



THE JAMES A. BAKER III
INSTITUTE FOR PUBLIC POLICY
OF
RICE UNIVERSITY

STATE OF THE LATIN AMERICAN POLITICAL ECONOMY

ARGENTINA
COLOMBIA
VENEZUELA

RAYMOND M. DUCH
PROFESSOR OF POLITICAL SCIENCE
UNIVERSITY OF HOUSTON

PREPARED IN CONJUNCTION WITH THE 2002 AMERICAS PROJECT
SPONSORED BY
THE ORGANIZATION OF AMERICAN STATES
THE GREATER HOUSTON PARTNERSHIP
AND
THE JAMES A. BAKER III INSTITUTE FOR PUBLIC POLICY
RICE UNIVERSITY – OCTOBER 2003

About the Author

Ray Duch is the Senator Don Henderson Scholar in Political Science at the University of Houston and Director of the UH Social Science Data Lab. His major teaching and research interests are in the areas of political economy, methodology, comparative politics, and democratization. His articles have appeared in the leading American and international scientific journals. Ray Duch's work in comparative political economy include a Michigan Press book, *Privatizing the Economy* (1994); and "The Policy Challenges of Globalization: What Should Government Do" *Thunderbird International Business Review* (July/August 2001). Professor Duch's numerous articles on democratization include: "It's Not Whether You Win or Lose, But How You Play the Game: Self-Interest, Social Justice, and Mass Attitudes toward Market Transition." *American Political Science Review* (2004); "Strategic Voting in Post-communist Democracy" *British Journal of Political Science* (2002); "A Developmental Model of Heterogeneous Economic Voting in New Democracies" *American Political Science Review* (2001). "Economic Chaos and the Fragility of Democratic Transition in Former Communist Regimes" *Journal of Politics* (February, 1995); "Tolerating Economic Reform: Popular Support for Transition to a Free Market in the Former Soviet Union" *American Political Science Review* (September 1993).

Ray Duch has also authored a number of articles that explore the impact of the economy on political behavior in advanced democracies. These include "Heterogeneity in Perceptions of National Economic Conditions" *American Journal of Political Science* (December 2000); "Post-Materialism and the Economic Condition" *American Journal of Political Science* (August 1993). His work on methods and research design include: "Do Surveys Provide Representative or Whimsical Assessments of the Economy" in *Political Analysis* (January 2001). His article "Its Not Whether you Win or Lose" won the 2001 Robert H. Durr Award for quantitative methods.

Ray Duch has served on the editorial board of the *American Journal of Political Science* (1997-2001). He recently served on the Political Science Panel of the National Science Foundation (1999-2001) and was chair of the Texas Higher Education Coordinating Board Advisory Committee on International Issues (1999-2001).

Ray Duch has provided consulting services to a number of leading private firms and has served on the board of directors of a number of firms.

The research and the views expressed in this paper are those of the individual researcher(s), and do not necessarily represent the views of Rice University or the James A. Baker III Institute for Public Policy.

Report Goals

The *State of the Latin American Political Economy* (hereinafter the Latin American Survey 2002) is designed to provide a careful and empirically sound assessment of the current state of public opinion in major Latin American countries and the implications this has for the future of politics, the economy and social policies in the region. Why devote an entire report to understanding public opinion in Latin America? We have undertaken this project primarily because there is a link between popular preferences and the policies undertaken by national governments. Democratic elections typically serve as a good barometer of public sentiment. The recent successful presidential campaigns of Gutierrez in Ecuador and Lula da Silva in Brazil suggest that Latin American public opinion is responding to recent economic problems in the region by opting for decidedly anti-market policy programs. The results presented in this report confirm that levels of economic and political dissatisfaction are disconcertingly high in the region; that in fact this discontent is affecting the economic and social policy preferences of the average voter; and that these preferences for decidedly illiberal economic policy initiatives are likely to determine who is elected and the policies these governments implement.

Executive Summary

- ❖ Macro-economic stabilization policies that have been aggressively promoted in the region by the IMF, and for the most part implemented by Latin American governments, have clearly succeeded in reducing hyperinflation. At the same time, though, levels of unemployment have climbed to or stubbornly remained at high levels. Aside from the serious social costs of high unemployment, this fallout from stabilization policies represents a very troubling threat to popular support for liberal political and economic policies and institutions. The specific findings are:
 - Respondents from Argentina, Colombia and Venezuela all registered very pessimistic evaluations of the employment situation and were for the most part gloomy about job prospects in the near future.
 - Unemployment is identified as one of the principal failings of the democratic political systems.
- ❖ As a result of adopting macro-economic stabilization policies and implementing liberal financial and trade regimes, the Latin American economies have become increasingly sensitive to global economic perturbations. As theories of democratic accountability would predict, citizens are quick to hold elected officials accountable for these economic shocks. This is a healthy democratic reflex. A more troubling sign is that economic dissatisfaction is also undermining confidence in democratic institutions.
 - Levels of disapproval of Congress and the President in the three sampled countries range between 70% and 85%.
 - Most citizens hold elected officials responsible for their economic problems.

- ❖ Latin America has experienced a remarkable shift to democratic governance since the 1980s. The disconcerting news is that the citizens of these three Latin American countries are almost uniformly dissatisfied with their political institutions, processes and incumbent governments.
 - Virtually no one in these countries is willing to express trust in government or elected officials.
 - Between 70% and 80% of respondents indicated they disapproved of Congress and the President.
 - At best, 20% of the respondents indicated confidence in basic democratic institutions such as the courts and the legislature.

- ❖ Economic dissatisfaction is clearly the major contributing factor to citizen unhappiness with political institutions. The evidence suggests that there are other factors undermining confidence in political institutions – such as concern with corruption – but they are dwarfed by economic dissatisfaction.

- ❖ Latin Americans are extremely unhappy about the quality of governance and the levels of corruption in society. Overwhelming numbers of Latin American citizens identify corruption as 1) permeating political institutions and economic transactions; and 2) representing one of the most serious failings of democratic governance.

- ❖ Even the most mature democracies have experienced periods of serious political dissatisfaction and lack of trust in institutions. The hallmark of mature democracies is that this dissatisfaction rarely gets translated into support for fundamentally illiberal political options. In general, Latin Americans demonstrate robust support for core democratic values, such as democratic competition and free speech.

- ❖ Also on the positive side is the fact that there are no well-defined anti-democratic cleavages in Latin American society – such as those related to poverty, economic dissatisfaction, or socio-economic status.

- ❖ Yet there are, unfortunately, disconcerting signs that anti-democratic notions are resonating with some segments of the Latin American population. Recent events in some of the Latin American countries are a case in point – for example, popular support for some of the Chavist anti-democratic initiatives in Venezuela. The Latin American Survey 2002 data suggest that significant numbers of the populations in these countries are likely to respond to anti-liberal populist appeals:
 - There is surprisingly qualified popular support for party competition – a solid majority of Venezuelans and Colombians express support for limited competition and one party government.

 - Support for freedom of expression is quite robust although large numbers express intolerant attitudes towards the expression of unpopular views.

- ❖ The IMF and others have been criticized for forcing policies on developing countries that are insensitive to their domestic political realities. As developing countries have democratized, policies aimed at promoting macro-economic stability and liberal economic regimes are increasingly at odds with the preferences of the average voter. Failure to respond to these preferences is likely to undermine both the nascent democratic institutions themselves and the package of economic policies that these countries are being asked to adopt. The Latin American Survey 2002 details the extent to which public preferences are at odds with the IMF liberal economic goals:
 - Latin Americans are at best ambivalent regarding free trade

- The citizens sampled exhibited strong antagonism towards privatization.
 - There is virtually no support amongst the Latin American voters for limited government, i.e., constraints on government spending.
- ❖ The development prospects of Latin American countries are in part determined by the judicious investment in public goods by democratically elected governments. There is considerable agreement amongst economists that investments in human capital and productive infrastructure contribute to economic growth. The Latin American Survey 2002 results suggest that there certainly is a demand on the part of voters for the provision of such public goods. More problematic from a developmental perspective is that there is also very strong popular demand for redistributive policies that are unlikely to contribute in a positive manner to economic growth and in fact very likely will undermine the economic prospects of these developing countries.
- ❖ A commitment to liberal democracy requires recognition of the importance of the median voter. Policy prognoses for any particular country – both in their goals and their processes – must recognize the constraints that democratic mechanisms impose. This means a much more intelligent and nuanced set of policy prognoses from agencies such as the IMF and the U.S. Treasury Department – i.e., policies that recognize the importance of citizen preferences. But also, it demands that these democratically elected representatives play a meaningful role in policy development. This does not mean that the IMF and other actors need to abandon liberal economic goals or pander to popular demagoguery. The European Central Bank and the U.S. Federal Reserve clearly are able to promote their fundamental liberal economic goals while respecting the preferences of democratically elected representatives and of the average citizen.

Introduction

Often times we lose sight of the fact that democracies are designed explicitly to hold elected officials responsible for the outcomes associated with government policy initiatives. Elected politicians – or at least the successful ones – typically do not lose sight of this fact. The analysis developed here is predicated on the notion that elected officials in Latin American democracies are quite responsive to the median – or average – voter. It is this principal feature of democratic governance that poses a fundamental challenge to new democracies in Latin America and other parts of the developing world. Developing democracy requires a sustained commitment to 1) liberal political institutions and 2) liberal economic policies that are growth compatible. The paradox of developing democracies is that events or socio-economic factors can conspire in a uniquely “democratic” fashion to undermine public support, and hence the government’s commitment, to these two fundamental principles.

Recent global crises have highlighted the importance of understanding the preferences of democratic citizens in developing countries. A frequently heard criticism of recent IMF responses to global financial problems is their indifference to domestic political factors when designing policy prescriptions that condition IMF loans. Imposing policies – such as aggressive privatization or radical reductions in government expenditures – in some national contexts may be significantly at odds with citizen preferences and, as democratic theory would predict, with the policy position staked out by competing political parties. Critics are correct in arguing that this is a likely recipe for disaster: elected officials will be unenthusiastic about implementing these policies (it isn’t in their political self-interest); the disjuncture between the policy stances adopted by elected officials and the policies they implement will ultimately undermine public confidence in democratic institutions; and citizens in recipient countries will develop increasingly antagonistic attitudes toward international agencies perceived as imposing policies on their democratically elected officials.

The answer is not abandoning liberal political and economic goals. Rather policy prescriptions – with these same goals – need to be designed in such a fashion that they respect

the preferences of the median voter in recipient nations. The Latin American Survey 2002 was designed explicitly to provide insights into the fit – or lack thereof – between citizen preferences and liberal economic and political policies. An understanding of this relationship is critical if we are to improve the effectiveness of policies designed to promote macro-economic stability and economic growth.

Hence, the analysis developed here focuses on the average citizen voter. What are her preferences? Have they been significantly affected by recent political and economic events in the region? And, does the configuration of preferences present opportunities for political entrepreneurs hostile to political or economic liberalism.

Citizens in Despair?

Global economies over the past decade have experienced a number of high-profile crises that have had devastating effects on the average citizens – the Mexican Peso crisis of 1994-95; the Asian Crisis of 1997; the Russian debacle of 1998; and the recent meltdown of the Argentine economy in 2002. In each of the cases, policies adopted by national governments and the international financial community had serious negative social consequences. The result has been high levels of political and economic dissatisfaction that many observers believe have undermined global support for liberal economic policies and institutions. The Latin American Survey 2002 results present overwhelming evidence that there is considerable economic and political malaise resulting from recent events in Latin America. Public opinion is not uniformly bleak but levels of dissatisfaction are high both from an historical perspective and compared to developing countries in other parts of the world that also face political and economic crises. This section of the report presents a summary of Latin American public opinion regarding trends in the economy, government performance and their satisfaction with democratic institutions.

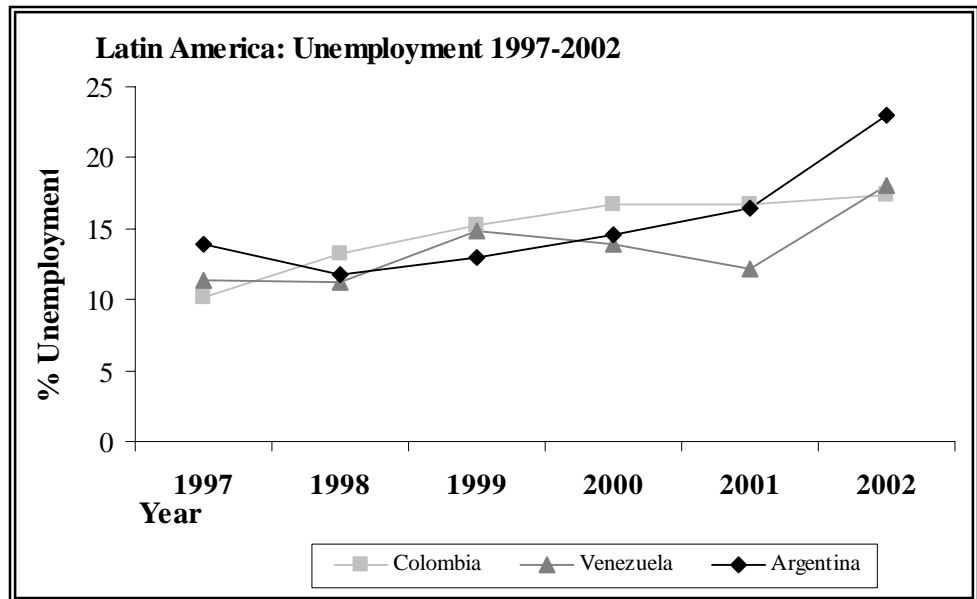
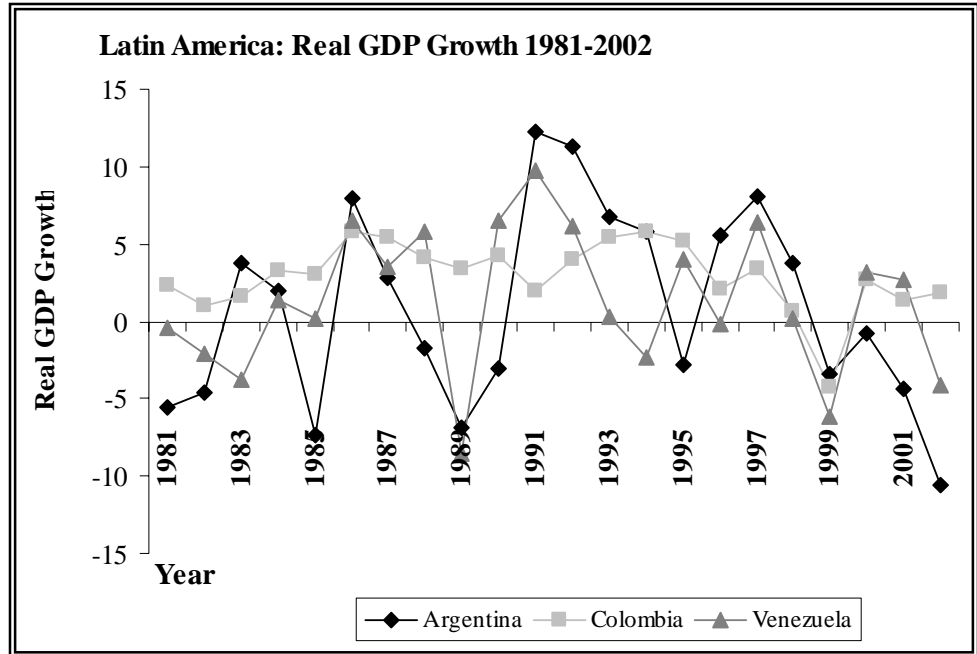
Economic Trends

