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LATIN AMERICA'S POLITICAL OUTLOOK IN THE WAKE OF THE CURRENT ELECTION CYCLE

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P R O C E E D I N G S

MR. TALVI: Thank you all for coming, and joining us here today for this. I think it's going to be a very, very engaging discussion. We were discussing already before entering, and so I think that this is going to be very interesting. And so I would like to thank both Arturo and Kevin for joining us today.

Two weeks ago, we presented, with the Brookings Global-CERES Economic and Social Policy in Latin America Initiative -- long title. We launched the macroeconomic outlook, and, therefore, we discussed the macro outlook of the region.

So, today, jointly with the Foreign Policy Latin America Initiative and my friend and colleague, Harold Trinkunas, we decided to look at the political outlook and its economic implications, social implications, and maybe also trade and foreign policy implications.

So, since we have such a distinguished panel of political scientists, I would like to simply make a short introduction on how an economist sees the politics in the region. And, basically, there are two big observations that I would like to make.

After 10 years of uninterrupted growth, high growth and very growth, in South American commodity-exporting countries, the average growth is about 6 percent a year if we exclude the Lehman crisis aftermath, 2009, and very high expectations built around very high levels of growth. We've seen a very substantial cooling off in the region in the last three years. The GDP of the region is expected to grow at less than two percent this year.

Now if you look at the global outlook for the next five years, then the expectation is that Latin America is going to revert back to lackluster growth rates of around three percent. And that cooling off and diminished expectations about future incomes -- well, that's what growth is -- has not been analogous. It has generated a lot of

social discontent that has been expressed through spontaneous broadcasts, convened by the middle classes through the social media. In many, many countries, actually, we've seen an episode -- yesterday in Mexico.

So, social discontent is also being expressed in an incredible difference in the approval ratings of the outgoing Presidents during this cooling off period, relative to the outgoing Presidents during the boom period -- 2004 to '11 -- just to give you a number, Lula, three months before and leaving office, had 75 percent approval ratings; Dilma has 35. (Inaudible) had 70 percent three months before leaving office; Santos, 46. Bachelet had 80 percent; Piñera, 50 percent. Cristina Kirchner, first reincarnation, she had 64 percent; second reincarnation, 32 percent.

So, I know I'm here establishing a causal relationship between the cooling off and diminished expectations of the economy, but there seems to be an association there. And in spite of the power of the incumbency -- but I think it's a topic that is going to come out from the panel -- actually, incumbent presidents, such as Dilma in Brazil and incumbent parties, such as the (inaudible) where there is no reelection, are being actually challenged by opposition parties. And it is highly likely that in Brazil, we went to a second round, and highly likely that in Uruguay, we're going to go to a second round of voting, too, and then Bachelet ousted the incumbent party in Chile.

So, the cooling off seems to be pointing to the direction of change, where if you had a central right government, going back to central left; if you have a central left government, going back to central right. Is this true, or we are seeing more of a trend towards proposals to regain efficiency policies more associated with a sense of right in a period in which growth is going to be mediocre.

The second large and last point I would like to make is that since the cruising speed of the region has declined so significantly, we are now being presented

with three very big challenges. First, to maintain macroeconomic stability under more trying conditions. Second, to rekindle growth, but now through domestic tailwinds, rather than external tailwinds -- i.e. high commodity prices, low interest rates. And three, which I think is very important, to continue to do active redistribution -- redistribute your social policies, but now with less abundance of resources.

So, the questions that come up to our minds as economists is, when lackluster growth trigger a vigorous program of structural reforms, to try to jumpstart growth such as (inaudible) did in Mexico, will the bias towards redistribution be conducted, a la Chile, through increasing progressive taxation to finance better education and health and reducing equality, but while, at the same time, preserving fiscal property -- or will they be resolved, a la Argentina, resorting to inflation refinance to keep the handouts going, or, a la Venezuela, which not only resorted to inflation refinance but to arrears to a variety of creditors to finance a huge fiscal deficit?

So, we think that the region is at a crossroads to consolidate the major gains of the last decade. And how these challenges get resolved will shape the future of the region in the years to come.

And, hopefully, you will all shed a lot of light on this discussion and beyond. This is only the economist point of view.

So, we are going to have a splendid panel today. And the first speaker is going to be Arturo Valenzuela, who is a Professor of Government at Georgetown University. He was also Assistant Secretary for Western Hemisphere Affairs in the United States Department of State position he held until August 2011.

Then we are going to have Kevin Casas-Zamora, our former and current colleague -- both things at the same time. He is currently the Secretary for Political Affairs at the Organization of American States, and a Nonresident Senior Fellow at the

Brookings Foreign Policy Latin American Initiative. And he was Costa Rica's Vice President and Minister of National Planning and Economic Policy.

