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THE UPCOMING ELECTORAL CYCLE IN LATIN AMERICA IN THE MIDST OF SOCIAL UNREST: WHAT LIES AHEAD?

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P R O C E E D I N G S

MR. TALVI: Good morning. Thank you all for coming today. We are going to have I think a very topical and very interesting discussion and hopefully you will be very much engaged in it.

So I'm going to just say a few opening words to set the stage and then when I present the speakers I'll set out the rules of the game.

So as you all know, between 2004 and 2011, what we like to call the Golden Age, I mean, Latin American countries, mostly commodity exporters, and those that were less connected to the U.S. business cycle, had an exceptional run of economic growth, doubling its long-run average. This process was underpinned by sound macroeconomic policies, but it was largely prepared, and I think there's consensus about that, by very cheap and abundant financial and capital resources that were freed up because of the crisis in advanced countries and flooded our economies and to the very high commodity prices. As a result of this very high growth and high commodity prices there were more than abundant fiscal resources to pursue very active redistribution policies, and therefore, the combination of high growth with very active redistribution policies resulted in pretty impressive accomplishments. Thirteen percentage rate reduction in poverty rates for the region as a whole. Five percentage point reduction in extreme poverty rates. The emergence of a middle class, at least as

measured by income. That helped to consolidate electoral democracy in our countries.

So I think, and maybe this is the perspective of an economist, but the natural consequence of that process or of that exuberant cycle is that in the previous electoral cycle we saw that presidents were very, very popular at the end of their administrations -- Lula in Brazil, Uribe in Colombia, Bachelet in Chile, Tabare Vazquez in Uruguay. Even Cristina Kirchner in her previous reincarnation was very popular.

So two years after that, and I'm talking 2004-2011, Latin American economies started to cool off very, very substantially, as we all know, as emerging market growth rates lost steam, as commodity prices started to slowly decline, and as world financial conditions started to tighten. So lower growth, less abundance of resources to pursue active redistribution policies resulted, not surprisingly, in a frustrated electorate that manifested itself sometimes through social protests, spontaneous social protests that we might be discussing specifically today, sometimes in many countries, in some countries, through prolonged conflicts for the appropriations of the budgetary resources.

Now, in this new environment, the interesting feature is that the salient presidents are now much less popular or much more unpopular

than their predecessors during the boom. Dilma versus Lula in Brazil; Piñera versus Bachelet in Chile; Santos versus Uribe in Colombia; Cristina Kirchner II versus Cristina Kirchner I. So nevertheless, and this is something I would love the panel to discuss, incumbent presidents, where there is reelection, or incumbent parties where there's no reelection, still generally speaking have the upper hand in the upcoming elections.

So we know that we are having in the next 12 months, 10 national elections and a very important municipal election in Venezuela. And the key questions are what will this renewal imply for the political dynamics of the region? What challenges will the new elected governments face? And how will this affect economic, social, and foreign policy in the region. These are at least the starting questions that I would like to post to the prestigious panelists that we have today.

Miriam Kornblith, who is the director of the Latin America and the Caribbean Program at the National Endowment for Democracy in Washington, D.C. She was also the vice president and member of the board of directors of the National Electoral Council of Venezuela where she helped oversee five elections.

Then, we have Mark Schneider, who is the senior vice president and special advisor in Latin America for the International Crisis Group and formerly the director of the Peace Corps.

And my colleague here at Brookings, Harold Trinkunas, who is the Charles W. Robinson chair and senior fellow and director of the Latin American Initiative in the Foreign Policy program here at Brookings.

So without further adieu, I'm going to give the panelists 10 minutes each. I would really ask you to try to keep to the 10 minutes. And then we will have an initial round of discussion among ourselves, reaction to your comments and additional questions, and then we'll open it up for questions and answers of the public.

So Miriam, would you like to go first?

MS. KORNBLITH: Yes. Thank you, Ernest. Thank you very much. Thank you to the Brookings Institution for this invitation. I'm delighted to be sharing the panel with Harold, a long-time friend from for studies on Venezuela.

The first challenge to address this is to be able to talk about 10 crucial elections, plus one municipal election, plus all the implications in 10 minutes, but I'll do my best -- try.

So first of all, I mean, based on my previous experience as vice president of the Electoral Council, of course, I have to be very impressed by the fact that Latin America nowadays has become an electoral democracy, as you mentioned, and that elections are the only game in town in order to select authorities, in order to remove authorities.

Of course, with the exception of Cuba. So that's pretty outstanding.

Elections, on the other hand, or electoral systems and institutions and political institutions in Latin America have become very sophisticated. There is a large variety. Just looking at this list of 10 plus one municipal elections in the coming year, we can see that in some cases presidential and legislative actions are carried out together; sometimes they are separate. Many countries have carried out primaries in order to select their candidates. Some countries have runoff rounds to select their presidents. In many cases, women have very prominent positions. So the conflicts of elections and the different arrangements and political rules are quite sophisticated, have included a lot of changes, reforms, and in general I would say that's very positive for the region.

However, it's also worthwhile mentioning that this is not homogeneous throughout the region. In some cases, we have also seen a sharp decay in the electoral and political systems. Obviously, the Venezuelan case is an outstanding case in terms of decay of the electoral system. Ecuador is another case. Nicaragua. And in some countries we also see that the electoral system is still dealing with difficulties, challenges, vote buying in Colombia, for example. Rigid system in Honduras.

So despite the fact that we are happy and proud of seeing

how electoral democracy is now consolidated throughout the region, we are also worried by the fact that in some of these countries, some of which will hold elections in the coming months and year, have also suffered serious setbacks and backsliding in terms of their electoral system.

In terms of the implications and the nature of the upcoming elections, I would like to distinguish elections in three subregions because I guess that's the way to address the challenge of talking about all these elections in 10 minutes.

So first of all, we have the Central American region. From the 10 presidential elections that will take place in the coming year, four of them will take place in Central America. So this is probably the subregion that will be more affected by these changes in power. The countries involved in these elections are Honduras, El Salvador, Costa Rica, and Panama.

In the case of Honduras and El Salvador, both countries are facing very critical elections. The elections in Honduras will take place on November 24, a month from now. Those are general elections that mean presidential, legislative, mayors, and vice presidents -- three vice presidents. In the case of Honduras, so far the race is very, very tight. The main candidates are Xiomara Castro de Zelaya. That's Manuel Zelaya's wife, former President Zelaya, who was ousted in the coup in

June 2009, and the main contender in this case is Juan Orlando Hernandez, from the Partido Nacional, one of the traditional parties in Honduras. So far, polling is showing a very, very close race. Xiomara Castro with 29 percent of the vote; Juan Orlando with 27 percent of the vote. However, much of the support for Xiomara comes from the rural areas where polling is not widespread, so there may be changes there. However, beyond the analysis of these polls, a prominent feature of these elections is the high polarization that still shapes politics in the country, and the fact that a close result may lead to tensions, violence, non-acceptance of the result of one of the parts. So this is a really crucial and critical election, and it may have implications, whatever the result is.