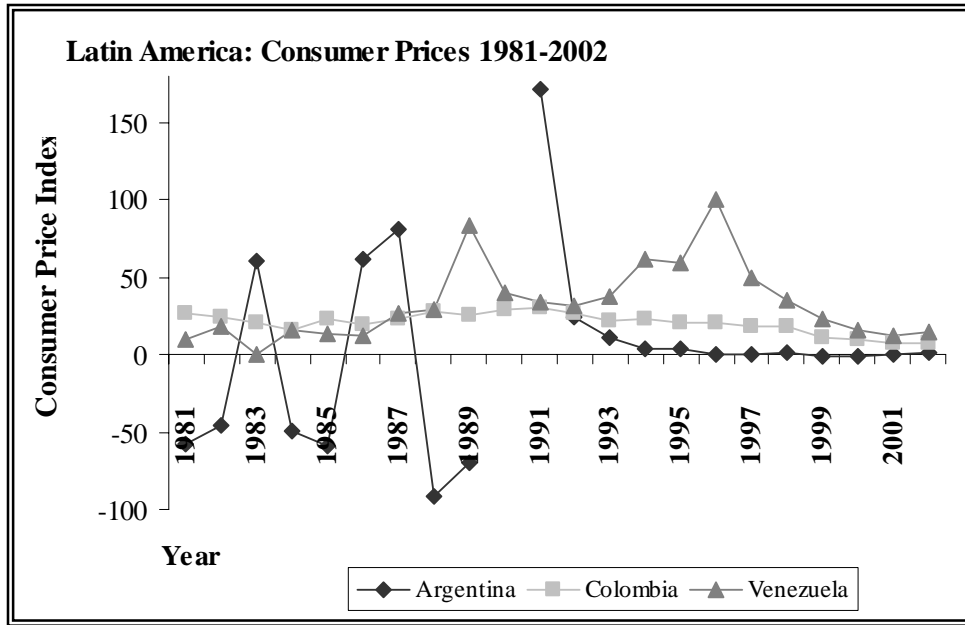
The following figure provides an overview of real GDP growth in the three sampled Latin American economies. With the exception of Colombia, the three Latin American economies described here

have been highly volatile over the recent couple of decades and all three economies have experienced significant declines in 1999. Argentina has never recovered from the 1999 economic

downturn and Venezuela has been hit hard by the political events of 2002. As the following figures illustrate, the economic success story of the 1990s is the elimination of hyperinflation. On the other hand,

unemployment continues to be a serious problem with recent levels of unemployment rising significantly in all three of the Latin American countries included in our study.



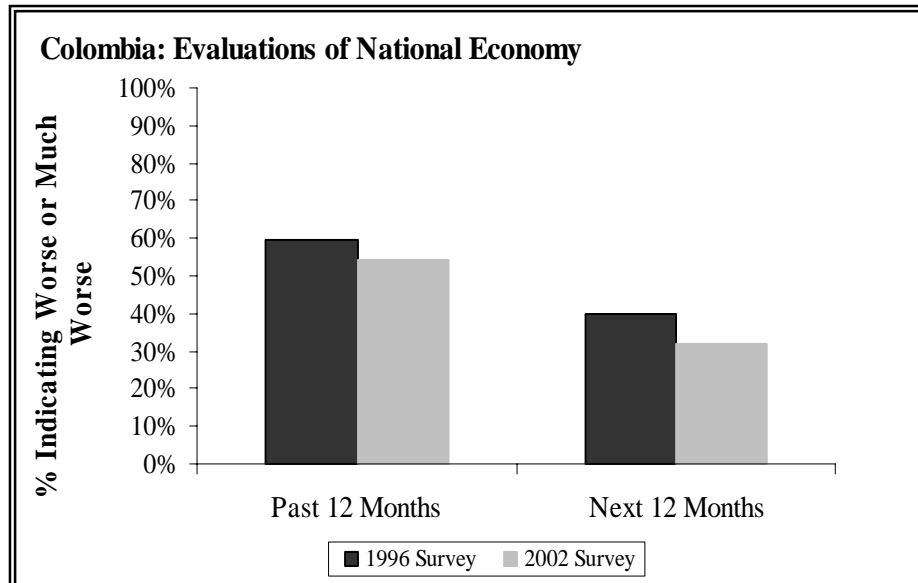


Economic Dissatisfaction Tracks the Latin American Economies

Colombia

Economic dissatisfaction is high – the population rates the recent economic performance of the country poorly. But there is some degree of optimism regarding the economy in Colombia. Note that the percentage of respondents in Colombia expecting worse or much worse economic outcomes in the next 12 months is about one-half of those with similar retrospective evaluations of the country’s economy.

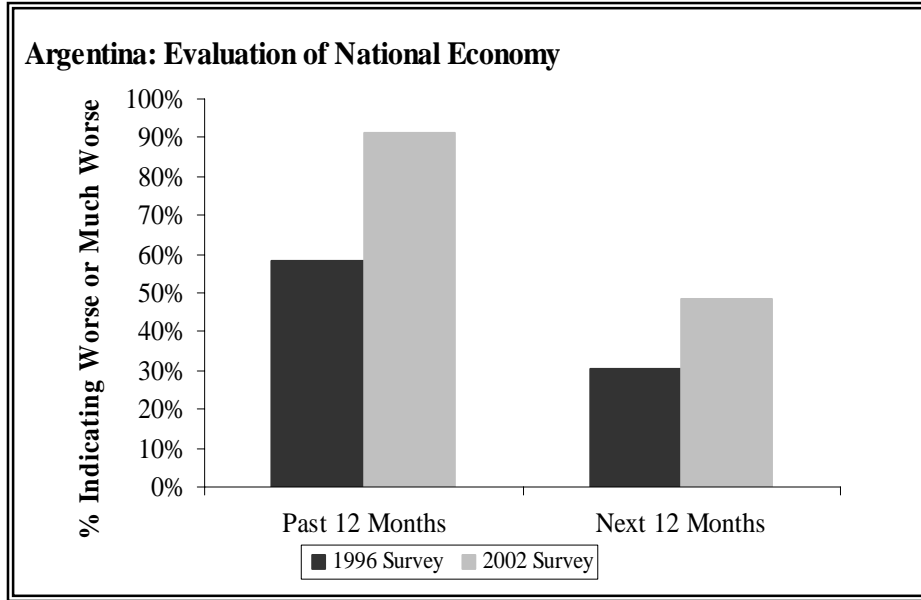
Included in the following figure is a comparison of the 2002 Latin American Survey 2002 results with those of the 1996 Latino Barometer.



Note that 2002 Latin American Survey 2002 national economic evaluations are in fact more positive than those from the mid-nineties.

Argentina

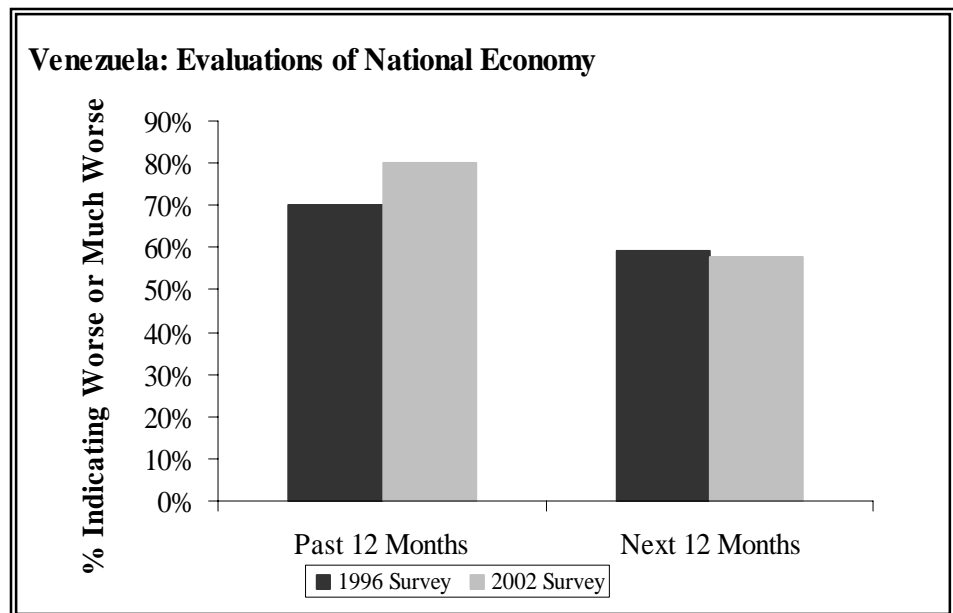
As we would expect, given recent developments in the Argentine economy, public opinion in this country has a much different view of economic performance. Over 90% of the Argentine sample indicated that the economic situation had deteriorated over the past 12 months and almost a half of the sample expects things to get



worse in the next 12 months. And this is much more negative than was the case in the Latino Barometer survey administered in Argentina in 1996.

Venezuela

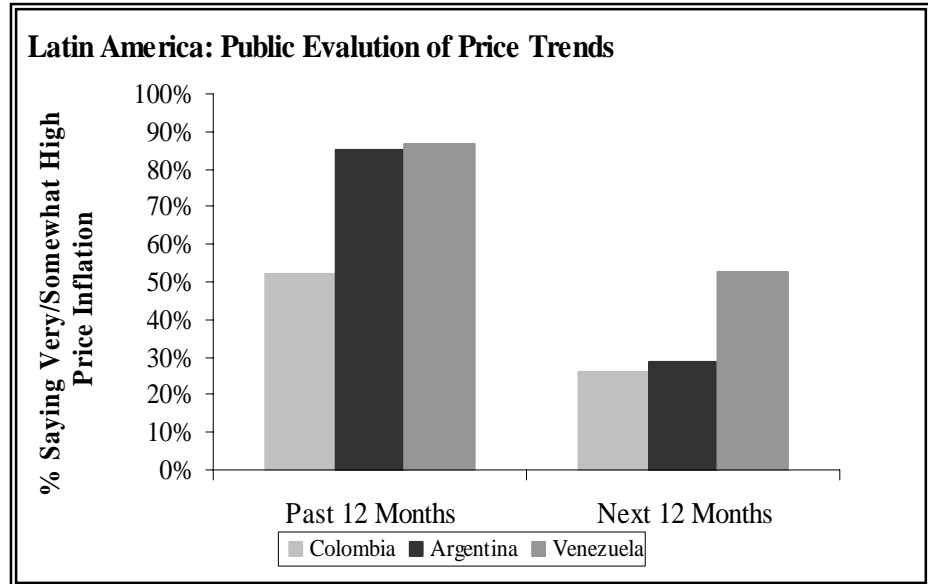
Venezuelans are very similar to Argentines in terms of registering extremely high levels of dissatisfaction with the current economy (80% indicating a negative assessment) and with large percentages (almost 60%) expecting little



change over the next year. The difference here is that the Venezuelans have persistently registered negative assessments of their economy – current negative assessments are similar to the high levels registered in 1996.

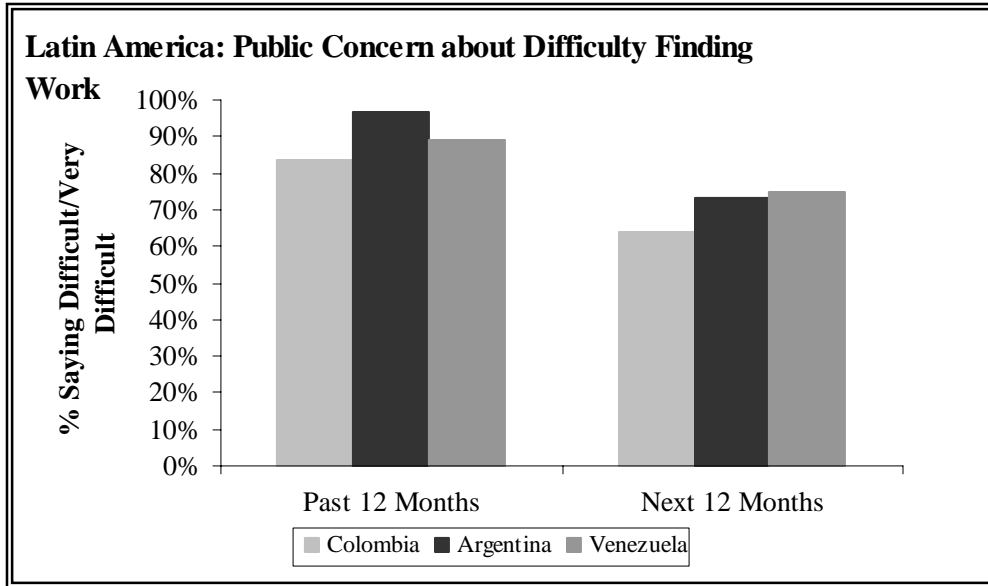
Inflation and Unemployment

Public opinion tracks trends in the structural features of the Latin American economies. Generally, Colombians seem reasonably happy with the performance of prices. This reflects the fact that prices have been relatively well behaved over the recent past. Argentina and



Venezuela are a different story. Argentines have been very unhappy with their recent bouts of inflation, particularly compared to a long period of virtually non-existent inflation. Nevertheless, they are somewhat sanguine about this improving in the near future. Venezuelans on the other hand are very unhappy with recent prices, particularly in the wake of recent currency adjustments, and are distinctly pessimistic about future price trends.

Concerns about employment seem pervasive and are not likely to decline in the near future. In all three countries between 80% and 90% of respondents had a negative evaluation of the employment situation and between 60% and 70% expected these problems to persist in the near future. As we will see later, this anxiety about employment is a persistent theme in Latin American public opinion and has significant consequences for attitudes about politics and economic reforms.

