



## Interview with Javier Santiso about development trends in Latin America: "No magic model for successful development"

Development experts discuss how Asia is catching up, or rack their brains over strategies for Africa. But almost nobody mentions Latin America any more. Javier Santiso, Director and Chief Economist with the OECD Development Centre in Paris, sees this as an omission. At the Traverse forum on 11 March 2008, Santiso presented the Latin American Economic Outlook 2008, which documents economic and institutional progress and advocates a more effective and fairer fiscal policy with more redistribution.

*Interview by Thomas Jenatsch*

*Javier Santiso, in the Latin American Economic Outlook 2008 you turn the spotlight on public expenditure policy in Latin America. What conclusions did you reach?*

Our key message is that the State must invest more, better and more progressively.

*What do you mean by "investing better"?*

Tax money is often badly spent. Mexico and Brazil spend about the same amount per capita on education as Poland and Slovakia, but the results in Mexico and Brazil are much worse than in Poland or Slovakia. So the quality of public goods has to be improved. Greater expenditure progressivity – in other words better social redistribution – should be a further target. The redistribution impact of public expenditure in Latin America is virtually zero.

*Economic growth has picked up again in most Latin American countries. How important is growth for poverty reduction?*

Growth alone is not enough. Peru, for instance, is a model country in terms of macroeconomics, with an 8% annual growth rate that's in line with that of the Asian countries. There is no inflation, the rate of exchange is stable, and the balance of payments and all macro data are positive. However, it is a growth that brings little development. People living in Arequipa and elsewhere don't benefit much from it. Their access to health services, education, drinking water and infrastructure has barely improved. Action is urgently needed in this context. Not only does fiscal policy have to be more effective, it also has to be more progressive – this means an expenditure policy that reaches the poorest fifth of society.

*How does the "progressive expenditure policy" you are calling for look in practice?*

Take the example of education policy. There should be massive investments in elementary schools, and even at preschool level, in order to reach the poorer members of society and improve their educational opportunities. Extending the pension and social security systems to low-income groups is another step in the same direction. A further possibility would be direct payments to poor families, like the "bolsa familia" (family grant) in Brazil. The payment of small but regular amounts or bursaries creates an incentive to attend schools and participate in social programmes. The "return on investment" is enormous. The programmes are comparatively inexpensive for the State – 0.4% of Brazil's GDP – but reach millions of families.

*Liberal economists criticize the fact that such transfer payments are merely symbolic or just political propaganda and do little to change the distribution of prosperity.*

That's why we attach importance to seeing redistribution established as a central feature of government expenditure and fiscal policy. At the moment, the wealthy classes in Latin America profit doubly from the system: on the one hand, they deprive the State of tax revenue through various completely legal exemptions. And on the other, government resources are directed at sectors that mainly benefit the upper classes, giving preference for instance to promote universities instead of elementary schools.

*Following the economic liberalism of the Nineties, models that give the State a central controlling function have received fresh impetus in Latin America. Just how promising are these models?*

The economic policy of Chavez and other Latin American leaders with similar ideas does not hold out hopes of sustainable development. The oil boom in Venezuela is not generating any long-term expansion, and in some cases capital is even being eroded. Then again, in Latin America we are currently witnessing the rise of more pragmatic economic policies. Chile's successful model is not neo-liberalism but a blend of privatization and regulation. Pension funds were privatized and at the same time regulated. Part of the copper mining industry was left in government hands. Pragmatism is the keynote. Chile exemplifies this trend, as does Brazil. Lula has surprised the whole world by combining a clearly market-led economic policy with an ambitious social policy, and Uruguay, Columbia, Peru, Costa Rica and Mexico are going down the same road. The predominant trend in Latin America is an economic policy based on what is feasible – an economic policy which has abandoned the illusion that there's one magic model for successful development.

*Compared with emerging countries, growth in Latin America is still quite slow. What can Latin America learn from Asia?*

South Korea and many other Asian countries have invested heavily in education, especially in technology and innovation. These fields were long neglected in Latin America despite their considerable development potential. Latin America should also do much more as regards infrastructure. China invests about 10% of government expenditure in infrastructure, compared with an average of a mere 2% in Latin America.

*Does the boom in China and India have implications for Latin America too?*

For the first time in its history, Latin America has three major points of reference. Until the 1980s, the USA was the dominant influence. In the Nineties, there was a strong increase in European investments and in the past few years, Asia too has joined in. China and India play an increasingly important role for Latin America, particularly as export markets. Chile now exports 36% of its goods to Asia, and the same trend applies to Peru, Brazil and other Latin American countries.

Recent years have seen a dramatic increase in South-South trade flows. The world is changing. Now the centre is less and less of a centre, and the periphery less and less of a periphery. Globalization winners are no longer so unevenly distributed around the world. Nowadays, there are more and more globalization winners in developing and emerging countries.

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