The case of El Salvador is also a critical election -- upcoming critical election. For the first time since Xiomara returned to democracy, this may be a three-party election with the main candidates being Salvador Sánchez Cerén from FMLN, Norman Quijano from ARENA, and Antonio Saca from Unidad. Antonio Saca was the president, the ARENA president, and at this point he split from ARENA and he is running, so this will also lead to a difficult result that may be contested.

In the case of Honduras and El Salvador, it's worthwhile mentioning that if left learning parties -- that is Xiomara Castro and LIBRE, or if an FMLN wins the election, there is a discussion about the possibility

of becoming members of ALBA or aligning with the so-called ALBA Alliance in Latin America, coupled with Nicaragua. That could reshape politics in Central America.

On the other hand we have Costa Rica and Panama, which within the context of the region, kind of normal elections, probably Johnny Arroyo from the ruling party will win in Costa Rica and probably Juan Carlo Navarro from the opposition party, Partido Revolucionario Socialista, will win in Panama. However, these four elections, especially the Honduras and El Salvador election, may create tensions and a new set of situations and tensions in the region.

In the case of the Andes, even though the municipal elections are not a national election, I would like to mention those elections because the last time that mayors were elected in Venezuela was in the year 2008. The last time municipal councils were elected in Venezuela was the year 2005. Since then, a lot has changed in the country. Among other things, President Chavez is no longer alive. The opposition has expanded significantly its support. And on the other hand, the country is facing just an unbelievable economic crisis and it's in the midst of huge disarray. So this can provide a very important opportunity for the opposition to expand its support and to have an impact on the correlation of power at the local levels. This doesn't mean that it's going

to be easy. It doesn't mean that the government will accept this easily; however, this will signal changes and will consolidate some of the changes that have already been happening in terms of expression of the general public's preference and displacement of support for the government. That paradox may not lead to an acceptance of the opposition and a pluralistic game. This has not been the case in the past. Every time the opposition has won, the government has become more radical, more repressive, and more authoritarian. So, however, this is an important opportunity.

The other two countries that will have elections are Colombia and Bolivia, both presidential elections. Bolivia, at the very end of the cycle, at the end of 2014. Colombia will have elections, legislative elections in March, in 2014, and in May 2014, presidential elections. Again, Colombia is a very interesting country. It's facing many, many important challenges. The peace process is one of them. It's still dealing with the internal conflict. It has to deal with the sequels of internal conflict that is displaced people, victims, and on the other hand, dealing with the conflict has prevented serious and responsible policy in terms of tackling inequality and poverty in Colombia. That's something that Colombia still has to address and is creating intense, increasing tension inside the country. At this time, in November, at the end of November, President

Santos will have to say whether he is running or not for re-election. Apparently, he will. His approval ratings have increased in the past -- I mean, have increased recently compared to the past. He now has a 41 percent approval, so that may provide a good basis for him running for re-election.

In the case of Bolivia, it's still far away, but it seems like Evo Morales will run for election and will easily win. However, the question in this case is whether he will preserve his majority -- his absolute majority at congress. So far, the opposition in Bolivia has not been able to articulate, to present unified platforms, and like the opposition in Venezuela. However, there are some timid and slow advances and progresses in that respect, so that may have an impact in the composition of the new congress in Bolivia.

The upcoming legislative elections in Argentina in October may prove to be very, very important. Even though this is only a partial renewal, these are midterm elections of the legislative branch, that will have an impact, and they already had an impact in terms of the primaries. According to the most recent polls, Sergio Massa from the Frente Renovador, it's a split from the ruling party within the Peronista party, may obtain 45 percent of the vote in his race for the House against his main contender, which is Martin Insaurralde from the Frente para la Victoria,

which is Cristina Kirchner's party, he may obtain 32 percent of the vote if elections were this Sunday.

So that is showing -- in the first place it's showing the decreased support for the Kirchner government, the Kirchner era as such, the 10 years of both Cristina and Nestor Kirchner. On the other hand, it poses a very difficult challenge. What happens to this kind of lame duck government with a very long period until the next presidential election? Presidential elections in Argentina will take place in October 2015. From the October legislative elections to that moment, two years will extend in probably a debilitated government for Cristina Kirchner. So that's in the midst of demand for more transparency, for anticorruption, also demands in terms of well-being of the middle class. So that will probably pose severe challenges.

Michelle Bachelet is expected to win, probably with around 40 percent of the vote. Her main challenger, Evelyn Matthei from the Alianza, is around 12 percent of the vote. In this case, the question is basically will she win in the first or in the second round, and will she have enough support in congress to promote the constitutional reform that she has offered. Chile, despite the fact there is a strong and stable democracy, is facing challenges in terms of social inclusion in equality, issues that will have to be tackled during the Bachelet government, and

with high expectations during that government. So it would not be surprising to see a lot of social unrest.

Finally, Brazil, Dilma Rousseff, is also facing challenges. Interestingly, from a dissident member, the former Minister of Labor, Marina Silva, who established an alliance with Eduardo Campos, and even though Dilma still seems to be very strong, this alliance is strong enough as to present challenges to her rule, and many sectors of Brazil are kind of tired of the long PT government. On the other hand, Brazil will have the World Cup. I mean, we all know how enthusiastically Brazil is supporting the World Cup. However, there is a lot of concern about the ability of Brazil to really meet all the deadlines and the challenges associated with this huge event. So that may have an impact.

And finally, Uruguay is very stable, and probably Tabaré Vázquez will win the presidential election.

Well, I'm not sure I've met the challenge of doing all this in 10 minutes.

MR. TALVI: Thank you very much, Miriam.

Mark.

MR. SCHNEIDER: Thank you.

I want to thank Harold and Ernesto and Brookings for inviting me to participate today in this session.

The International Crisis Group, as many of you know, is a nongovernmental organization focused on the prevention and resolution of conflict and deadly violence. We've been involved in Latin America since 2002, and just to give you some sense, on our board, Moisés Naím, Ricardo Lagos, are our Latin American representatives based right now in Colombia and focused on the conflict in Colombia. And we moved now more recently into Guatemala and Mexico as well.

I think when you look at the 10 elections, obviously, all of them will be decided by internal factors, but they also are worth examining in terms of some of the broader regional dynamics that we've heard. Starting, I think -- and we want to emphasize -- starting with the absence of traditional military threats to democracy. They also include the presence of new threats, however, to democracy in the form of organized crime attempts to capture control of political decision-making. To some degree, on the positive side, you see the counter pressures to deepen democracy advanced by social movements. And also, most of these elections will be affected significantly by how the voters view the candidates in relation to two issues -- the perception and reality of citizen insecurity, and the frustration of continuing wealth disparities and corruption.