And then we have Harold Trinkunas, who is the Charles Robinson Chair and Senior Fellow and Director of the Foreign Policy Latin American Initiative. And Harold served also as an Associate Professor and Chair of the Department of National Security Affairs at the Naval Postgraduate School in Monterey, California.

So, Arturo, why don't you start? I assume that it would be good for you to do your introduction in 10 minutes, and then we'll try to make an inter-panel discussion very lively.

MR. VALENZUELA: Remember that us professors do an hour and 15 minutes each, you know, precisely. So, it's going to be a challenge, and I'll keep it less than 10 minutes.

Look, I agree with your economist's perspective. There's just simply no question that there's a significant challenge coming forth for the governments of Latin America, no matter which ones. Some are going to be affected more, however, by this crisis than others -- you know, and particularly those countries that are dependent on commodity exports and things like that are going to be affected more than others.

But there certainly is, you know, an effect that's important. The famous political scientist, Richard Neustadt and his classic book, *Presidential Power*, used to always argue, look, presidential power really is the power to persuade, but the capacity of the President to be able to persuade is directly proportional to the degree of popularity of the president. And the popularity of the President was directly related to the perception on the part of the population that thinks we're going in the right direction -- something that's not necessarily unheard of in the discussions in this town itself. So, this is going to definitely impact governments across the region, some more than others.

But let me just say a couple of contextual things. I'm not putting my foreign policy hat on right now; I'm going to put my political scientist hat on. I think it's very important for us to understand that there really is a significant difference in the countries of Latin America, and their ability to perhaps respond to these crises is dependent, I think, on a couple of issues. And one is that there really is a significant difference in the degree of consolidation of democratic institutions throughout the region. And this is a variable that is lost in this town.

I suspect that most of you came in here thinking, ah, we're going to have a discussion now in kind of Washington terms -- is Latin America going left with the various different elections this past year, or is it going right -- you know, that kind of Manichean view that is very popular in this town. In other words, are the good guys or the bad guys going to win, depending on your perspective?

And, in fact, it's far more complicated than that, because I think that, really, what differentiates the countries is not necessarily whether a particular government, a particular point in time has a particular ideological perspective, but, rather, some of the more fundamental structural elements having to do with the evolution of these democratic institutions in countries that are going through what is arguably one of the best periods in the history of Latin America. This is the longest period of elected democratic rule.

There may be some real questions, and I certainly share that with many others, about the quality of democracy in many places, but there's been no period in history where there's been this kind of thing, you know. Let's remember that from 1930 until 1980, 42 percent of all governments changed in Latin America through military coups. In the 1980s, that went down to about 20 percent.

Arguably, you know, classic coups right now, you know, probably since

the early 1990s, would be the case of Haiti and the case of Honduras, with many other presidents, of course, not being able to finish their terms. In this period, 16 Presidents weren't able to finish their term, and that did not necessarily lead to an overthrow of governments.

I'll get back to that in a minute, because, in fact, if we find a situation of economic crisis in many places or slowdown, then we may get into a dynamic that might affect the ability of governments to really effectively stay in power. But let me just simply say that -- let's talk about two variables.

One is the degree of democratic consolidation. And here, it's very important to underscore the fact that the differences in Latin America are not something that pertain to just this period. This is what the political scientists call path dependency. The reason why Uruguay and Chile are at the highest levels in terms of rankings of transparency, and rule of law, and things like that have to do with a longer process of consolidation of democratic institutions. And what you need to sort of see is how that process is taking place in countries that have a much narrow or shallower degree of democratic consolidation.

And what does it take to do that? And often, our aid missions, our funding sources, and so on are -- what frustrates me often is that we don't think about the importance of the political. There's a real crisis, for example, in political parties in Latin America -- not only in the countries that have weak institutional backgrounds, but also in some of the more, you know, developed countries, from a democratic point of view. But we're not necessarily addressing how we can particularly see that.

Now let me just say something a little bit controversial in this town. You know, a long history of democratic institution doesn't mean that you have to go back 100 years, and it takes that long -- although the process of democratic consolidation takes a

long time. I remind my students that it's not until the first decade of the 20th century that the Swedish king could not just appoint his cabinet willy-nilly without, you know, consulting with the Parliament. These institutions took a long time in Western Europe; they'll take a long time in many places in Latin America.

But there's some instances that are far more recent, you know. In this whole crisis, for example, of Central America recently, people have not necessarily pointed out the fact that this is affecting the three countries of the northern tier, but not necessarily Nicaragua. Why not Nicaragua? You know, arguably, Nicaragua was able to put into place recently far better institutions of security, for example, that address these sorts of issues. That's a very controversial statement in this town among some folks.