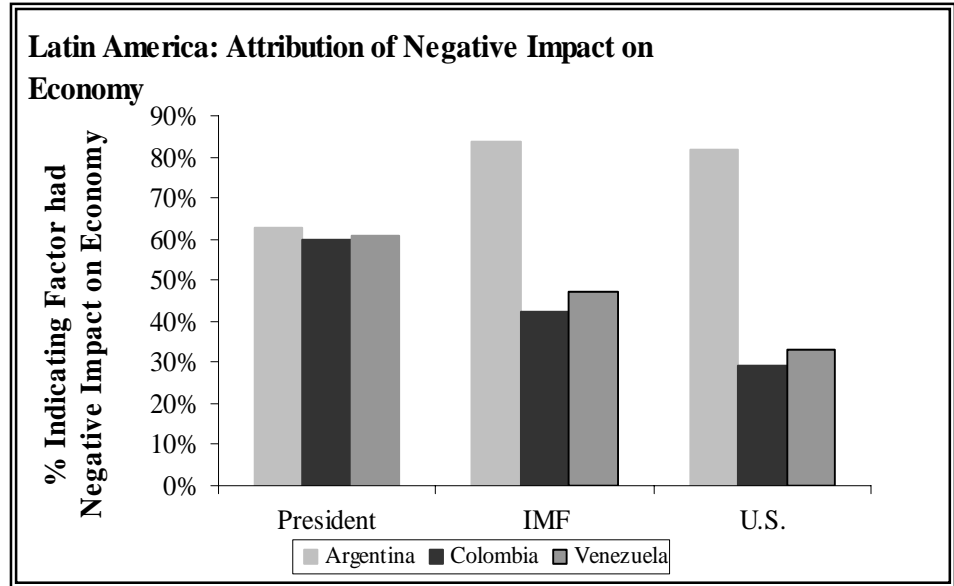


Who Gets Blamed?

Classic notions of democratic accountability predict that incumbent governments will be held responsible for a deteriorating economy. This is borne out in the following figure with approximately 60% of the citizenry in all three countries blaming the president for a deteriorating economy. The Argentine results illustrate the costs associated with the current *process* of managing global economic crises. Currently, the IMF, typically hand-in-hand with the U.S. Treasury Department, imposes economic policy palliatives on countries facing serious economic crises. There is no pretense here that these policies should reflect local citizen preferences. And there is no effort to create a political constituency amongst political actors in the country who would then champion, and be held responsible for, the policy initiatives. And this may in fact be infeasible given the short time frame in which some IMF initiatives are undertaken. But the implications of the current IMF/Treasury Department decision making process is that the IMF and the U.S. government are directly held responsible for policy outcomes, regardless of the fact that local implementation of these directives may determine the success or failure of these policies.

The case of Argentina is no exception: the IMF and the U.S. Treasury Department played a very active role in dictating macro-economic stabilization policies and structural changes to the economy. For whatever reasons, the policies have clearly failed to prevent the implosion of the Argentine

economy. And as the following Figure indicates, over 80% of the population holds both the IMF and the U.S. government responsible. Similar levels of blame are likely to be seen in many Asian countries and in Russia in the aftermath of their

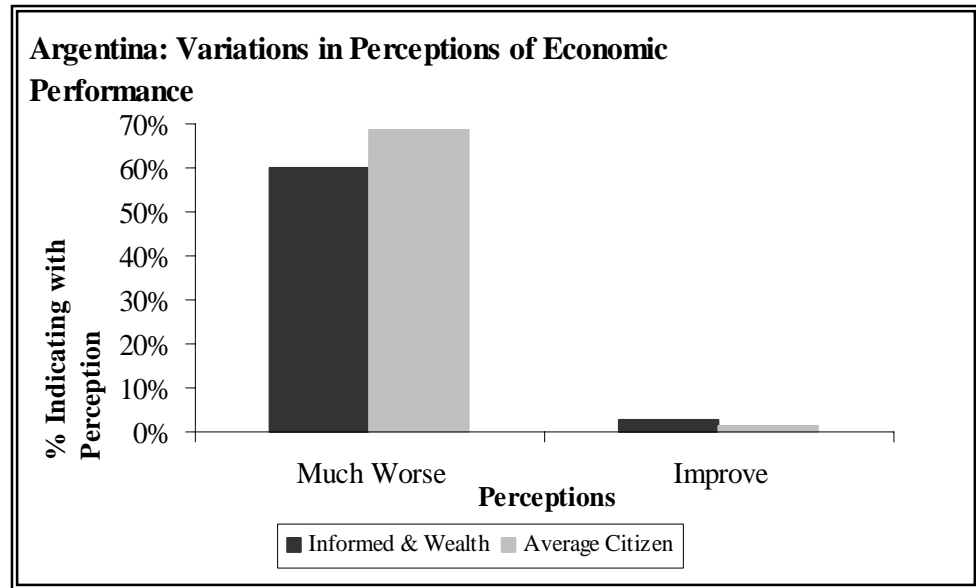


devastating economic crises. Regardless of the intellectual merits of the IMF/Treasury Department cases, the current process whereby macro-economic and structural policies are dictated to developing countries means that these agencies will immediately bear much of the brunt for economic failures. The Argentine results suggest that the string of recent economic crises – Asia, Russia and Argentina – have seriously undermined the popular legitimacy of the IMF and probably the U.S. government. This suggests that politicians in developing countries are likely to be increasingly wary about embracing policy proposals linked to either the IMF or the U.S. government because of the potentially negative political consequences.

Is There a “Happy” Constituency?

Presumably, not all segments of the population have suffered similarly from recent downturns in the economy. One might expect that some segments of the population, for example, benefit from relatively

free trade policies. Some have argued that these pockets of the population serve as important and sometimes powerful political constituencies. In a country such as Argentina where the economic deterioration has



been particularly ugly it would seem unlikely that there remained pockets of the population that were particularly optimistic. The data from Argentina suggests in fact that there are no identifiable groups in the population that are more sanguine than others. In order to address this question, I estimated a simple model that predicted the probability that a citizen would adopt a positive or negative attitude toward economic performance over the past year. Based on this estimated model, I simulated a respondent that was highly educated, from a high-income category, highly informed about the economy and with considerable personal wealth. When I compared this person to the average citizen in the sample, I found that the probabilities of a negative or positive economic evaluation by these two individuals were essentially the same – they were not statistically distinguishable.

Political Consequences: The End of Liberalism?

A conventional argument is that recent economic and political events in Latin America are likely to undermine support for liberal institutions and policies, ranging from free trade,

political tolerance, and support for democratic norms. This section of the report explores the extent to which both political and economic liberalism is threatened by recent economic and political events.

With respect to political attitudes, it is important to draw a distinction between attitudes toward the functioning of democratic institutions – the actions of elected officials, the courts, the legislature, etc. – and core liberal values that include support for competitive elections and freedom of speech. Both declining confidence in either democratic institutions and the erosion in support for core liberal values potentially represent serious threats to the proper functioning of democratic institutions. Typically, confidence in democratic institutions is more volatile than support for core liberal values – hence evidence of a decline in core liberal democratic values would be particularly problematic for Latin American democratic institutions.

In addition to these two components of support for democracy, we are concerned with popular support for the other pillar of liberalism: support for liberal economic policies and institutions. Over the past two decades we have witnessed a phenomenal institutional transition in many of the developing countries; one in which these countries have simultaneously adopted democratic institutions and implemented market-oriented economic reforms. Many argue that support for liberal economic institutions is eroding because of recent economic crises and the lack of real progress in creating new jobs and reducing poverty. Evidence of declining support for liberal economic institutions may signal a re-thinking of the commitment by Latin American governments to liberal economic policies.

Just to summarize in this section we will explore the evidence for popular support for three critical elements of recent liberal political and economic reforms:

- ❖ Democratic institutions: elected officials, courts, legislature, presidency, police, and the army.

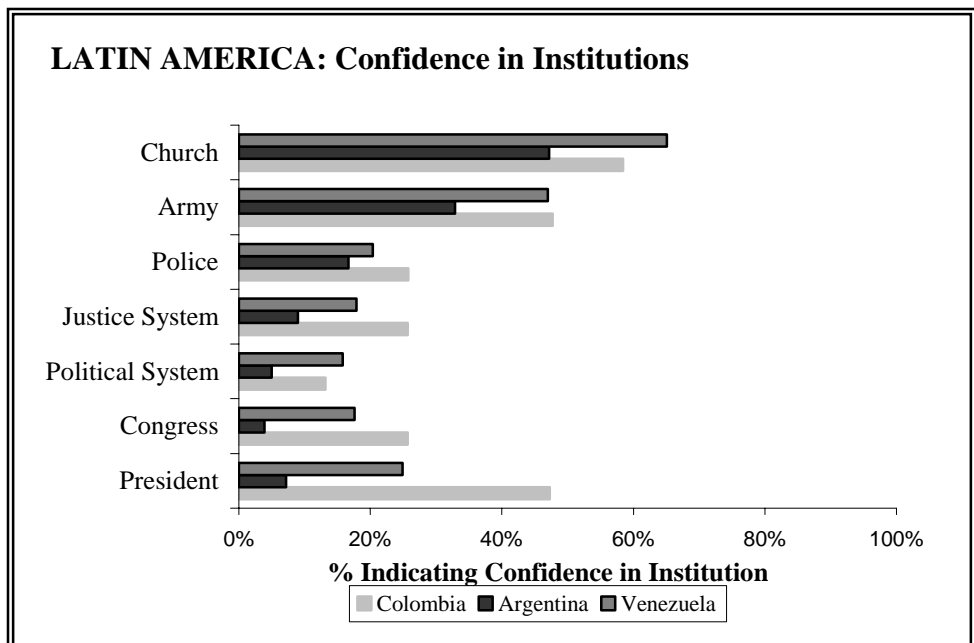
- ❖ Core democratic values: democratic norms, political tolerance, and support for free speech.
- ❖ Economic liberalism: free trade, property rights, and limited government.

Dissatisfaction with Democratic Institutions is High Throughout Latin America

The average Latin American citizen is highly dissatisfied with the political status quo. There is very little optimistic data in the Latin American Survey 2002 as it relates to political attitudes toward institutions and incumbents. Overall, Latin Americans are cynical and angry when it comes to the performance of democratic institutions. The levels of distrust and lack of confidence in the political system are at historical highs and are unmatched by countries in other parts of the world. This is hardly a sufficient condition for political instability or for undermining liberal economic policies but it is a necessary condition. And these levels of popular dissatisfaction ought to be raising serious concerns. We explore some of the implications of these trends in political attitudes later in the report. In this section, I document the extent of this political dissatisfaction.

Confidence in Democratic Institutions

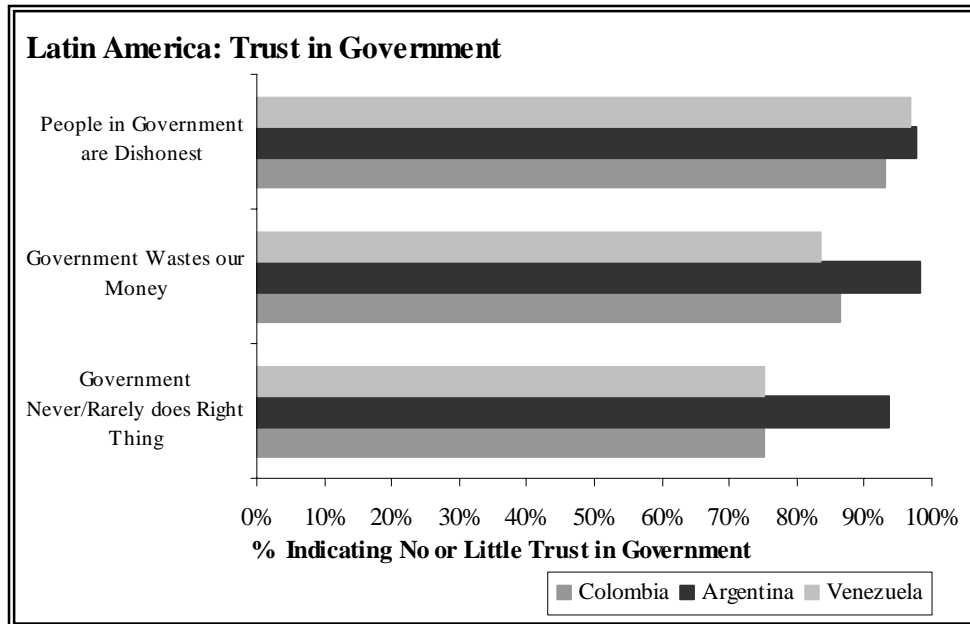
Colombia, like most of the Latin American countries, exhibits high levels of political dissatisfaction. Less than 15% of Colombians express confidence in the Colombian political system; Congress,



the Judicial System and the police command the confidence of less than 25% of the population. Levels of confidence in the political system are even lower in Venezuela. And in Argentina, political institutions including the judiciary receive less than a 10% vote of confidence. A familiar refrain in Latin American countries is that the Church and the Army command much more public support than conventional political actors. In Colombia, the Church is trusted by a majority of the population and the Army has a positive evaluation by about 45% of the population. A hopeful indicator in Colombia is that the new President, Alvaro Uribe, commands considerable confidence with a positive rating by 45% of the population. As you might expect the Argentine incumbent commands little confidence.

Trust in Government

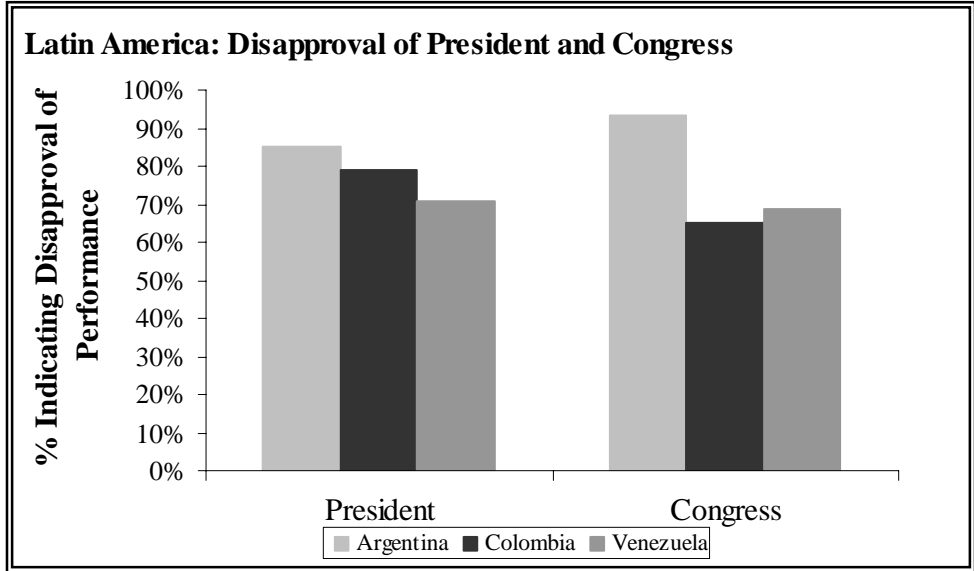
Latin Americans do not trust their governments! Colombians and Venezuelans have extremely low levels of trust in government – over 90% of respondents think government



officials are dishonest and over 80% believe government officials are wasting tax revenues. In Argentina, the percentages of the sample indicating distrust of the government are statistically indistinguishable from 100%.