And I think that the point that Ernesto made is accurate in

terms of the growth of the middle class during the past decade, but as Nancy Birdsall and others have noted, they are very -- it's a very fragile situation, and many of those people fear falling back into poverty.

Now, in some countries, I think elections are simply going to indicate basic changes in national policy, but in others they also may reflect institutional changes that will impact on political dynamics for a generation to come. And I would say that in none of them do we see really significant additional threats, regardless who wins, in relations with the United States. And two, depending on the winners -- we've already heard Honduras and El Salvador -- and more depending on the policy decisions of those winners, you might see more difficult relations with the U.S.

But let me add that one of the other elections that may turn out to be a watershed could be the 2014 congressional elections here. If the recent debt and fiscal crisis are repeated in January and incumbent party approval ratings are what they currently are, you could see a major change next November, which would affect not only policies domestically but also relations in Latin America.

Now, the first Latin American election that I witnessed as a Peace Corps volunteer was in El Salvador in 1968. The legislative elections opened for the first time the opportunity for center left parties to

participate in the elections. Four years later, I followed the first open presidential election, which was won by Christian Democratic nominee candidate, Napoleon Duarte, with the center left vice presidential candidate. The military responded with fraud, closing down the counting for three days, until they could guarantee a win for Colonel Arturo Armando Molina. Two decades later, I helped to organize the formal election observation missions in El Salvador for the first presidential elections following the peace agreement. And in the end, the previously warring sides accepted the outcome. It was dicey for a while, and at 2 a.m., having conversations with Shafti Condell to convince him that the FMLN CD candidate, Rubén Zamora actually had lost, was not easy. Rubén Zamora, by the way, is now El Salvador's ambassador to the United States.

And I was also there in 2009 when ARENA accepted that the FMLN candidate, Mauricio Funes had been elected. Those are important progress steps with respect to democracy. I've observed a bunch of elections, and I have attended the inaugurations of Antonio Guzman of the Dominical Republic in 1978, that ended the military-run reign of Joaquín Balaguer, of Raúl Alfonsin that ended military rule in Argentina, of Patricio Aylwin in Chile that ended the Pinochet dictatorship, and of Préval that signaled the end of a military junta and the end of the military in Haiti.

I say that because it is important to emphasize that right now no one anywhere expects the military to take power in any of these elections or even to coerce the electoral tribunals to guarantee that their candidate wins, even in Honduras, a country that suffered a coup only four years ago. And given Latin American history and given the U.S. role in some of that history, it's an important achievement. Now, democratic institutions may be questioned in various ways, but no one wants to see the man on horseback coming back to power.

Let me also mention three kinds of perspectives to look at the elections. First, electoral mechanics. Second, social movements and protests. And third, crime and violence. Electoral mechanics have changed in a variety of ways. Diasporas and ex-patriots are now allowed to vote in Costa Rica, the Dominican Republic, and El Salvador, and while the numbers are small right now, in some elections, small numbers still can have a significant impact on the outcome. And down the road in El Salvador, if not in this election because only 10,000 of the two million or so ex-patriots have registered to vote here, but down the road, that could significantly affect all future elections in that country. And at the very least, diasporas all over the world are significant sources of fund-raising, and that's why you also see Sánchez Cerén campaigning in L.A.

The incorporation of primaries into the electoral process is

also important -- important not for the elections today so much but important in terms of strengthening party democracy in the hemisphere. Internal party democracy has not been as vibrant and robust as one would hope, and this may be a significant change. Just as an example in Chile, some 40 percent of eligible voters participated in the primaries. That's double the norm here.

A third change is voter registration. Chile this year provided for automatic registration of all citizens over the age of 18, boosting the electorate by 55 percent. Now, the expectation is that a significant portion are going to vote. Argentina extended suffrage as well down to 17 years, 16 in some cases, boosting the electorate by 1.2 million and half of them, 600,000, have registered.

Finally, in terms of mechanics, this year marks the rising focus on campaign finance. Unless there are greater controls on campaign financing, one can expect incumbents to wind up time and again with war chests that discourage all but the most ideological or rich candidates to challenge them, and we haven't done a very good job in sending messages in terms of what the appropriate controls should be on campaign financing either.

The penetration of organized crime into campaign finance is also of growing concern. The interference of criminal cartels and politics

pose threats to state institutions, particularly at local and regional levels, where their purpose is weakening law enforcement, and their consequence is undermining the integrity of democratic institutions. In many countries, as we heard this week right here from Kevin Casas-Zamora, there are weak rules and weaker enforcement. Honduras, for example, has no independent auditing for its electoral commission, and thus, no effective mechanism to detect corruption in campaign financing.

A second inquiry is the potential electoral consequences of rising social protests, whether we're talking about Brazil, Bolivia, Chile, Haiti, Colombia, widespread social protests have demonstrated strong dissatisfaction with government policies, public services and corruption, and have the potential to be translated into anti-incumbent voting consequences, and those factors add a significant degree of uncertainty in terms of the election outcomes, because even after a decade of unmatched economic growth, you still see what Nancy Birdstall called the strugglers, who really are not sure that they really have finally made it into the middle class, and continuing levels of inequity that are concerns throughout the region.

And third, and finally, potential voters in every poll that you can find, list citizen insecurity, crime and violence, as the issue that most concerns them. In some cases, it may be just perceptions, but in many

countries we're not talking about perception; we're talking about reality. Caracas has been named the most violent city in the world. Honduras still leads in terms of the countries of crime-related homicides. Ineffective policies, weak and tainted law enforcement, from police to prosecutors to prisons, constitute a national crisis.

The reality is that in the 10 countries that we're looking at, you find many of those with the highest levels of violence worldwide. El Salvador and Honduras, there are more than 60 homicides per 100,000, and Brazil and Colombia. In fact, if you look at 12 of the most violent cities in the world, 12, 20, of the most violent cities in the world are in those countries where elections are taking place in this next go-round. And so, hopefully, voters will demand better policies in dealing with that, not simply deploying the armed forces in mano dura policies because that hasn't worked.

Now, let me briefly run through a few elections just to add a little spice.

Chile, Michelle Bachelet will be elected for the second time, unless time stops. Michelle left office four years ago with over 70 percent approval rating, and even though her Concertación government had lost substantial support which resulted in the first win by the conservative opposition since the country's return to democracy, she is simply above

everyone else in terms of popularity. And also, she's helped by the fact that her chief opponent is Evelyn Matthei, who became the Conservative Coalition candidate when the original winner of the party primary left for health reasons. And she has been very hard-pressed to explain that she does not represent the Pinochet past of her father, an Air Force general and member of the military junta. Michelle's own father died in Air Force custody, as many of you know, and last year, two Air Force generals were charged with torturing him to death.

