias heads the National Liberation Party. Brazil and Chile have benefited from the commodity boom: Brazil from a basket of agricultural products (notably soybeans), oil, and minerals, and Chile, above all, from copper. Brazil's oil company is state-owned, as is Chile's copper mining company. What is strikingly different, though, is that the two countries—in contrast to Venezuela, Bolivia, and Ecuador—accept and even encourage private economic activity, which, in turn, contributes to a healthier economy. Costa Rica has only suffered from the appreciation of commodities—it exports those with stagnant prices and imports those that have risen. Still, Costa Rica has a well-balanced economy, earning revenue from tourism, traditional exports like coffee and bananas, and a variety of nontraditional exports, from dried fish to computer software. In all three countries, the private sector is regulated and taxed but not bludgeoned.

The Economic Commission for Latin America and the Caribbean, known by its Spanish-language acronym CEPAL, has published data on social welfare spending in Latin America. The surprise is that there is no necessary correlation between heated, "revolutionary" rhetoric and government spending on welfare programs. The governments of Brazil, Chile, and Costa Rica spend more per capita on social welfare than Venezuela, Bolivia, and Ecuador. As a percentage of gross national product (GNP), social welfare spending is higher in Bolivia than it is in Chile and Costa Rica, but still less than in Brazil. And social welfare spending in Brazil, Chile, and Costa Rica is higher than what is spent in Venezuela and Ecuador. Looking at Latin America at large, data from CEPAL suggest there is also no correlation between the extent to which countries have benefited from the present commodity boom and their commitment to social welfare.

The political myths of the 1960s, set against the backdrop of the Cuban Revolution, were widely embraced—and in some corners of Latin America they have endured. But today these myths seem to limit the ability to move forward. A general disdain for private economic activity seems gratuitous, because no one—certainly not Hugo Chávez—has come up with an alternative form of organizing economic activity. Dismantling the private sector just creates a big hole. And that hole cannot be covered, at least for long, with the export of state-controlled commodities.

There are no new myths. The things that matter most for promoting economic development are prosaic: social harmony, education, infrastructure, saving and investment, management of the national currency, innovation, taxation and the quality of public administration—none of which is soul-stirring. Surprisingly, perhaps, bountiful natural resources seem relatively unimportant for building salubrious nation-states. Valued resources can be as beguiling as the invective rhetoric of a charismatic charlatan. One of the most obscure but telling facts about Latin America is that tiny Costa Rica, with no prized windfall of commodity earnings, has a higher per capita income than Venezuela with its gushing oil wells. Nonetheless, given the generalized complacency in the region—and the glee at windfall gains—Latin America remains vulnerable to a fall in commodity prices. As one Peruvian quipped, "Minerals are the train of Peru's economy. Lately we have been doing very well. But if prices fall, we will end up in the dustbin." ●

Forrest D. Colburn's most recent book is *Varieties of Liberalism in Central America: Nation-States as Works in Progress,* written with Arturo Cruz S.

A hundred years later, an artist shows John Van Arsdale replacing the British flag with the American one at Fort George in Manhattan. Image from *Frank Leslie's Illustrated Newspaper*, November 24, 1883.