Topsy-turvy cobblestone streets, red tile rooftops, and bright pastel-colored houses enhance the charming village of Copán, Honduras.
POLITICAL RAMIFICATIONS OF THE ECONOMIC CRISIS
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“No ONE CAN POSSIBLY KNOW how long the current recession will last or how deep it will go.” That is the view of Nobel Economics Laureate Robert Solow, writing in the most recent NY Review of Books. What we do know is that the longer and deeper the economic crisis, the greater the prospects of drastic, far-reaching political changes in Latin America and elsewhere. Unsettled, erratic politics are the inevitable consequences of plummeting economies, rising joblessness, declining middle class incomes, expanding poverty and destitution, and multiple cutbacks in public services—all of which are now forecast for the region. As in the past, government authorities will become targets of public anger and recrimination, and politics will likely become more polarized and combative.

The global crisis is already having an impact on politics and governance in some countries. Nations in Eastern and Central Europe have faced mass demonstrations and near riots. Public support for key Western European leaders—Gordon Brown, Nicolas Sarkozy, and José Luis Zapatero—have plunged in their governments have weakened. Economic failure led to the fall of Iceland’s government just last week.

So far, however, the political impacts have been hardly visible in Latin America and the Caribbean, probably because the crisis arrived comparatively late to the region. Certainly no clear patterns have yet emerged. In some countries, public approval of national leaders has risen even as their economies have begun to slide. In Colombia and Mexico, attention has remained focused on other issues. In Chile, President Michelle Bachelet and Finance Minister Andrés Velasco have recently surged in opinion polls, apparently because Chileans appreciated that their country’s economy, although slipping, was doing much better than other economies in the region. President Alan García’s rise in the polls suggests that Peruvians, too, recognize their relatively good economic performance.

Yet, Latin American leaders are alert to the political challenges they will soon have to confront. Venezuelan President Hugo Chávez chose the earliest date possible for a referendum to eliminate presidential term limits so that his oil-dependent country’s likely economic slippage would not cost him votes. Similarly, Ecuadoran President Rafael Correa rushed completion of his country’s new constitution so that its approval (and his subsequent election as president) would happen before the economy turned downward. Argentin’s president Cristina Fernández obtained congressional approval to advance the date of critical legislative elections from October to June, when she expects her chances will be better.

Four more presidential elections will be held in 2009, again with no clear pattern of likely outcomes yet apparent. Two of the contests—in Chile and Uruguay—are very competitive, and a deepening recession in either country is likely to favor the opposition (and more conservative) candidate, although other issues remain importantly at play. In Honduras, the generally erratic performance of the current government is likely to produce a win for the opposition candidate. For now, Bolivia’s economy is protected by a large financial reserve, and the country’s regionally and ethnically polarized electorate seems almost certain to re-elect President Evo Morales in December elections. Although the Mexican economy has been one of hardest hit in Latin America, economic issues will play a secondary role (to security and crime problems) in the nation’s critical mid-term legislative elections.

Three presidential elections take place in 2010. Any sharp decline in the economy of Costa Rica will favor the opposition, which lost the last election in 2006 by less than one percent of the vote—although the candidates and the
campaign will also shape the outcome. With eighteen months to go before election day, Brazilian polls suggest that the governing party has an uphill battle to retain power, particularly since the party's presumptive candidate has just been diagnosed with cancer. A deteriorating economy will make the task even harder. Colombia's election next May is clouded by the question of whether President Uribe will gain approval for the constitutional change required to allow him to run for a third term. If so, he will likely win almost regardless of the state of the economy.

Losing elections has not been the only consequence of poor economic results in Latin America. Stagnant or declining economies were the underlying cause of violent demonstrations in recent years in Argentina, Bolivia, and Ecuador, which forced elected presidents from office or led them to resign. Although they seem less likely today, the current financial crisis could certainly produce the popular outrage and mass protests that could again lead to the premature ouster of freely elected leaders. But such episodes are hard to foresee. What is most encouraging is that there is little concern about the prospect of military participation in such an upheaval—although it cannot be completely discounted. And there are few countries where governments would even consider resorting to repression to remain in power.

For many countries in Latin America today, the biggest concern should be that badly slumping economies will weaken the credibility and authority of governments. Most of the region's presidents and prime ministers will keep their jobs and finish their terms, but some of them will lose their capacity to mobilize support for their policies and programs and to effectively address the nation's problems.

Under the circumstances, it may be difficult for Latin American governments to sustain the quality of economic management that, from 2004 through 2008, resulted in five years of solid growth, historically low inflation, and a significant decline in poverty—the region's strongest economic performance in a generation. Some analysts suggest that the crisis will, in addition, end up discrediting market-oriented policies in Latin America and lead the region back to state-directed, more inward-looking economies. They may be right, but their conclusion is still premature. In fact, those countries that have managed their economies in an orthodox and disciplined fashion—Chile, Brazil, Peru, Colombia, and even Mexico—will probably emerge from the crisis stronger than those that have pursued more populist approaches, like Argentina and Venezuela. Moreover, countries following the orthodox path are likely to gain greater access to needed external capital, whether from private or public sources, to mitigate the effects of the crisis and start toward recovery. Voters may choose to stick with policies and leaders that have produced good results.

It is also hard to know how the financial turmoil might affect inter-American relations. The crisis has provoked new resentment toward the United States, which is seen as responsible for Latin America's economic problems—but that resentment has been tempered by the election of President Obama and his approach to the region so far. Latin American governments have, by and large, welcomed Washington's strategy for addressing the economic crisis and its support for reforming international financial institutions. Will the "Obama effect" last? Anger may re-emerge in Latin America if the crisis continues for several years. And the longer it goes on and more severe it gets, the more domestic politics are likely to push the United States toward self-serving policies that may not be helpful to the region. In addition, tensions could well arise among Latin American countries as their governments are pressed by impatient voters to pursue more nationalistic and protectionist approaches to restart their economies.

In the coming months, maybe years, the strain on Latin America's economies and politics is likely to be greater than it has been at any time in recent memory. It will not be easy to resist such old temptations as nationalism, protectionism, populism, and anti-Americanism. The quality of institutions and political leadership will make an important difference. We have all heard that Latin America is better prepared today than ever before to confront the economic challenges posed by the global crisis. There are reasons to believe that the region is better prepared to meet the political and governance challenges as well.