The remaining questions are simply will she win in the first round? It's unlikely, given that there are seven candidates, but not out of the question. Remember that this year the Communist party is also part of her coalition. And if there is a second round, will the opponent be Matthei or a surprisingly successful independent, Franco Parisi? And also, will the results of the legislative elections in Chile produce a majority that can finally change what they call the binomial system in which in order to win in two seat districts, both seats, the party has to get two-thirds of the vote.

Honduras. Of all the races, the most uncertainty, the most concern about criminal campaign financing, and the highest potential for violence, are present in the Honduras race. The 100 year control of the political party by the conservative Partido Nacional and a slightly less conservative Partido Liberal, both essentially responding to the country's

economical elite, backed by the military in the past, may come to the end in this election. You've heard Xiomara Castro de Zelaya, the wife of the deposed former president, is running under the banner of a new party, LIBRE, and at least in most polls is barely ahead of her opponents. There is no second round, so if she comes in first, she wins. And also, one of the interesting things is the reason that she may do that is because another candidate is a former general, Romeo Vasquez Velasquez, who actually was chief of staff and who actually deposed Manuel Zelaya, he is running with a separate party and is likely to draw votes, which normally might go to the conservative candidate. Now, if she renews her husband's leaning toward Venezuela and ALBA and does no better than the current government in responding to drug trafficking, there may be some significant difficulties in relations in the future.

Two, quickly. El Salvador. The FMLN decided to go with its heart rather than its mind or rather than its head in choosing its presidential nominee. Selecting Salvador Sánchez Cerén, former commandant from its ideological wing as its candidate, and left its more moderate and, I think, probably popular, mayor of Santa Tecla, Oscar Ortiz, as the vice presidential candidate. The right wing ARENA party did the reverse. They chose the more moderate within its own context, mayor of San Salvador, a proven vote getter, as its presidential candidate and

put its sort of ideological hard right candidate as a vice presidential candidate. Normally, one would say that Quijano and ARENA will likely win in the first round. Unfortunately for them, Antonio Saca, the former president who split his own party, GANA, is likely to draw a significant amount of votes and force the election into a second round where GANA is undoubtedly going to try to negotiate his best deal for either of the two candidates.

Finally, Colombia. President Manuel Santos will face a very tough fight if, as expected, he runs for a second term. His campaign though will take place as much in Havana this year as in Colombia next year. If the peace talks with the FARC reach a conclusion that puts an end to 50 years of violent conflict in Colombia, it's very hard to see him losing. While the formal opponents have not finally declared, the major opposition party is led by his predecessor, Álvaro Uribe, who really has broken unwritten rules for outgoing heads of state not to blister their successors, especially when they are close colleagues and members of your government. While barred from running again for the presidency, Uribe is an announced candidate for the Senate, is the most vitriolic opponent of Santos and of the peace talks with the FARC. He not only is trying to spoil Santos's bid for reelection, but he's also attempting to pull the rug out from the chance for a negotiated peace settlement. And I

suspect that in the end he may, if there is a peace agreement, he will be unsuccessful and Santos will be re-elected. And I'll stop there.

MR. TALVI: Thank you very much, Mark. A few themes are already appearing, which are going to be interesting for the discussion. I mean, the concern with inequality and social exclusion, which I think we should discuss in a context in which resources are not going to be as abundant as they were in the past. The concern with citizen security and the demand for mano dura [strict criminal justice], I think that's another important source of concern and of discussion.

And I'll let Harold do the talking and then we'll do a round of discussion among the panelists.

MR. TRINKUNAS: Well, thank you. First, I'd like to thank my colleague, Ernesto Talvi, for suggesting the idea of this panel and for helping to organize this joint event between ESPLA and the Latin American Initiative here at Brookings, because as we can tell, it's obviously a matter of great interest to those in this room.

Again, also, one of the risks of being the last speaker on a panel is that a lot of the themes have already been touched on by my colleagues on the panel, and hopefully, I prepared for that a bit by choosing to focus instead on some of the policy outcomes or changes we might see associated with some of these elections, particularly in places

where we do see social turmoil. And I do want to touch on a couple areas I think more generally where we can see some variation. Because on the one hand I do agree that a great deal of the social concern surrounding these elections is driven by an economic situation in the region where the resources available to support policies related to income redistribution policies in the middle class have gone down.

However, I also think in countries where you have more consolidated middle classes -- Chile, maybe Argentina, even in Brazil -- we're also starting to see some concerns with demands for citizen services. The creation of a new middle class begins to drive some concerns with quality of education, futures of public safety, as well as -- although that's a more general concern -- and just generally quality of government issues related to corruption. So I'd say there's a range of issues that are driving concern. It's not purely economic, although economics are really the dominant area of concern.

The other thing I would say is that some of the unrest that we might think about in the context of elections is driven specifically by the elections themselves, and I know the panel has been very optimistic about the fact that democracy has been consolidated across the region, but there are a number of countries where the quality of elections are questioned and number of governments which have taken progressively

more limits on the opposition, more limits on the ability to campaign, have taken advantage of incumbency in office to a greater degree than ever before, have used discriminatory application of the law to exclude opponents from elections, manipulated budgetary processes to undermine opposition held government offices. So on the one hand we do see a region where democracy is the norm and where an entire generation at this point has pretty much grown up in democracy, but we also see a number of countries where governments have set limits on the electoral process. And I think Miriam and Mark touched on a couple of those. And although generally these are more associated with some of the more populist governments in the region, we have to remember that populism in Latin America spanned the left and right spectrum in the last 20 or 30 years and that the reasons why these governments tend to adopt these policies that maybe we can touch on during the Q&A.

Turning now to the issue of some of the policy outcomes we might see associated with elections in the region, and I concur with my colleagues' assessment of the various elections so I won't dwell on them. I do think it's interesting that when we look at what is going on today in Brazil we already see the economy surfacing as one of the major issues -- economic management surfacing as one of the major issues in the election between Marina Silva and Dilma Rousseff as it's shaping up now.

And here I think one of the things that we have to see is that the creation of the middle class in Brazil is based not just on redistributive policies but on the growth of consumer credit and on just general economic growth, which begins to recede into the past now. Certainly, the government is concerned to maintain a certain level of popular support and put off economic measures that might lead to consumer unhappiness, things that might include currency depreciation or tightening of credit. And they've already signaled this through pretty aggressive intervention in the currency markets to try to preserve the value of the currency, subsidies to businesses and local firms of economic nationalism. So we see a collection of economic policies that might have an electoral dimension as you try to wait out the year until the next presidential elections before taking any policy -- making policy adjustments that might cause consumer unhappiness and therefore have an electoral concern. So that's one thing I think I would pay attention to in the case of the Brazil elections.