Incumbent Government Approval

Disapproval levels are extremely high in Latin America. In Colombia, approximately 80% disapprove of the job of former President Pastrana and over 60% disapprove of Congress' handling of its job. Disapproval of both institutions in Venezuela hovers around 70% while in Argentina it is closer to 90%.



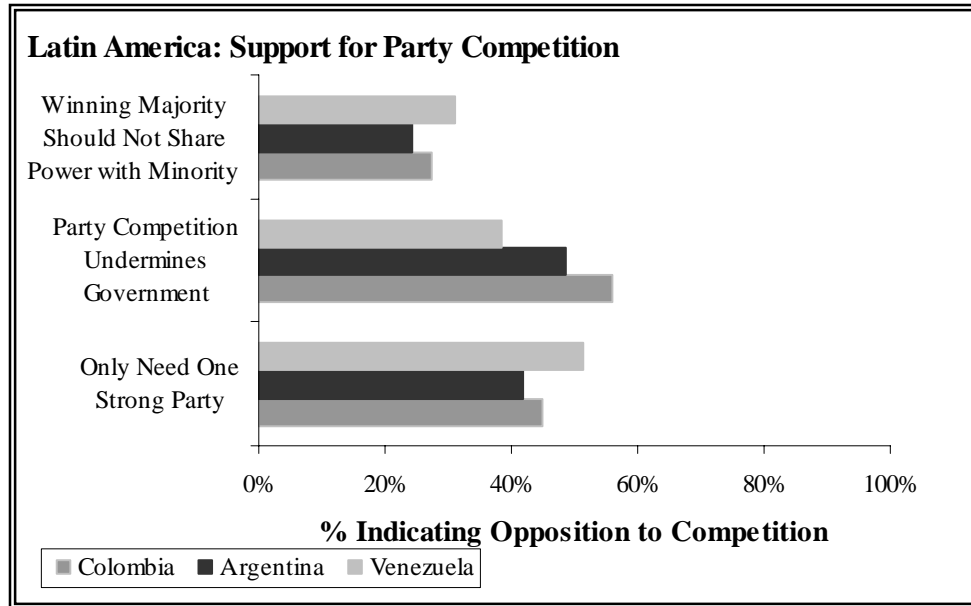
Core Democratic Values

There is no evidence in these survey results suggesting that popular commitment to democratic norms has reached dangerously low levels. On the other hand, there are some red flags in the results indicating weakness in this popular commitment that could be exploited by populist political entrepreneurs.

Norms of Democratic Competition

There are some undercurrents of anti-liberal political sentiment in Latin America.

Competition amongst competing parties and contending political interests is an essential foundation for democratic governance. Yet, in Colombia as many as 55% of the population

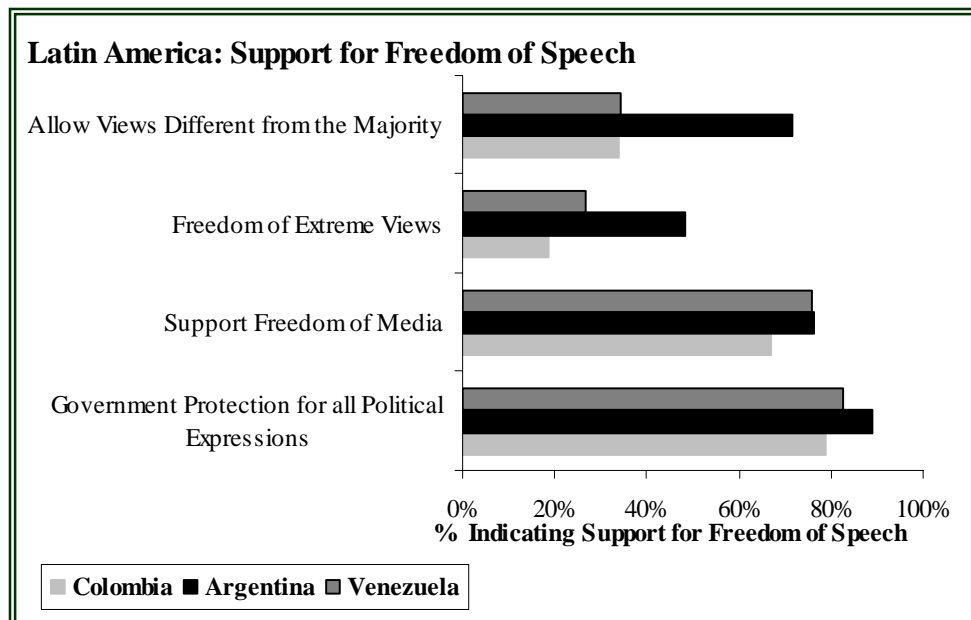


expresses opposition to democratic competition and over 50% of Venezuelans indicated a preference for one-party government. In Argentina, the anti-competition responses reach a high of 45%.

Freedom of Expression

Another critical building block of a functioning democratic policy is freedom of expression.

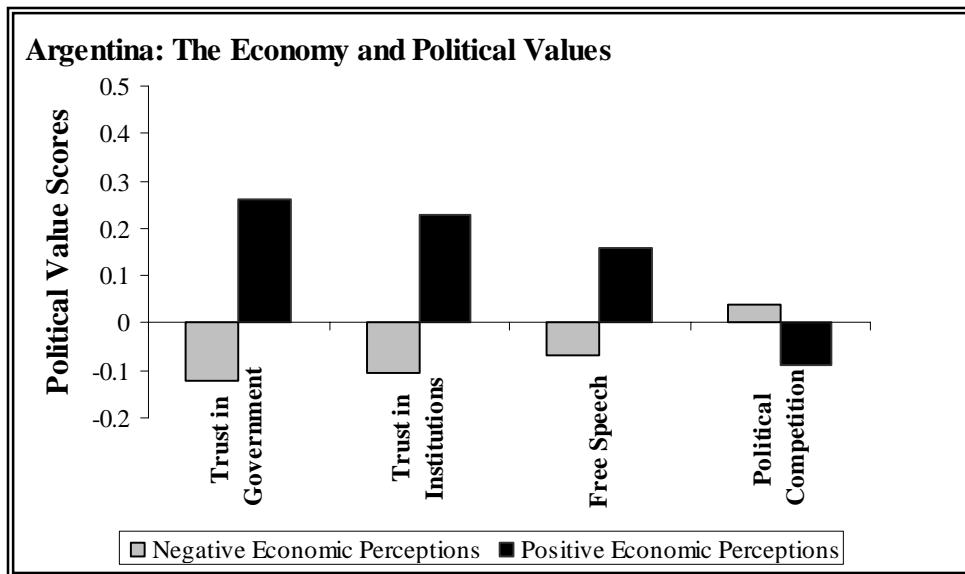
A significant majority of the Latin Americans populations sampled indicated strong support for general affirmations of freedom of speech. On the other hand, they

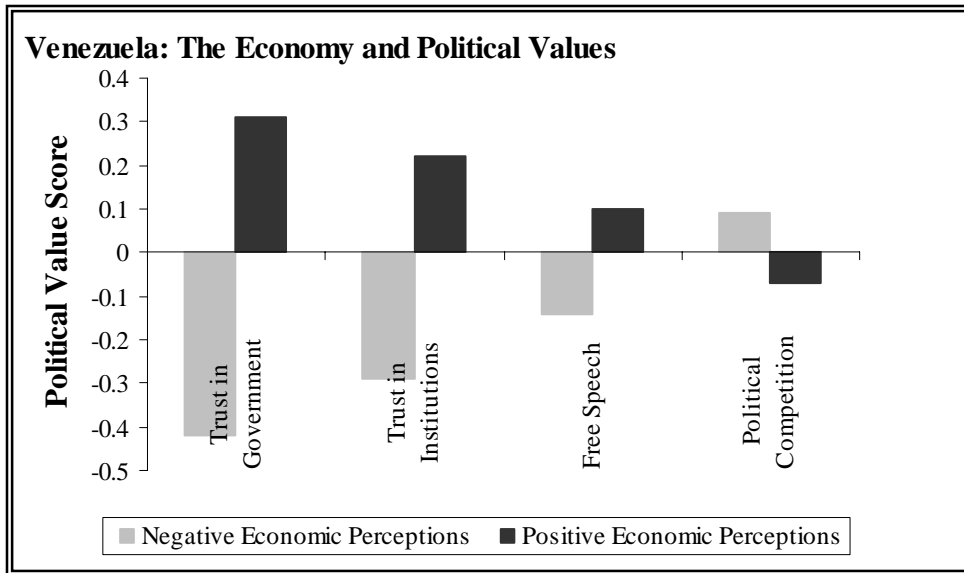
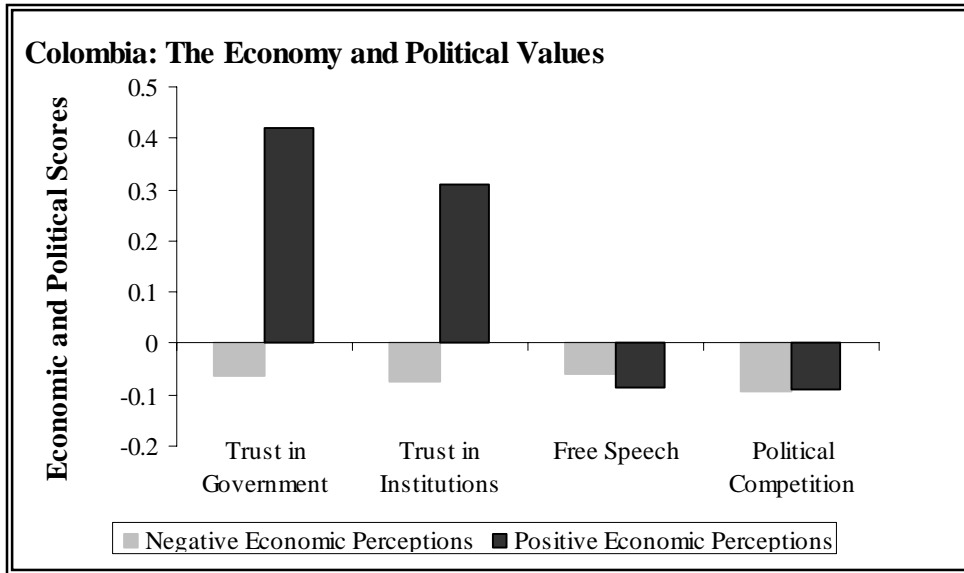


were much less willing to voice support for freedom of speech when it was directly linked to unpopular or potentially “subversive” ideas. Argentina scores the highest of the three countries in terms of popular support for freedom of speech.

Are Economic Crises Creating an Anti-Democratic Constituency?

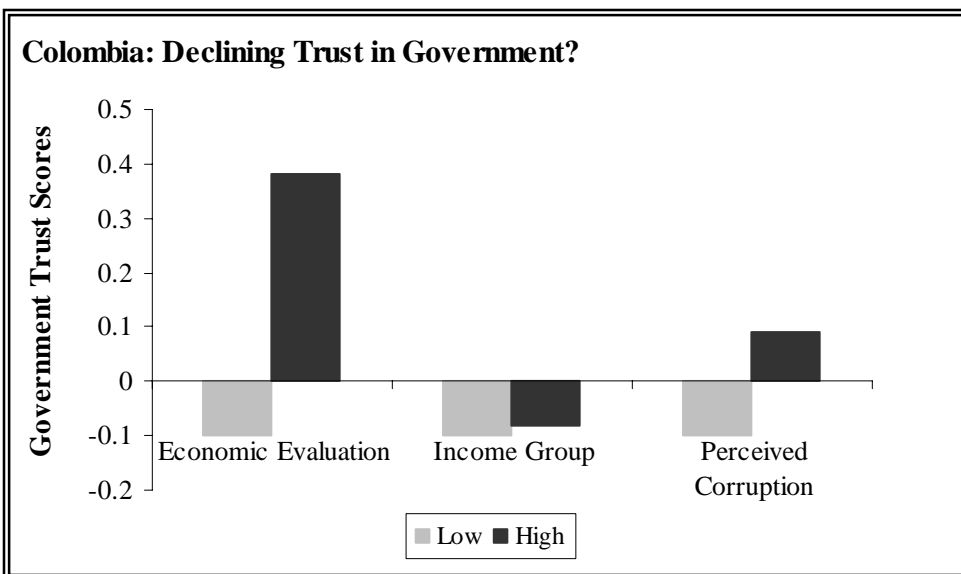
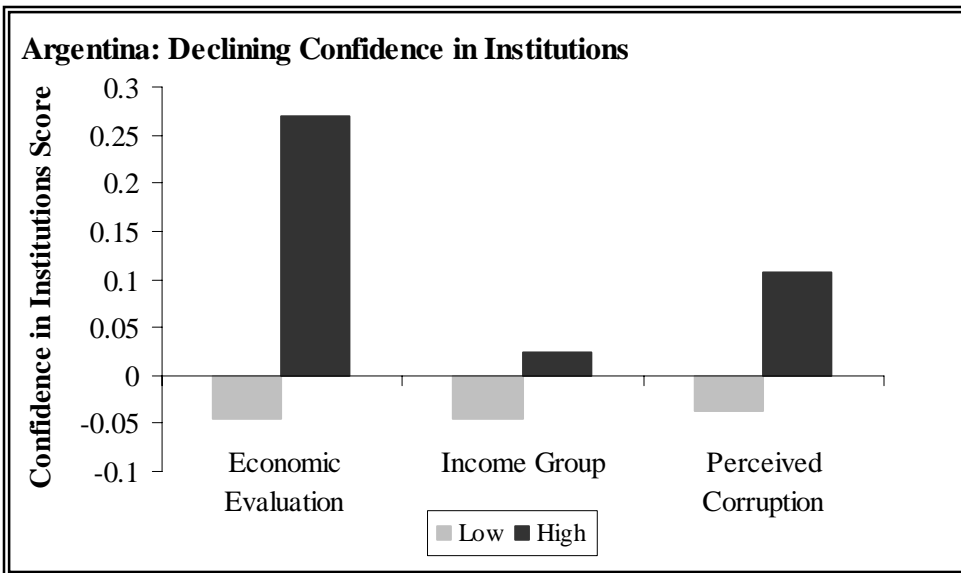
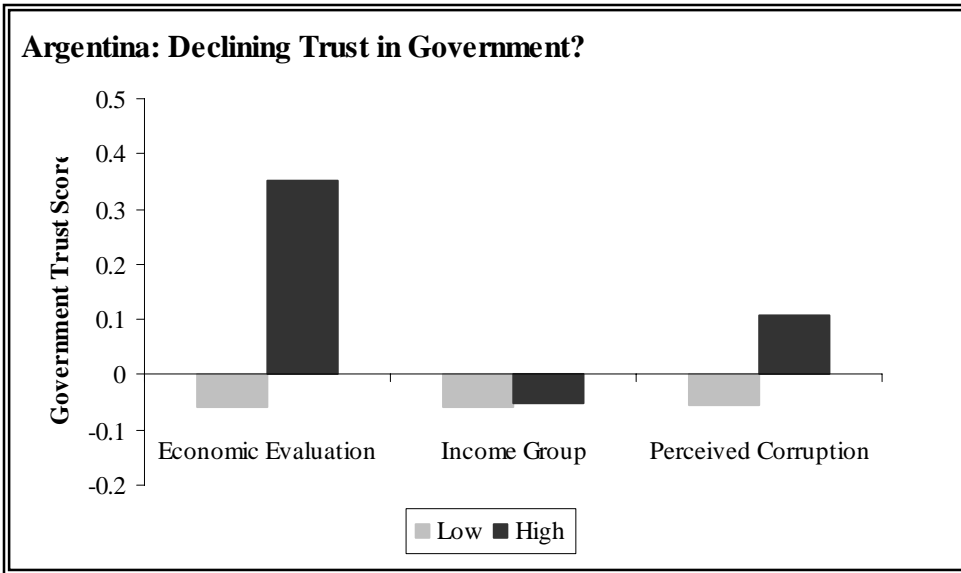
Do recent economic events contribute to the political malaise described above? Evidence from the analysis of the Latin American Survey 2002 data suggests that in fact declining levels of trust and confidence are a function of economic dissatisfaction. On the other hand, there is little statistically significant evidence that economic dissatisfaction is undermining commitments to core democratic values such as free speech. The following figures compare the attitudes of respondents with negative versus positive evaluations of the national economy. Note that in the following figures political trust is significantly lower amongst the economically dissatisfied. The differences for free-speech (with the possible exception of Argentina) and political competition are not statistically significant.