Colombia, another very important case. And I think as one of my colleagues observed, one where the peace negotiations are just going to have a central role to play in the elections. And one thing that I think may be worth discussing is the extent to which the FARC are going to have to make some sort of strategic calculation about how to manage the peace process. Is Santos their best negotiating partner? Or will they

have to think about who might come after him? And this is a bet the FARC is going to have to make and we'll have to see how this shapes up in the negotiating process.

And finally, I think in the case of Chile, we do see a case where some of the concerns are maybe not quite as driven by economics. This is much more of a traditional election, but I do think in terms of policy we are going to see greater attention paid to the educational issue, which is still central to the election. There's a considerable domestic policy disagreement there. But in international politics, I also think that if Michelle Bachelet wins, and I agree that's the way to bet, a general kind of lowering of Chile's profile internationally, a de-emphasis of the Pacific Alliance as being something that's different ideologically or politically speaking from the other regional integration projects, maybe more of an approximation to Brazil just because her team generally takes kind of a lower profile approach to foreign policy.

And then turning now to some of the elections where we have concerns over the quality of elections or where there's high degrees of polarization, and I think Honduras and Venezuela are obviously the two cases where that's one of the key factors. And one of the things we know from highly polarized elections is that they tend to create an increased likelihood of opposition questioning of results, but these are also countries

where there is some clear violations of electoral and democratic norms in the recent past, so there's reasons that are driving these concerns.

One thing I would note, and it's very interesting, is that if you look at the level of trust in elections across Latin America, if you look at the latest data from America's barometer, there's quite a big range there. Venezuela has been a country in the last decade which has generally highly trusted elections and generally high levels of satisfaction with the performance of democracy. Clearly, the current economic crisis may be changing all of that and these upcoming elections will be an important indicator I think of which way that might go.

Honduras, on the other hand, is on the other end of the spectrum in terms of trust in elections, really one, two or three from the bottom. And the fact that these elections might be close, they might be contested in a situation where there's kind of low popular trust in the quality of elections, might add to the polarization and the tensions that might surround these elections. So I'd point to those two as issues where you might keep an eye on what's going to happen both because of the polarization issue, but even in the Venezuelan case, because it's very clear that since there was a questioning of the outcome of the April elections for president in Venezuela, these might be seen as a referendum in the government. There's been a lot of questioning of government

performance over the last nine months. The economy is in serious problems and it's clear that they're going to have to make some sort of adjustment after the elections, and the question is how much they're going to radicalize, not whether they're going to radicalize. So that's coming down the road as a policy outcome of these elections in Venezuela.

To conclude and give us some time for Q&A, I do think that it's very interesting what Ernesto pointed out that the incumbency has still a strong advantage of Latin America, even in a situation where economic conditions are not nearly as favorable for the incumbent governments as they were a few years ago. And this may point to simply the advantages of incumbency in some countries, but it does point to things like campaign finance reform and dealing with the use of state resources to support electoral campaigns, which I think is a problem in a number of countries in the region.

And finally, in some of the electoral systems that have taken a more authoritarian turn over the last decade, these governments were able to shift in this direction in conditions of high economic performance, relatively speaking to previous decades, which supported levels of popular or election performance in those governments. And I think one of the questions I would raise is in governments like Venezuela or Ecuador or Nicaragua where there have been some questions about -- there's been

contestation over electoral outcomes, whether the governments are going to be able to sustain these practices that they put in place over the last decade are going forward in the present economic situation.

And I'll just close with that and turn it back over to Ernesto.

MR. TALVI: Thank you. Thank you so much, Harold. And thanks to you all. And really, we have more topics in the agenda than we are going to be able to cover.

Let me start by asking you if you think that the fact that there is still a demand out there for redistribution given that the themes of inequality, social exclusion, are still very operational in the region. In fact, in Chile, it is a key campaign topic. And I'm pointing out Chile because that's a country that has made very substantial economic and social progress in the last 25 years.

Combined with these spontaneous social protests that now can be convened through the social media, creating instant referendums and putting pressure on governments, the governments are going to be faced with very substantial pressure to reduce inequality and social exclusion, to improve, as Harold was saying, public services, not only demand for redistribution. There are mechanics that can, I mean, really create some forceful demands with mass demonstration in the street at a time when the resources are going to be scarce. So do you fear that the

combination of those pressures with scarce resources to be able to satisfy them could bring us back to some of the distortionary policy? I mean, go and tax the rich, go and tax the corporations? Or even, let me say, use inflationary finance to resolve these internal conflicts within society. I pose the question to the panelists. Maybe Mark, do you want to start?

MR. SCHNEIDER: Sure. I mean, I don't think there's any question that those kinds of pressures are going to be present in almost all of the countries. And as you say, the most extreme example of where you would be surprised, Brazil has made the most progress in the shortest period of time in sort of reducing the numbers in extreme poverty and in closing some of the equity gap where they've traditionally been very low.

But the concern about lack of quality public services, the point that you mentioned, there's a really interesting study that Vanderbilt did on this issue in Brazil, and looked at the impact of social media in being able to generate organizations for protests immediately ranging across different groups was remarkable. And I don't think there's any question that governments are going to have to figure out a way. And they don't have to do it all overnight. They have to demonstrate that they are concerned about the issue, and that goes in Chile as well. That they're concerned about closing the inequity gap more rapidly, the same in Colombia. And I'll give one quick example. In Colombia, land has been

the issue of the conflict for 50 years. They've had really a very remarkable law passed on victims and land restitution, but very little implementation yet. And so you see the land protests, the rural protests in this last three months, and that's going to be a major issue for the country. They're not going to resolve it in a year. But what needs to happen there and in other countries is the people need to see that the government recognizes the issue and that it does begin to make some policy changes that are aimed at producing over time a significant difference in results. And it's that ability to create policies and to translate and to communicate a determination over time to implement those policies that's going to be required and it's not going to be easy.

MR. TALVI: The question is whether, and maybe Harold, since you touched upon it, whether those policy changes that attempt to resolve these conflicts are going to be pro-growth or anti-growth. I mean --

MR. SCHNEIDER: Let me just say quickly, I don't think it has to be either-or.

MR. TALVI: I know.

MR. TRINKUNAS: Well, I mean, I think that it really depends on the model that the governments have followed so far in terms of building their electoral base. I think there are countries that are clearly

dependent much more greatly on promoting consumption where trying to cut back or reduce that demand clearly cuts against the political message of the government. And this is particularly true in countries that have had sort of rentier economies that have benefitted most greatly from the commodity boom I think of the past decade. And Venezuela is probably the most extreme example of this where all the measures taken so far have been in the direction of progressively more state controls on the economy. And the problem they're going to have now is that the possibility of growing their revenues is -- I think they've reached a limit of that so they're going to have to start constraining consumption, and constraining consumption will probably lead to, you know, necessarily more authoritarian measures to try to implement those constraints because it's unlikely that they'll use orthodox mechanisms to try to deal with this, such as a devaluation or reducing government spending. So they will resort to more inflation measures.

There's another set of governments which have generally followed good macroeconomic policies, but have been able to address issues of inequality based on promoting the middle class, which inevitably means higher levels of consumer demand. I'm thinking of Brazil. And they have to thread the needle very carefully on how to sustain that middle class while at the same time not having to take economic measures that

would sort of undercut that consumption. So what do they do between now and 12 months from now? And so the horizon is much more short-term and, Ernesto, you can probably comment on this, but it strikes me that they're trying to use their large international reserves to in a sense cushion out some of these effects that they're facing for the end of the commodity boom and the reduction in financial close to again subsidizing firms, allowing interest rates to remain relatively low compared to where they could be, and keep the currency overvalued, which are all good for the consumers but not necessarily good for Brazil's economic performance. So I distinguish between two different sets of countries. There are more in each category.

MR. TALVI: Miriam, you brought implicitly I think a very important topic to the table when talking about Honduras and El Salvador and the possibility that they would join ALBA. And this is something I think, I mean, we are seeing like a split in terms of trade integration insurgence into the global economy in the region. We have the Pacific Alliance that seems to have a very open-minded sort of strategy. Then, we have Brazil and Mercosur, who appeared to become increasingly isolated from the global value chains and global trade, and Central America, which to me, I mean, not all of Central America but it's a little bit of an open question. I mean, these are ALBA kind of countries that would

somehow reject the current world or global governance altogether. I mean, how do you see the region evolving in terms of its integration into the global governance and into the global value chains and trade?

MS. KORNBLITH: Well, that's a tough one.

Well, first of all, I think there are several comments I'd like to make. First of all, I think everybody has mentioned the middle class. I think that's a main driver nowadays in Latin America, and the fact that many governments have been able to deal quite effectively with lifting millions of people from poverty has put the pressure in another sector, which is the middle class, which is now demanding better services, education, quality jobs, and that is creating a huge demand inside the countries which is linked to the global insertion of Latin America in the global economy. We know Latin America trades commodities and that has pushed the growth in the past years, but there is a strong limitation in terms of ability of Latin America to insert itself in a competitive, productive way in the global economy due to many of the limitations that are affecting middle classes. Low quality of education, poor public services, poor quality of infrastructure, low quality of jobs, which are all linked in terms of internal politics and also external politics. Or external policies in terms of the ability to have a productive insertion in globalization.

In terms of these alliances, I think it's also interesting to

relate them to polarization and the different ideological alignments that we find in the region. I think that these elections are also showing generally that there is a shift to more moderation. There is a shift to a more pragmatic approach towards internal and also international relations. From my perspective, ALBA is losing part of its steam basically due to the absence of Chavez, but also the total collapse of the economic model in Venezuela, which is raising many questions in terms of the hyperconcentration of economic activity at the state level, the high dependence on commodities and basically natural resources. All of that is the inability of Venezuela to sustain its commitments with Petrol Paribe, with ALBA. Honduras is still waiting for a shipment of oil. In the past four or five months it has not arrived. Nicaragua is already feeling the reduced cash transfers for the government. So these new alignments, some of them emerge through the instigation of Venezuela, such as CELAC. Venezuela is now a member of Mercosur. UNASUR, maybe Brazil had a lot to do with it. But I also think that this new realignment will also pose new questions or questions about the viability and the sustainability of many of these efforts.

The Pacific Alliance is, of course, something new and something exciting from many standpoints, and it has been also viewed or assessed in terms of the political alliance inside the region, but I think that

looking at these elections and kind of finding that there's I would say like a trend towards moderation, probably these regional alignments will also be reunderstood and reshaped in terms of more pragmatism, better ways to be part of the global community, and address the challenges inside the countries, such as increased productivity, insertion in economic global world through more quality and productivity and competitiveness.

MR. TALVI: So Miriam, this is a pretty optimistic assessment that you're making in the sense that you think that increased moderation is going to put the focus more on productivity enhancing kind of policies and international realignments that don't necessarily break the links with the international community. So that's a pretty positive tone with which to, I think, start asking our participants to pose their questions.

I would appreciate if you could identify yourself and try to be as brief as you can when you pose your questions.

MR. GREEN: Thank you. And I'd like to thank the panel for a very stimulating discussion.

I'm Sam Green from the National Defense College in UAE.

I'd like to turn the conversation to Central America. I'm perhaps a little more skeptical than the panel about the extent of democratic consolidation, particularly in Honduras, and to a lesser extent in El Salvador. So I'd appreciate if you could remark or elaborate a little

bit more on why you think that these states will be able to endure when the democracy is subject to stress. For example, a disputed election in Honduras or a move toward ALBA in the case of a leftist win in either country. Thank you.

MR. SCHNEIDER: I think that there's a significant difference between El Salvador and Honduras, number one. I think consolidation in El Salvador has been far more deep rooted. Remember, since the conflict you've had three out of the four -- the peace agreement -- you have three of the four governments have been conservative governments which have been essentially accepted by the left. And then the left, in winning with Funes, the right accepted that in the sense that they didn't attempt any extra democratic means to challenge the government. And I think that as well in El Salvador, the local governments are much more engaged in dealing with issues of public services than in some other countries and more capable of responding. I think El Salvador's problem is going to be whether it manages the issues of citizen insecurity with the success or failure of the current truce with the maras. I think really that the next government is going to have to come to grips with a long-term effort at dealing with the underlying causes of violence in their country, not simply the question of dealing with the gangs.

Honduras is a totally different issue. Honduras right now is,

whatever you want to call a failed state, that is Honduras. The government does not have the monopoly of legitimate force in the country. From San Pedro Sula to the coast you have many of those communities that are either under the control of or afraid to act in ways that are counter to the power of the cartels in those areas. And I think Honduras is facing a major challenge. And the question is whether or not there's going to be a sufficient -- in my view anyway -- whether it's Xiomara who wins or one of the traditional parties, is whether Honduras is going to undertake and get support to undertake some of the kinds of policies that will begin to in a sense reconsolidate democratic institutions in that country and it'll mean a very serious effort at breaking the control of some of the organized criminal influence and pressure on public institutions. And I would argue that one of the things that should be done right now is to press every candidate in Honduras to accept that whoever wins, the others will support the establishment of something like ICC, that is an external accepted international body with the ability to bring cases against government corruption and against international criminal involvement in the country -- bring cases to the attorney general to be prosecuted as occurred in Guatemala.

MR. TALVI: Thank you.