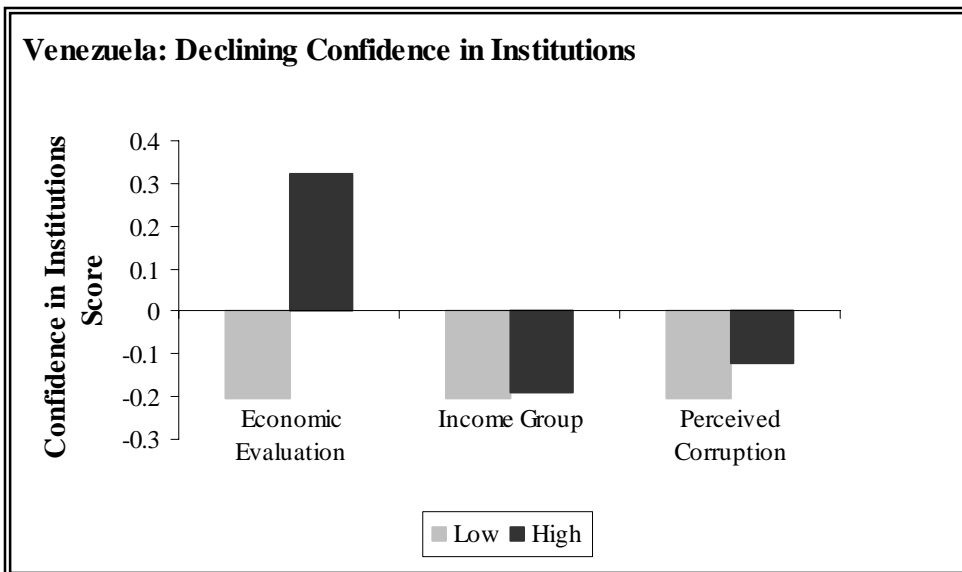
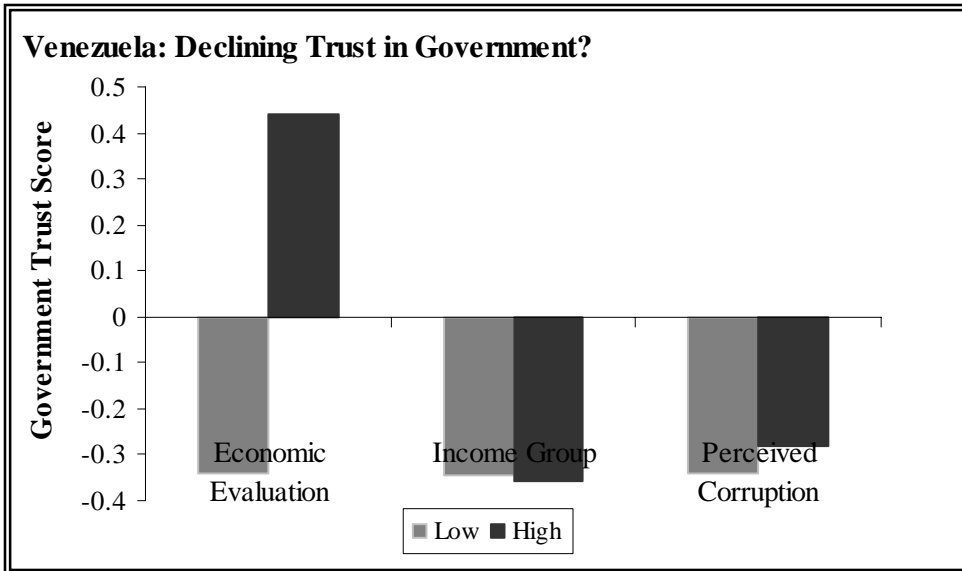
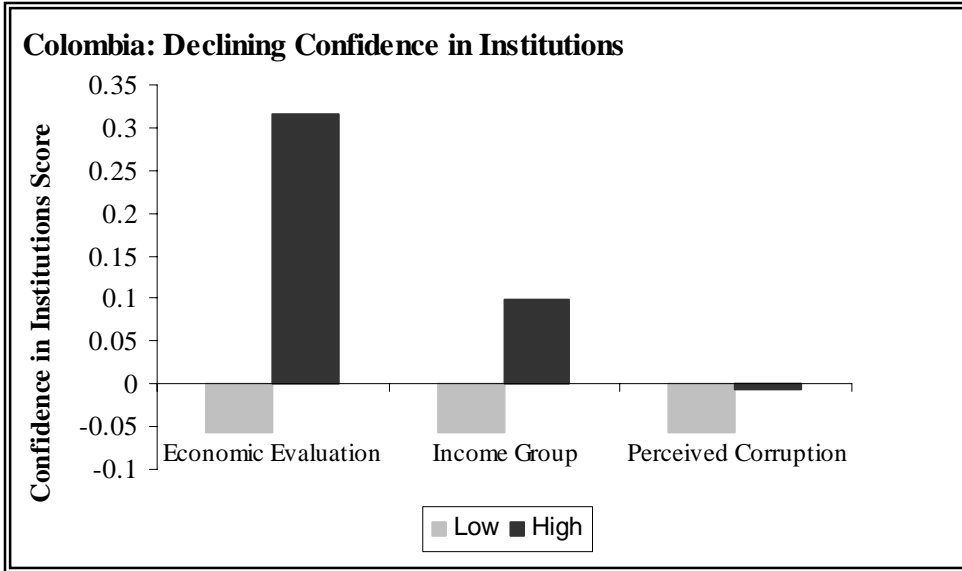




Declining Trust and Confidence: The Economy Versus other Explanations

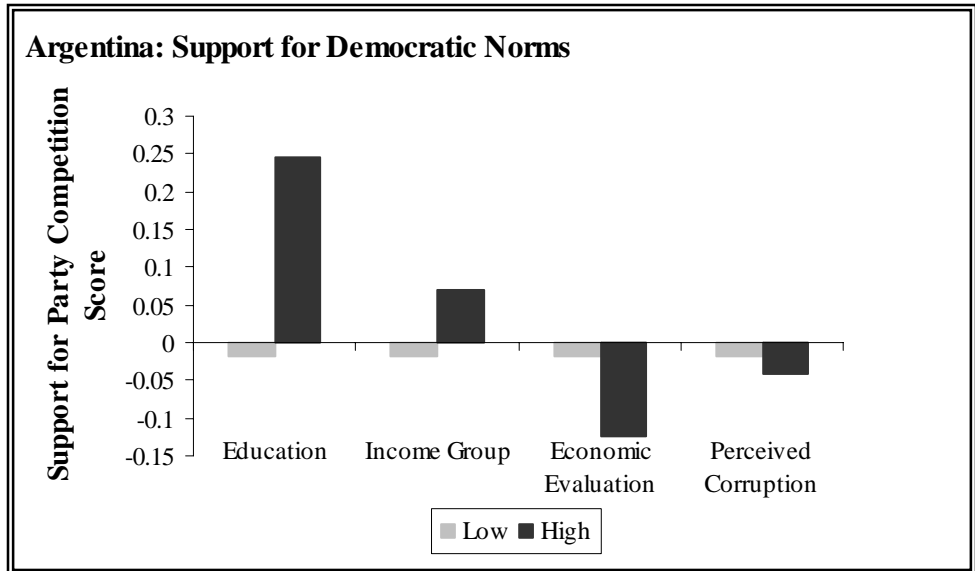
It appears that declining trust in government and confidence in political institutions are largely a function of economic dissatisfaction. There are other factors that contribute to this decline – concerns with corruption in particular – but they are clearly dominated by the economic effect. This is illustrated in the following figures that report multivariate analyses of declining trust and confidence. The figures use the results of multivariate analyses to illustrate the impact of low versus high values of each variable on confidence in democratic institutions.



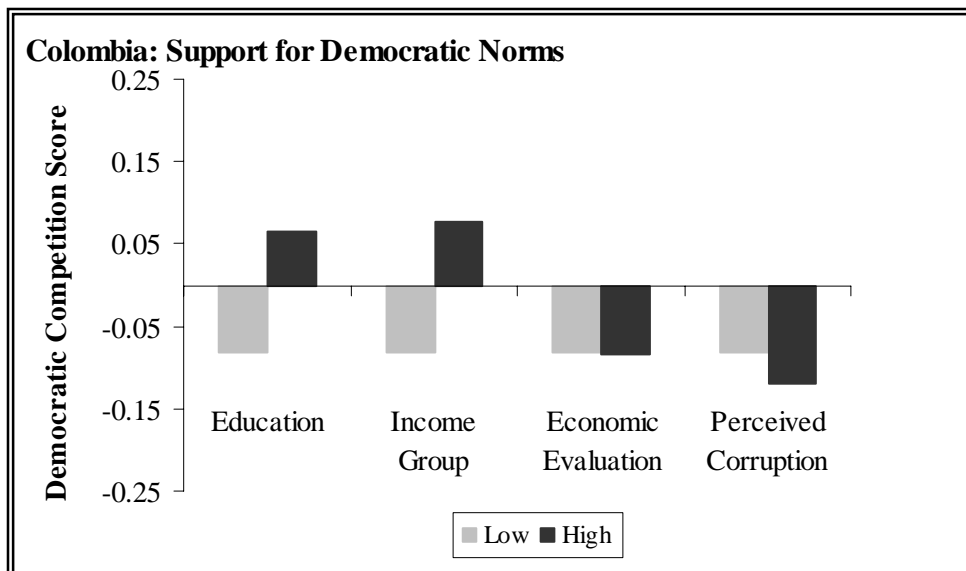


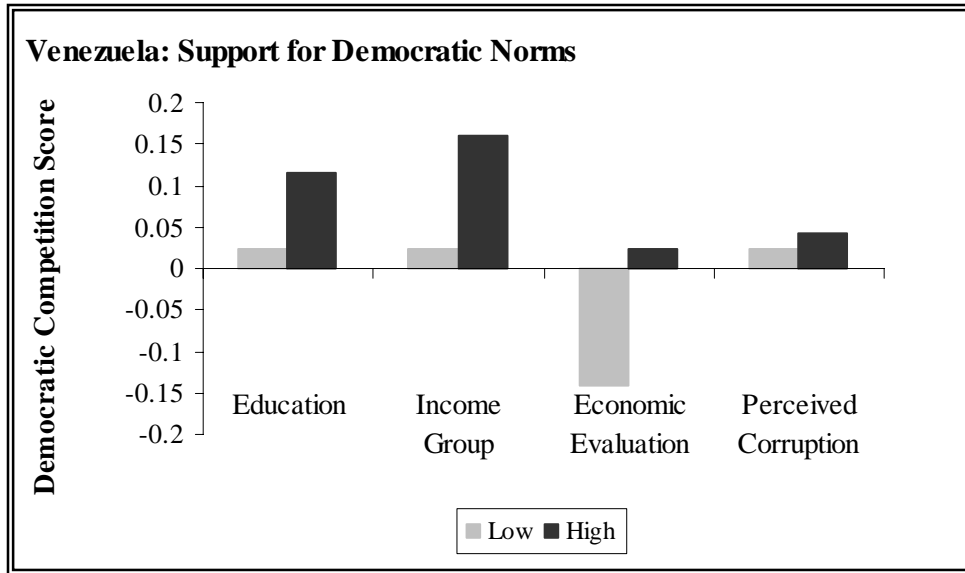
Robust Support for Democratic Norms

Liberal political values are robust in the sense that they receive strong support from the citizenry and there are no significant cleavages that could be exploited in order to champion anti-liberal policies. The



following figures present an analysis of the Latin American Survey 2002’s measure of support for party competition. In the case of Colombia, there are no significant cleavages that divide the population with respect to fundamental democratic norms. Note that none of the likely candidates for undermining core democratic values – such as economic dissatisfaction or low levels of education – are significantly correlated with the competition measure. Similarly, none of the correlations in Venezuela are significant. There are on the other hand indications in the Argentine case that education seems to distinguish those with low versus high levels of support for core democratic norms.