MS. KORNBLITH: Just to add a brief comment, in the case

of Honduras, I think one of the main concerns is the fact that the whole political and electoral system is designed to favor the two party system, and currently, Honduras is facing the challenge of a multi-party system or basically the inclusion of a strong contender, a third-party, LIBRE, in a very feeble institutional setting, not only from the electoral point of view but beyond the electoral point of view. So that's a challenge that can be met and can be addressed, but it's difficult. It's difficult to reshape institutions immediately and to change the whole political party dynamics in a very short period. So that is, I think, it is a very -- it is a threat, it's a challenge, and it's difficult to foresee what's going to happen if either one of the candidates wins with a very small difference.

MR. FOLMER: Will Folmer, Department of State.

I had a question regarding indigenous populations. There's often the feeling among this population that they're being left behind in economic development but they've also dealt with the brawn of externalities in regards to commodities and, say, development of dams. And that they aren't getting sort of the financial support from the government. And now, especially with state revenue from the commodities decreasing, are we going to see an increase in social conflict with indigenous populations?

MR. TRINKUNAS: I think that's a very interesting question

and we have to distinguish among the states where indigenous populations are sort of electorally significant and also states where extractive industries play a major role because you're clearly pointing towards the role of extractive industries and commodity production as sort of prompting, although I did notice in the case of Nicaragua's discussion of building a new canal that that also had effects on indigenous communities.

And so clearly the Andes is an area where this has the greatest implications. In the upcoming electoral cycle I think this is really more something that might touch at the outside Bolivia. The question I think really becomes one where states will try to respond to the decline in commodity prices by trying to attract more investment and make up the difference on volume, so to speak, in countries, for example, such as Peru and to some extent in Chile, where I think you might see some accentuation of these kinds of conflicts.

In other countries where the resource nationalism has sort of been more of a barrier to increased investments, you know, I'm thinking here in Bolivia, we'll have to see. And I think in Ecuador, obviously, this has played a significant role historically because you have very well consolidated indigenous organizations in civil society that are able to put pressure on the government. I know this is a perennial issue for President Correa, even though he's going into his third term. Well, he doesn't have

an election coming up, so that's why I'm not going to dwell on that.

MS. KORNBLITH: And in the case of these elections, I mean, of course the indigenous issue, as you mentioned, is very salient and relevant in those countries that have a large indigenous population. But for these specific elections I think it's worth noting that in the case of Panama, all the mobilization of the CUNA indigenous groups have had a strong impact on the low ratings of the current government and the contender has offered to create a minister of indigenous affairs to take care of this issue.

In the case of Chile, also, the Mapuche organization and all the discussion about dams has also had an impact on Piñera's support and that's something that Michelle Bachelet will have to deal with. So in the broad picture that is relevant, but in also these very specific cases where you don't see a huge indigenous population, these have become also relevant issues.

MR. TALVI: Mark.

MR. SCHNEIDER: In all of these cases the question is whether or not the institutions are going to be able to establish mechanisms for participation and consultation that have real meaning for the indigenous populations and indigenous communities as they deal with the reality of investment in natural resource exploitations in their areas.

And thus far, it's up in the area. Very few of these mechanisms have been very effective thus far in ensuring that prior to investment some kind of arrangements are made that the indigenous communities feel protect their interests.

And the other is that when you look at Colombia, for example, the indigenous have been disproportionately affected by the conflict, and almost in every one of these countries we're talking about the rural poverty being the reality for all of the indigenous populations. And the fact is that thus far most countries have not undertaken significant sort of far-reaching policies aimed directly at reducing rural poverty in an effective way that incorporates greater services and benefits to the indigenous populations.

MR. TRINKUNAS: I just wanted to add one more thing on this. To the extent that the state is often not present or is present in very small or a reduced status in many of these rural areas, especially where these extractive industries are most likely to operate, it also creates a dynamic where civil society pressures companies, many of which have only just recently begun to think about things, such as corporate social responsibility, many times under pressure from civil society groups, not just in the countries but here in their own home countries where they are operating from. And so exactly what does corporate social responsibility

mean in this context and how do you distinguish that from traditional sort of patron-client relationships where corporations might sort of try to buy off local communities in ways that are not only problematic from the point of view of citizenship and, you know, possibility of discriminatory practices in populations, but also the implications for the state when it's not the state providing social services but instead it's the local large mining company or natural gas or oil company. So there's a lot to work on in that area I think that still needs a lot more discussion.

MR. TALVI: Okay. Over here. Then I'll come back to you.

SPEAKER: Hi. My question comes from a political long-run perspective. Taking into account IIRSA Initiative and the Banco de Sul, which are based more into an ideological community and integration from Latin America, I was wondering how you feel these new elections and this new democratic process are going to play in the long run. Are they implying a shift or do you think this is going to be sustained in the long run? Do you think this is something that will be repeated or we're going to have a strong shift from the options that you have in the different governments?

MS. KORNBLITH: I think in terms of Latin American regional bodies, I think there is a long-term trend already established, which is the will from the region to establish bodies that express basically

the preferences of the countries of Latin America. Excluding Canada and the U.S., I think those bodies that have been created, like Mercosur, CELAC, and UNASUR, will remain as typically Latin American bodies. However, what we may start looking at is the ideological and say maybe that's a hypothesis. I mean, the question is will there continue to be bodies very marked by polarization, ideological confrontation, or will they be able to shift towards more moderate positions, more pragmatic? I think that's the question more than whether these bodies will continue to exist. I think they have been created. They're a vested interest already and their interests in continuing to exist, but I think it's more about the substance of the dealings and the decisions.

MR. TRINKUNAS: I would just add on that that we have to remember that the way these organizations are conceived of, such as UNASUR or the ones that you mentioned, the leading role of Brazil in sort of organizing and creating these institutions, and Brazil's preference for regional institutions that have sort of a relatively thin institutional basis, not highly -- they're created so as to avoid tying their hands to any particular set of policies. So to characterize these institutions as having a certain ideological bent that's sort of embedded in them I think is not really the right way to think of them in the long term. These are institutions that really were in a sense promoted by Brazil and some of its partners to

advance its interest, to create forums where they could have discussions about South American or Latin American politics without including the United States or Canada. But not necessarily because Brazil wants to tie itself to any particular set of ideological or policy commitments. It's really more about Brazil's way to sort of exercising its regional leadership in a certain instance and, you know, this has certain advantages for other countries, which is why they've gone along with it, but that is the underlying power of reality behind these institutions.

MR. JANOFF: Hi. My name is Douglas Janoff. I'm at the Permanent Mission of Canada to the OAS, and so actually this is a perfect segue into my question. I just was interested in the comment you were making about the -- you were saying that the foreign policy of Chile could be a lower profile and you were making some linkage to Brazil, and I wasn't quite sure. If you could please restate that and reclarify that because one thing that has been very impressive in the hemisphere is the very high profile that Brazil has had on the world stage, and when we look at the Olympics and the World Cup and the visit of the Pope and also there are Rio +20. There's also a World Human Rights conference that's going to be taking place in Brazil in December. And so these are really very large world events. And I saw that the protests earlier this year seemed to be linked. And so I'm curious about is there a pushback from

the electorate on how visibly high profile these different states are?

MR. TRINKUNAS: That's a very interesting question.

I think the point I was making about Chile, it was in relation to the Pacific Alliance. I think the Piñera government has really tried to portray the Pacific Alliance in somewhat more ideological terms than some of its other partners in the Pacific Alliance in the sense of trying to draw the distinction between the free market free trade Pacific Alliance and sort of the protectionist ALBA, and even implicitly the more, you know, protectionist Mercosur.

I think under a Bachelet government you'd probably see a return to a policy where Chile would be more trying to act as a bridge -- a bridge to the Pacific, bridge to other countries, seeing Pacific Alliance as an integration project that's complementary to other integration projects in the region, not in competition with, which is somewhat the profile you get the sense from the Piñera government. So that's what I meant by that.

But that does segue into the issue of Brazil's prominence, and it's the way that the region reacts to it, and the way its own population reacts to it. So within the region I think we have to keep in mind that, you know, Brazil's rise is in part fueled by the fact that Argentina has not been quite the key counterbalance that was back in the '60s and '70s and '50s and so on. So that's gone away. And Mexico also has turned its attention

to North American, right, in the last 10 to 15 years. So that's really given Brazil -- left Brazil as the main power in the regional dynamic and it's taken advantage of this to put itself forward as the country that speaks for the region, even though Mexico and Argentina clearly aren't always happy about that. And, of course, we could talk more about how the different other countries line up. But certainly one of the things that's driving the creation of UNASUR and some of these regional institutions is Brazil's rise and it's trying to make sure that it doesn't have any regional challengers to its rise.

But the other thing I think in terms of domestically is that this is still a debate that's going on in Brazilian society about whether Brazil really should be a high profile international player or whether it doesn't have the resources to do that. So should it be committing major resources to development in Africa? Should it be participating in international peacekeeping? Should it be hosting these high profile events when there are so many other needs at home? But this is a debate we can recognize from all kinds. It's a debate that goes on in our country, right? So I think this is part of the debate of what's going on in Brazil and it's accentuated by this zero sum economic moment that we're starting to live.

So I'll leave it at that.

MR. TALVI: Mark.

MR. SCHNEIDER: Just a couple things. I agree most with what Harold just said on Brazil and I think on Chile the distinction is that with the Michelle Bachelet government you're going back to a very internationalist view and an obviously center left view that does feel that they can bridge the political relations with North America and the rest of the hemisphere. And to some degree, Chile and Michelle Bachelet is sort of a symbol of the democratic changes in the region. They have a foundation on which to say that they can make some of these claims as they engage with other countries in the hemisphere. So I do think that Michelle is likely to become seen as much more internationalist in the coming years. And I also think that she's likely to see the country's interest in building bridges with Brazil and finding ways to work together, particularly with Dilma on many issues that are international in scope.

And I guess the only -- the two things about Brazil that I would comment on is I think if there were a sense internally that the dynamics of responding to social needs, the sense of better public services, if that was at a more satisfactory level, I don't think you would see as much unhappiness about Brazil's expansive international role. I think there's a great deal of pride in Brazil. Brazil is a major international actor. There's no question about it -- the size of its economy, population, et cetera. And so I think there would be a great deal of pride -- there is a

great deal of pride in Brazil being the host, but when you have the contrast between we're not getting the level or quality of public services that we want and expenditures on I forget how many new national stadiums, et cetera, that does create some degree of social anxiety, if you will.

MR. TALVI: Interesting, Mark.

We are going to go to the last question, but Brazil is definitely a major international actor, but the perception in many South American countries is that it has not been up to the task of being a South American leader in a sense and the voice for South America in the international arena.

SPEAKER: Very interesting panel, but I am very -- my name is Gloria Ospina.

I'm very intrigued. I have been working with Latin America and for Latin American for many, many years. I'm very intrigued that we keep hearing the same kind of problems. You know, income inequality, social unrest, et cetera. I want for Mr. Talvi and Mr. Schneider to think about -- I agree with Nancy Birdsall that middle classes are really the support of political democracy, at least as it would happen in the United States. On the other hand, we have seen that in Latin America, according to Nora Lustig, a lot of people have been getting out of poverty. There is this middle class that Nancy Birdsall thinks is a very weak middle class.

My question -- and then on the other hand, when we see that there is a lot of middle class growing in Latin America, we can think in terms of democratic instability, which all of you have been emphasizing.

On the other hand, if the middle class is weak, and in addition to being weak there is still income inequality, social unrest, I have a problem because those things do not match in my mind. Okay? How do we have an increase in the middle class even if it is very weak but at the same time we keep one of the worst unequal regions in the world with some cases like Chile really amazing me, and some other cases who have always been like that, like Colombia.

Okay, thank you.

MR. TALVI: Go ahead. Mark.

MR. SCHNEIDER: I mean, I think that broadly, the countries in the hemisphere and the United States have to deal more effectively with income inequality and the continuing levels of disparity for different reasons. For example, in the hemisphere as a whole, I think when you look at the status of indigenous communities, there has to be a more concentrated effort at saying what are the kinds of policies that are going to reduce rural poverty and provide greater access for these communities? I think in general, there needs to be a continuing effort at maintaining a level of growth that permits additional resources to be applied towards

reducing these gaps and focusing the state expenditures on some of the services, improving the quality of services, and again, particularly on education, as a way to significantly reduce inequalities over time. It's not going to be easy, but what we want to see is we want to see more effort made directly on reducing those disparities.

MR. TALVI: Thank you, Mark.

Miriam.

MS. KORNBLITH: Yeah, just a very brief comment to a complex and long question. But I think one of the novelties, one of the new things happening in the region, is that all of this complex cycle that you have discussed is being addressed through democracy. With all its limitations and difficulties, that has set a difference between the same kind of challenges but the current situation. Social unrest, yes, it exists, but there are institutional channels to express the social unrest. There are different policy options. There is debate about these policy options. I'm not saying that everything resolves in good outcomes and in sound decisions, but I think the fact that we, as we started in this conversation, we are seeing 10 elections in the future, many more are coming, means that these difficult challenges and options are being dealt with in a different way than they were say 20 years ago or 40 years ago. So there is change.

MR. TALVI: Harold, do you want to add something?

MR. TRINKUNAS: Only to thank you for moderating the panel and thank all my colleagues for joining us here today. We had a wonderful discussion.

MR. TALVI: Thank you, also, the panelists here, and Harold for this great collaboration between two Brookings programs. A lot of challenges ahead, but we really came a long way. So thank you all for coming. See you next time.

(Applause)

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