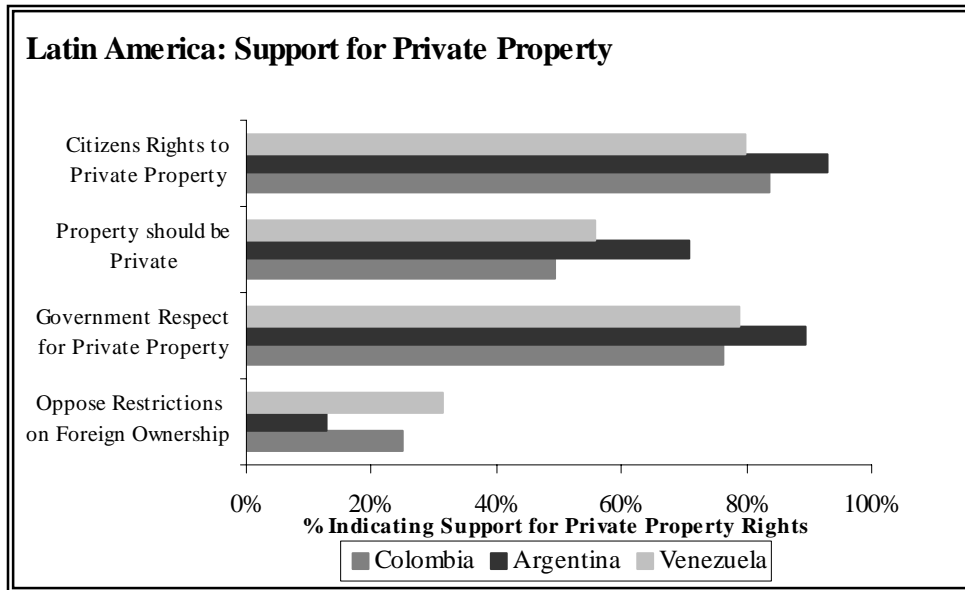


Popular Support for Economic Liberalism

The holy trinity of neo-liberal economic policy – free trade, strong enforcement of property rights and limited government – receives tepid public support in Latin America. And politicians in Latin America recognize this fact. As Susan Stokes has very elegantly pointed out, there is a clear pattern over the past 25 years of Latin American political parties *understating* their commitment to neo-liberal policies during campaign periods but then adopting such policies once elected into government (what she refers to as “neo-liberalism by surprise”). One of the principal explanations for this behavior is that politicians recognize that the median voter is less than enthusiastic about liberal economic policies but once in power Latin American governments face significant external pressures (from global markets, the IMF, etc.) to adopt neo-liberal policies. This disconnect between the preferences of the median voter (and party electoral appeals) and the policies Latin American governments are “encouraged” to implement can have negative repercussions for the quality of democratic governance. Certainly, a considerable amount of the cynicism regarding democratic institutions reported earlier can be attributed to governments ignoring their electoral promises. What is the extent of the disconnect between the policy preferences of the median voter in Latin American countries and the conventional neo-liberal policies that elected governments are being encouraged to implement? This section of the report is an effort to calibrate these differences.

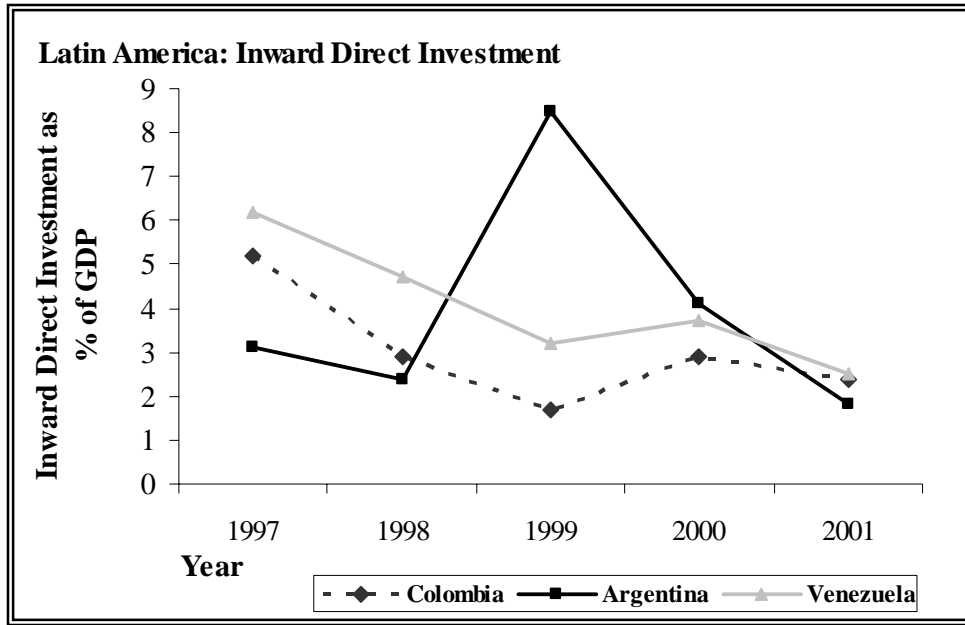
Property Rights

The central tenant of the liberal economic reforms advocated for developing economies are laws designed to promote the enforcement of property rights. This one aspect of neo-liberal policies is for the most part consistent with the preferences of the median voter in Latin American countries. Latin Americans are reasonably enthusiastic supporters of private property rights – with the provision that these guarantees primarily apply to nationals and not necessarily to foreign individuals and foreign firms. The accompanying table suggests that roughly between 50% and 90% of respondents respond favorably to the notion of enforcing property rights for citizens. But only 10%-25% support similar protections for the property rights of foreigners.



Free Trade Dilemma

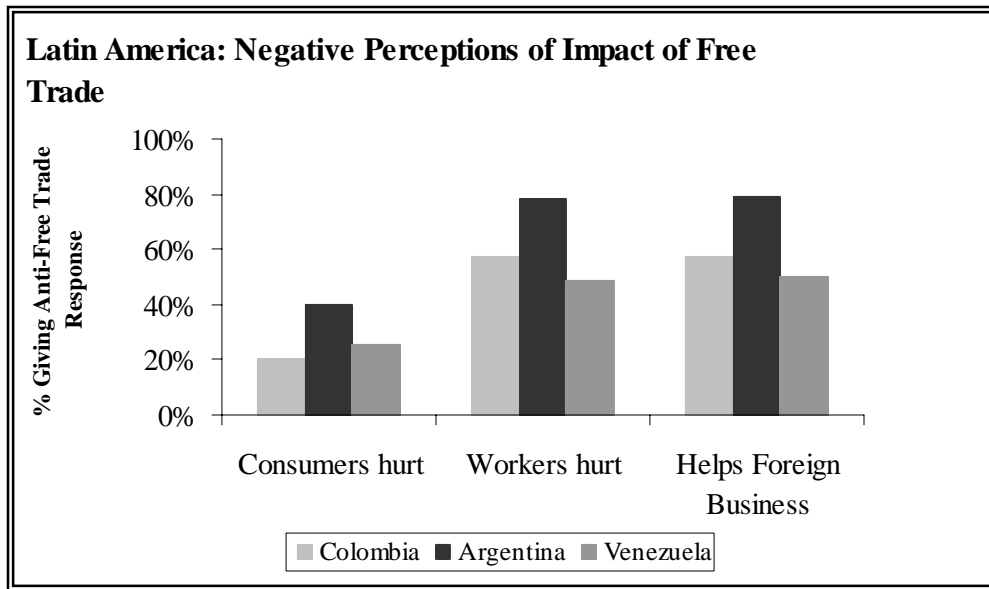
Foreign investment has been a critical catalyst to economic growth in many of the Latin American economies over the past decade and as the following figures illustrates these levels have begun to decline. In fact, the decline in direct foreign investment as a percent of GDP in 2001 is essentially half as large as it was in 1997. The promotion of lower trade barriers in Latin America and the expansion of free trade between North American and South America are key policy priorities of the current administration. If these initiatives come to fruition, the following results suggest that elected governments will be in the awkward situation of



implementing policies that are not embraced very enthusiastically by the general public or they will need to undertake a very aggressive education campaign on behalf of free trade.

The Latin American public is at best ambivalent, and more likely on balance antagonistic,

towards the opening of domestic borders and promoting free trade. Significant numbers of respondents recognize the



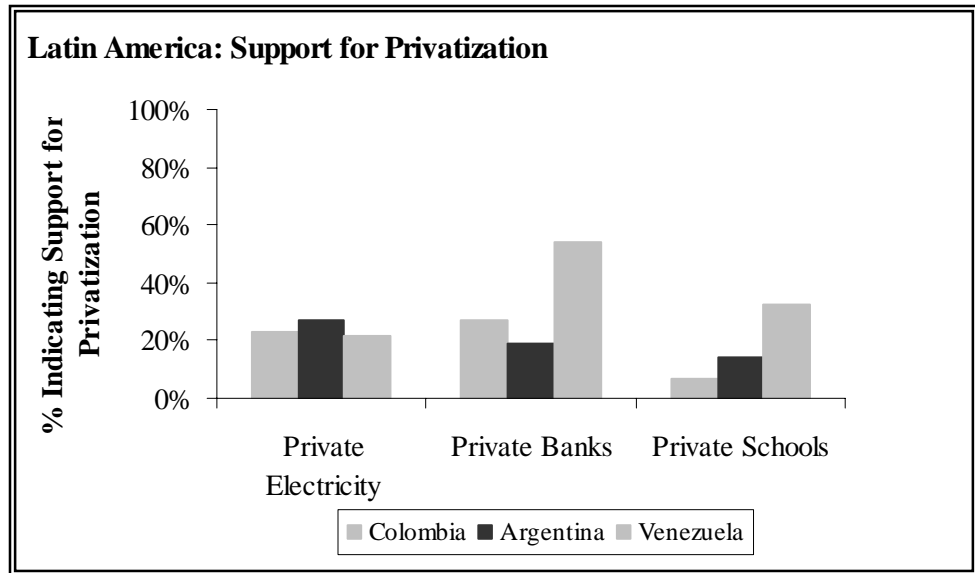
consumptive benefits of free trade but clearly large numbers are, at the same time, concerned about the impact of these policies on jobs, a concern that we demonstrated above is very much on the minds of the average citizen. Latin Americans are also suspicious of foreign – read U.S. – multinationals. Protectionist arguments resonate very positively with the Latin American population – over 50% of the Colombian population sampled indicates skepticism

that free trade helps domestic firms and a similar portion of the population agrees that free trade hurts the average Colombian worker – the numbers are closer to 80% for the Argentine sample. As is typically the case, an overwhelming majority of the Colombians (about 80%) recognizes that free trade has a positive impact on consumers. But it is their concerns about the impact of free trade on employment that often weights more heavily in their political choices. Overall, Venezuelans are least antagonistic to free trade.

Limited Government: Privatization

In marked contrast with development strategies pursued over much of the post-World War II era, current neo-liberal policies, advocated by international lending agencies and the U.S. government, call for reductions in scope of government involvement in the economy. This has been a key component of liberal policies recommendations designed to reduce government deficits and enhance economic efficiencies. The results of the Latin American Survey 2002 make quite clear that these sentiments favoring limited government are not shared by the average voter. Over the past couple of decades most of the Latin American governments

have, with the encouragement of international lending agencies and the U.S. government, privatized a significant number of state entities. But there are surprisingly low levels of support



for privatization. Only about 20% of respondents to the surveys indicated enthusiasm for increasing privatization in the utility and banking sectors. Privatization in the education sectors of the economy was only positively received by approximately 10% of the national

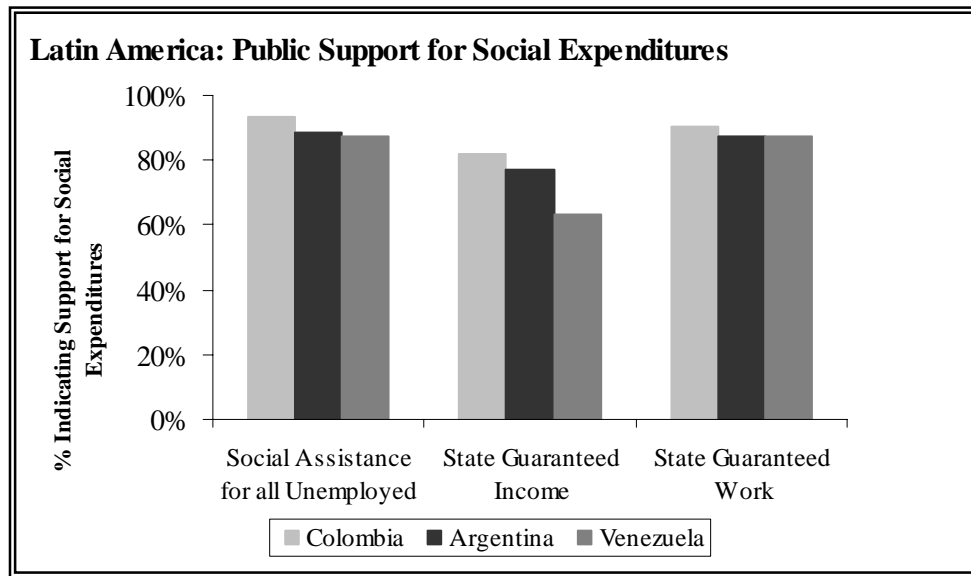
samples. Once again, the Venezuelans are the most enthusiastic supporters of privatization initiatives.

Limited Government: Social Expenditures

Limited government also implies constraints on social expenditures. As part of neo-liberal efforts to promote economic development in Latin America, governments have been encouraged to

reduce deficits and contain these social expenditures.

This remains a key element of the conditions imposed by the IMF on borrowing nations. The notion of limited



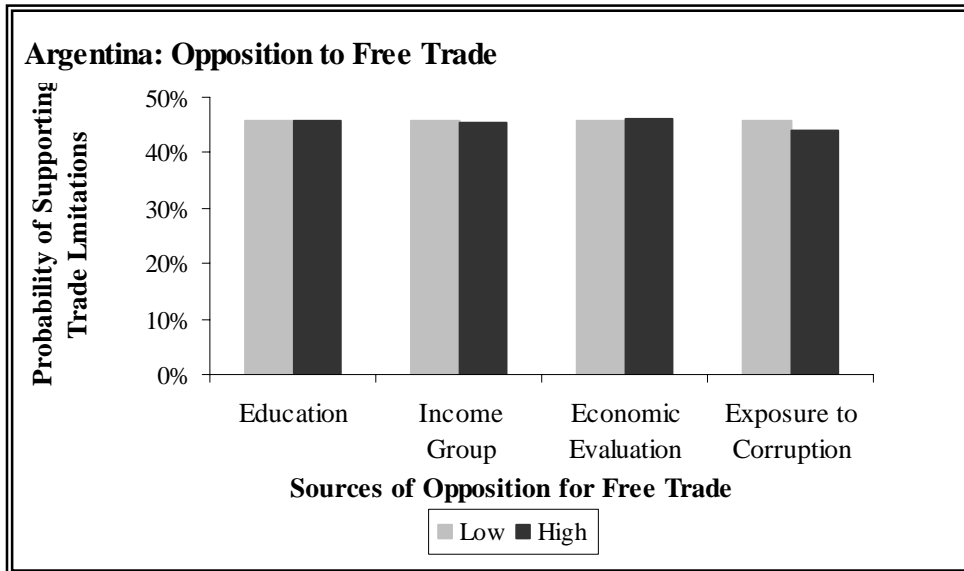
government expenditures is unlikely to receive the endorsement of Latin American public opinion – the Latin American Survey 2002 finds that overwhelming majorities support expanded and generous government expenditures on social welfare programs.

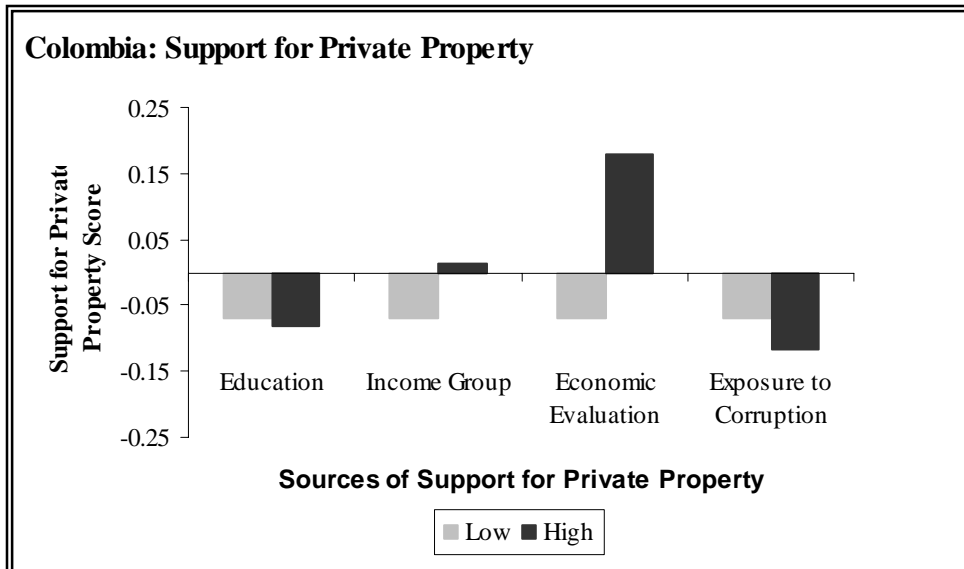
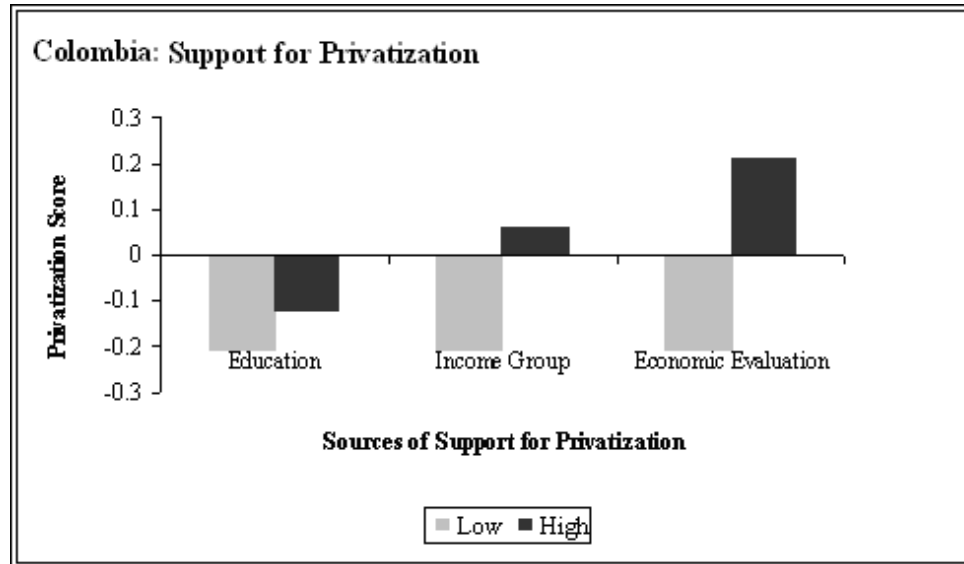
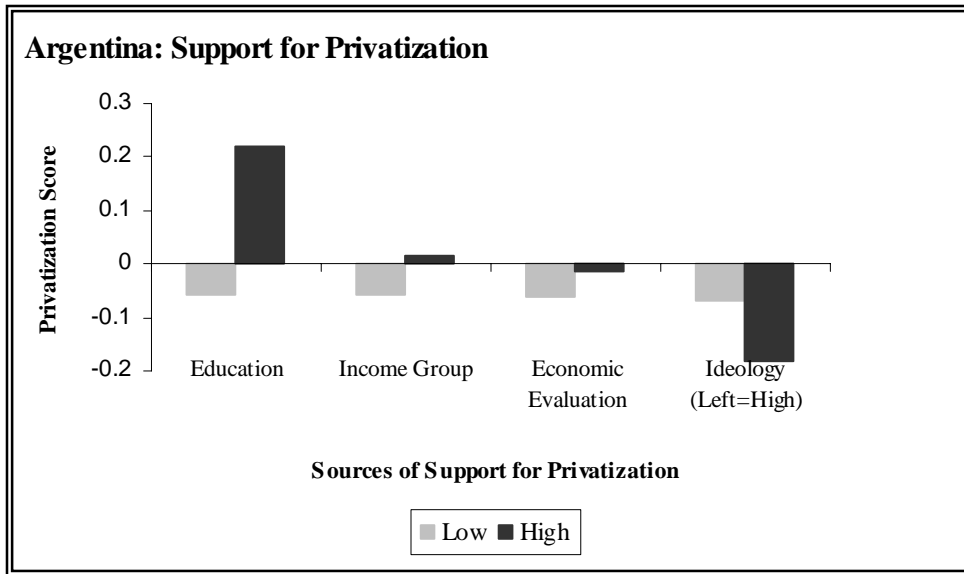
A Disconnect in Economic Policy Preferences

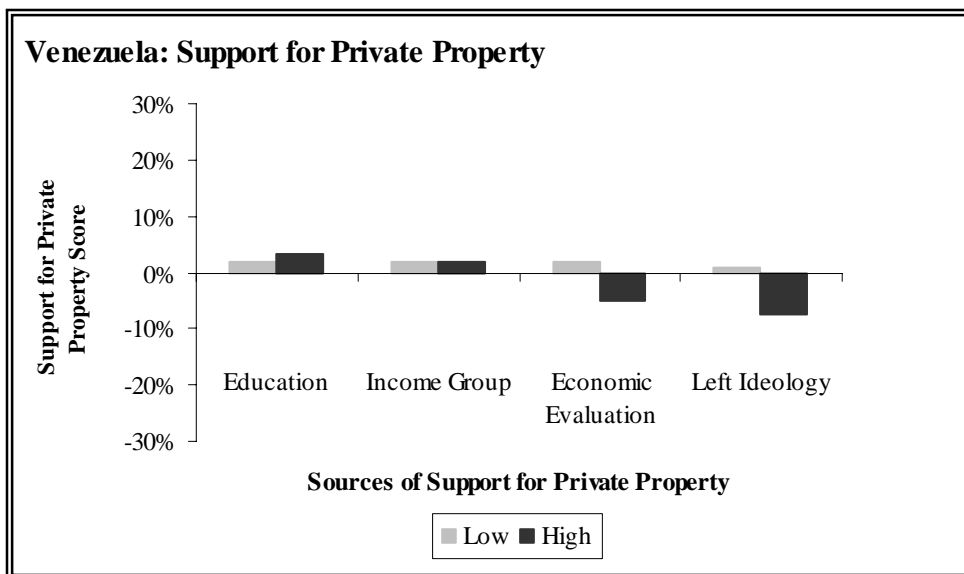
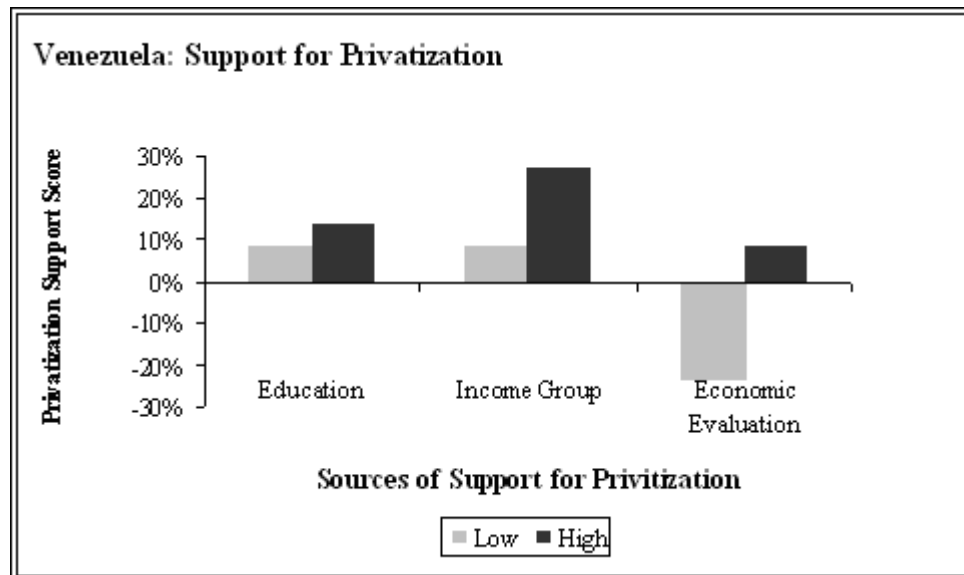
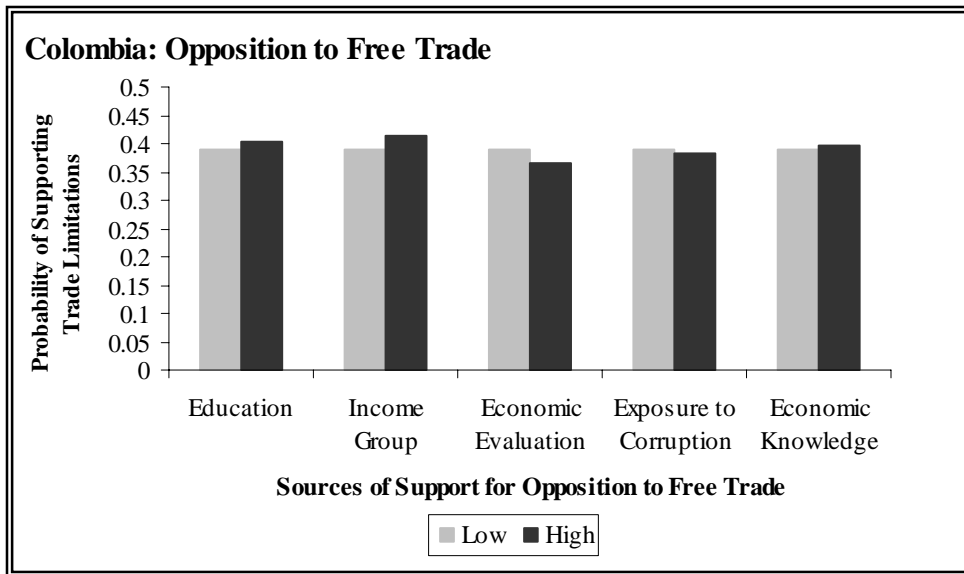
It is important to recognize that there is a significant disconnect between the liberal economic policies that elected governmental officials are implementing in many of the Latin American countries and the preferences of the median voter in these same countries. With respect to core economic values, such as the respect of property rights and contract, Latin American citizens are quite liberal. But on issues relating to privatization, the size of government and social expenditures citizens are much less in synch with neo-liberal economic prescriptions.

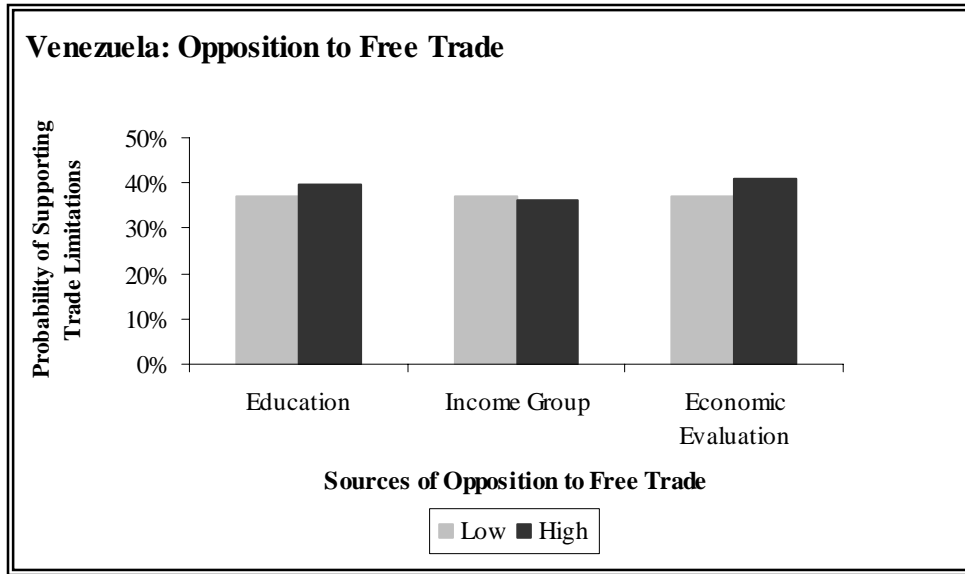
A Liberal Constituency?

We analyzed the Latin American Survey 2002 data with the goal of locating identifiable constituencies that might be mobilized in favor of (or against) liberal economic policies. The results suggest that in the case of property rights, there is widespread support for private property without any detectable cleavages within the citizen that might be exploited to oppose this basic foundation of the market economy. The one possible exception here is that economic evaluations are related to support for private property in Colombia. There is widespread opposition to free trade and no obvious cleavages that distinguish the pro- versus the anti-free trade constituencies in the general electorate. On the issue of privatization, there are clear cleavages in the population. In Colombia, those who are economically better off and those who have positive perceptions of economic performance are more likely to support privatization. In Argentina, the better educated and the Right are stronger supporters of privatization





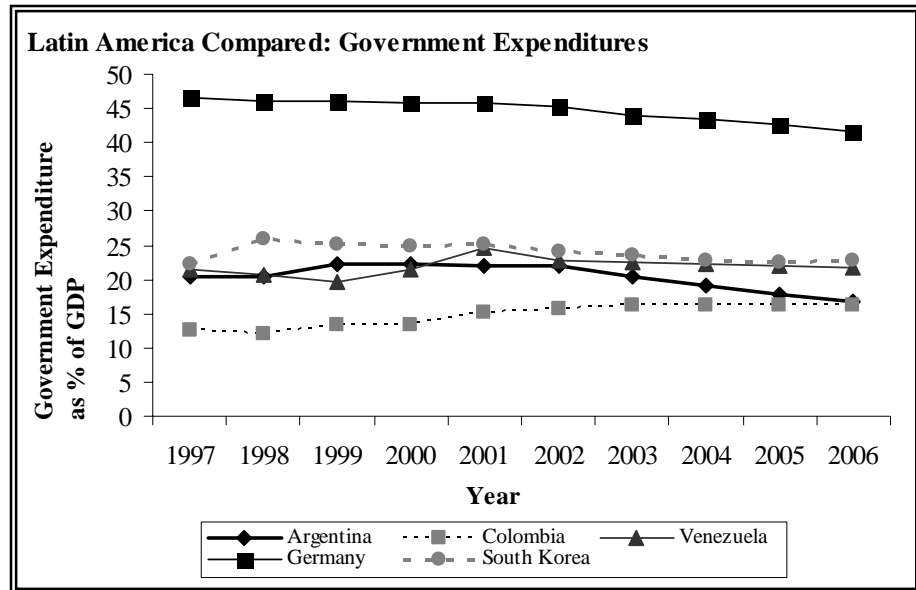




Growth Compatible Public Spending

There is a constant tension in developing countries between popular demands for redistributive spending, growth compatible expenditures by government and the need to control the overall government deficit.

Latin American governments have maintained relatively moderate levels of government spending – certainly in line with levels in most other developing countries (such as South Korea) and significantly lower

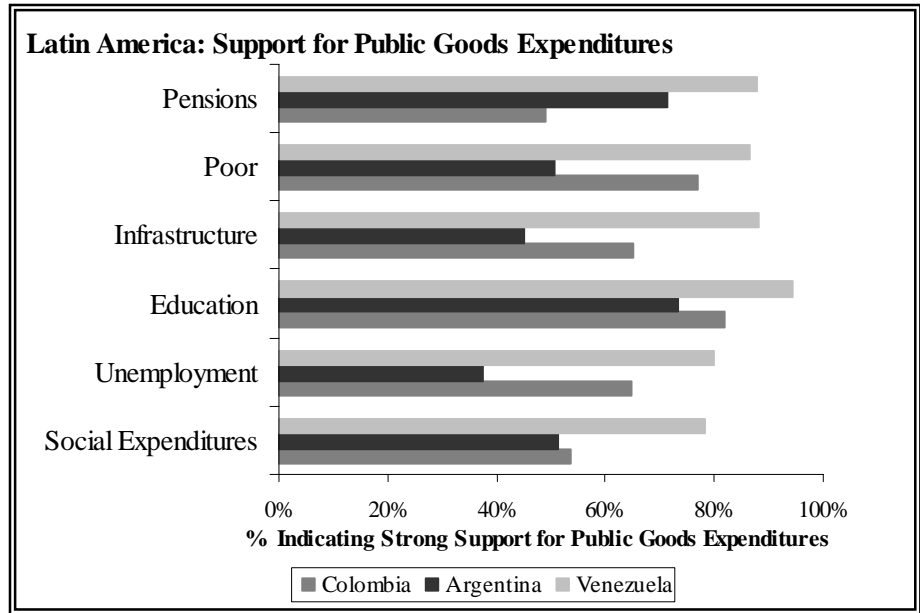


than most developed European countries (such as Germany). Yet, the results presented in the previous section suggest that the average voter in Latin America favors expanded government expenditures. This section explores in somewhat more depth the nature of these demands for

greater government expenditures. First, the relative mix of popular demand for redistributive expenditures versus investments in human capital and social infrastructure. Second, we investigate the extent to which public preferences for government expenditure are shaped by the performance of the macro-economy.

Public Demand for Higher Levels of Redistributive Expenditures

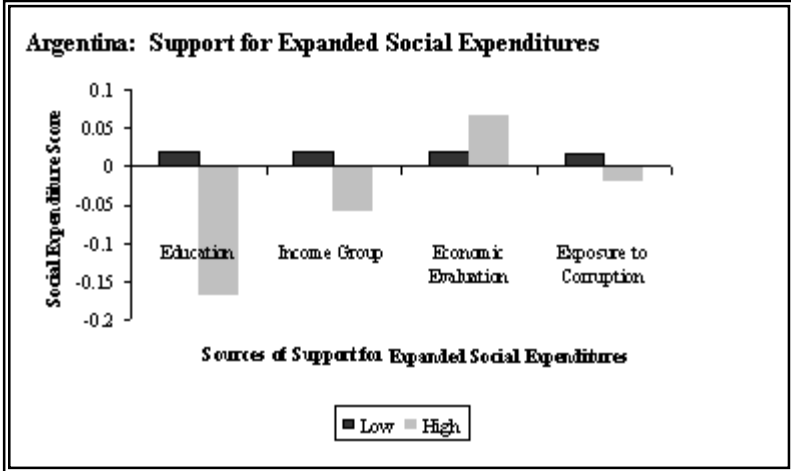
It is widely accepted that expenditures on public goods such as human capital or investment in productive infrastructure can promote growth in developing countries. Expenditures of a strictly redistributive nature can, on the other hand, undermine economic growth. Much of the data on citizen preferences in



the Latin American Survey 2002 suggests that levels of demand for both more redistribution and more productive public investments are high and rising. Between a third and half of the samples exhibits attitudes supporting more aggressive redistribution policies. And with respect to expenditures on specific public goods typically between 50% and 70% of the respondents indicate a preference for higher expenditures. Hence, popular pressures for higher expenditures of both redistributive and social investments are very strong in the Latin American region. And elected officials will be hard pressed to resist responding to these preferences.

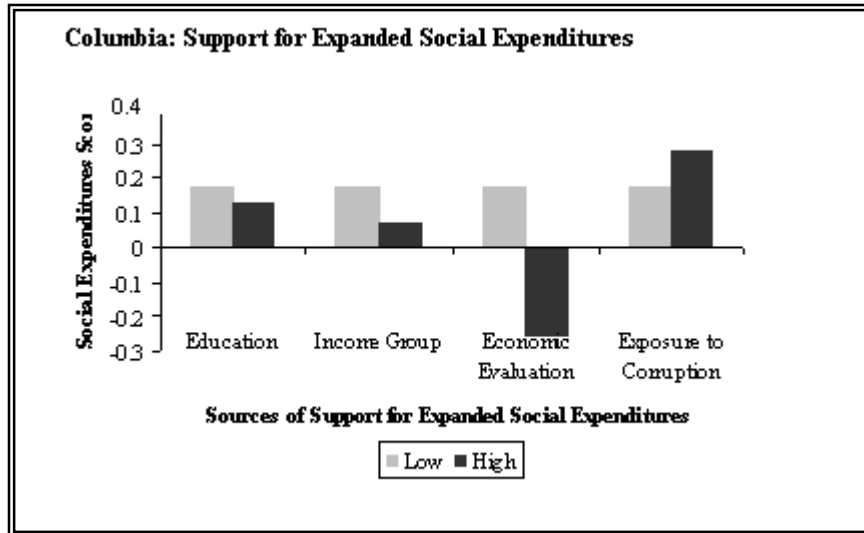
Political and Economic Crises Inflate Demand for Public Goods

The current economic and political crises facing many of the Latin American nations are in fact increasing citizens' demand for higher expenditures on public goods. In the early period of economic reform hyperinflation was the chief preoccupation of most citizens and many believe that the saliency of this economic crisis made most citizens receptive to draconian measure designed to deal with this problem, including



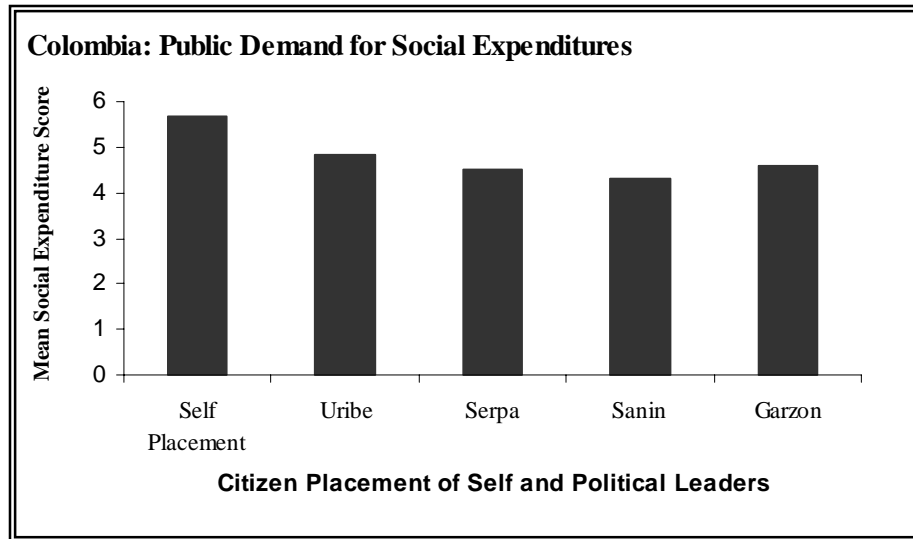
significant reductions in government deficits and aggressive privatizations. In this current environment of relatively stagnant growth and high unemployment, there is some evidence that citizens are demanding greater government expenditures in order to stimulate economic activity. The following figures report the results of multivariate analyses of the Latin American Survey 2002 data and suggest that those who perceive the economy as doing poorly and those concerned about violence are more likely to favor higher public goods expenditures.

Hence in this current crisis environment as the economic situation deteriorates and there are external constraints on government spending, the public expects higher expenditures by their elected officials.

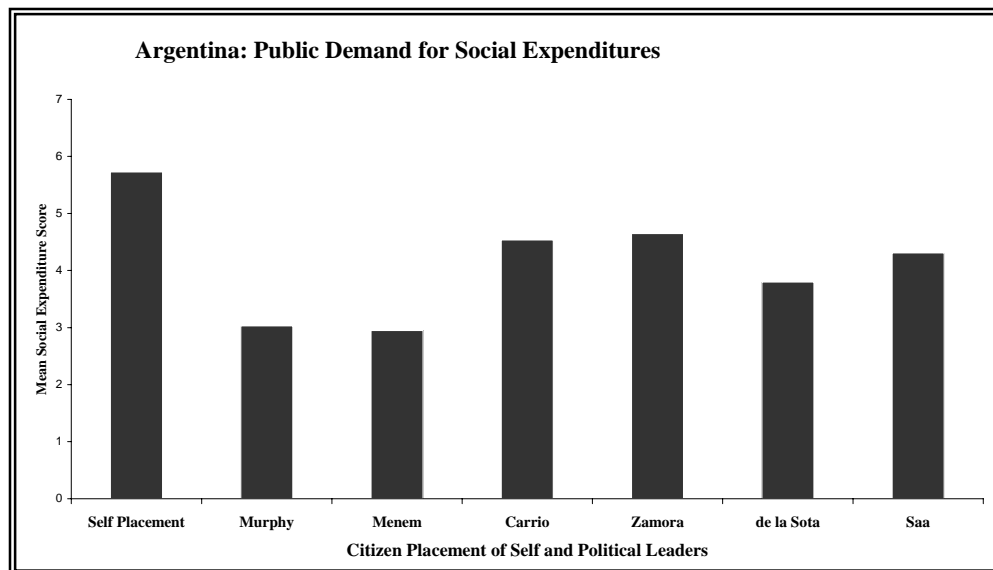


Sustainable Levels of Public Goods Expenditures?

Historically government expenditures as a percent of GDP are relatively low compared to other developing countries and the developed economies in the world. Neo-liberal prescriptions for these countries will maintain pressure on these governments to continue controlling these levels of government spending. Currently though the average citizen in these countries expects

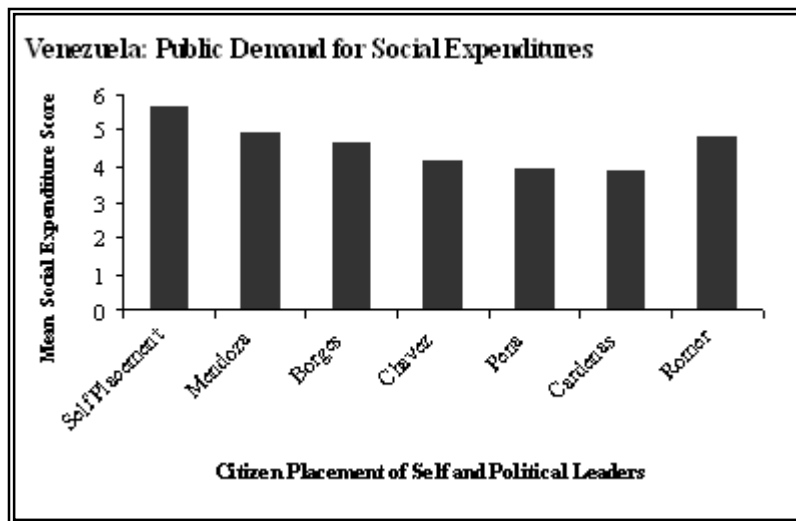


much more generous levels of public good provision than is currently the case. Elected officials seem to be heading the prescriptions of the international financial community. But this appears to be putting them increasingly out of step with the median voter, to whom they owe their reelection chances. We included a set of questions in the Latin American Survey 2002 designed to calibrate this gulf between



the politicians' preferences for public expenditures and those of the median voter. The following figures compare the average public expenditures scores obtained by respondents to

the Argentine, Colombian and Venezuelan surveys. In addition, these figures include the average scores for leading political figures in each country – i.e., what levels of public expenditures the survey respondents believed these figures would advocate. In the case of all these public officials, the self-placements of respondents were significantly higher. This suggests that the demand for public spending on the part of the average citizen is significantly higher than the perceived willingness of public officials to spend. Ultimately there will be political entrepreneurs that will exploit this divergence by offering levels of public goods expenditures that are consistent with the preferences of the voters in these countries.



Latin America Survey 2002 Methodology

The Latin America Survey 2002 was conducted in three countries Argentina, Colombia, and Venezuela during the period of September and October 2002. A description of the sampling and interview methodology for each of the surveys follows.

Argentina

The Argentina sample was a national stratified probability sample of 1000 respondents residing in communities with greater than 10,000 inhabitants. Stratification and selection of primary sampling units (PSUs) was based on the 1991 Censo Nacional de Población that was conducted for Instituto Nacional de Estadísticas y Censos (INDEC). In the case of the Capital Federal y Gran Buenos Aires, stratification was based on the 2001 Censo. A total of 268 PSUs were selected with an average of 3.7 interviews conducted in each of them. Localities and subsequently households within each PSU were then randomly selected. Respondents within households aged 18 years or older were selected by the “next birthday method,” i.e., the respondent with the birthday closest to the date of interview. In cases where the respondent was not available to be interviewed, interviewers made two subsequent efforts to contact the selected respondents. If these were unsuccessful, randomly chosen substitutes respondents were interviewed – 15 percent of the respondents fall in this category. The maximum sampling error is estimated to be plus or minus 3.1%. A detailed description of this sampling methodology is available at www.uh.edu/democracy/. In-person interviews were conducted – the questionnaire (also available at www.uh.edu/democracy/) length was approximately 40 minutes. The Argentina survey was conducted by Knack Nun Androgue Caruso SA.

Colombia

The Colombia sample was a national representative simple of 1000 individuals, excluding: rural areas (they would be represented by small towns, whose economies depends a lot on the farms around the town), and the farthest areas of the country, with evident presence of armed groups such as guerillas. The total population in the excluded areas represents less than a 5% of the country population. The simple was of the adult population, men and women, 18 years old and above. Respondents were selected randomly within members of the household present at home

in the moment of the interview. There were no attempted recalls made in the case that respondents were not available to be interviewed. A detailed description of this sampling methodology is available at www.uh.edu/democracy/. The questionnaire (available at www.uh.edu/democracy/) was approximately 40 minutes in length. The Colombia survey was conducted by Napoleon Franco & Cia.

Venezuela

The Venezuela survey was conducted by Sigma Dos.