But look at the facts, and look at the facts. And the fact is that they've been able to address these issues because they were able to implement citizen security measures that, in fact, reflect an institutional development that is still absent in places like Honduras and El Salvador -- or in Guatemala, you know. And this does not have to do, really, with the ideological cast of this, but the quality of the institution.

Let me pivot to the second point that I wanted to make. And that is, this is where I think we get back to what you put on the table initially. I think the fundamental issue is rule of law, ultimately. The fundamental issue is rule of law. The more you get rule of law, you know, and transparency, the more you're going to be able to succeed, I think, in the globalized world, and that's a great challenge. But, of course, every country in the region is also going to face -- or faces, to a degree -- challenges of democratic governance.

And here, in the issue of democratic governance, what I, frankly, am most concerned about is -- take a country like Peru. We're probably not going to talk about the election that took place now in Peru, because it wasn't a presidential election.

But there was a recent set of local elections in Peru with 100,000-some odd candidates or something like that, with an interesting model that's taken place in Peru of devolution of authorities of local regions, but national parties have disappeared completely in Peru. And so there's a fragmentation of parties.

Pivot to a country like Colombia that, I think, is doing quite well economically, and so on, and so forth. It had a long history of very strong political parties, you know. But now, you know, the personalization of politics -- and there has been a fragmentation, particularly after the constitutional reform in Colombia, of the party system. But now the personalization of politics has become much more accentuated. So, this is a very difficult challenge that we face, moving forward.

So, let's remember the fact that there were 16 Presidents that weren't able to finish their term, and ask ourselves that kind of a question. When we look at the hemisphere, whether Dilma wins or whether Neves wins (inaudible) very important result. But one of the questions why don't you ask yourself is, if Aecio Neves wins, you know, what kinds of majorities is he going to be able to (inaudible) in the Congress?

In Brazil, there's been a tradition of having to negotiate with this complex, byzantine political party system. And those that are more successful in doing that, you know, have been successful -- although that success has come -- to get back to your point -- at a time when, in fact, there's been sort of a bonanza in the country, and there's been fairly good -- what happens when you have to negotiate from a position of weakness as a President in a situation of economic adversity?

So, the situation is very complicated. And this is going to affect -- and let me just end with this, because I want to reiterate the point.

It doesn't matter whether, in some ways -- from a fundamental point of view -- whether governments are center left or governments are center right. Ultimately,

what really is critical is whether you have institutions that work, that you have the rule of law, and, you know, incumbents will be thrown out.

I think that one of the things that is interesting about this electoral cycle is that, in fact, some incumbents are really being thrown out, you know. What happened in Costa Rica was an incumbent that was -- you know, incumbency's going (inaudible). What may happen in Uruguay may be an incumbent that also is thrown out, and it's immaterial as to whether this was right or left.

MR. TALVI: Thank you very much, Arturo; very provocative, very interesting. Just let me break a little tradition, because I -- just a clarification, Arturo.

When you talk about -- I think you said it in the second point -- but when you talk about shallower democratic consolidation, you are talking about personalization of politics, electoral democracy, but not necessary adherence to rule of law. What exactly are you talking about?

MR. VALENZUELA: Well, I think this is where you get into this concept that political scientists have of path dependency.

The degree to which, you know, institutions evolve over a period of time -- and whether you talk about the nature of executive legislative relationships, or whether you talk about the quality of presidential authority, for example -- but not just in terms of the individual, but the institutionalization of the office of the presidency -- one of the things that is striking is that, sometimes, the institutionalization of the office of the presidency is, in fact, inversely proportional to the providence of the president, because the President maybe articulates too much political power.

You had the situation in Venezuela, which we probably will have to get to; in some ways, today, is a reflection of the fact that you had a strong personal authority in the presidency, but you didn't really have a consolidated sort of presidential kind of

regime.

And so here, you know, you have sort of a significant fragmentation of political authority. I think the problem there is not so much authoritarianism, but perhaps a sort of degree of disarticulation, I think, of political power in the country.

Those are the kinds of concerns that I would have.

MR. TALVI: Okay. Thank you very much.

I apologize; Kevin kindly remind me -- I forgot to tell you that Julia Sweig that was supposed to be with us today at the panel unfortunately yesterday night had a family health problem that really impeded her to be here with us. So, my apologies that I forgot to tell you before. So, thank you, Kevin, and I give you the floor.

MR. CASAS-ZAMORA: Thank you, Ernesto. And that's why this is a men-only panel, which is a kind of sin here in Washington, but nonetheless.

Well, thank you very much to Brookings, first of all, which is like a home for me, and it's great to be back. You know, Brookings has this quality of being like Hotel California, you know -- that you can check in anytime, but you can never leave, right -- thanks to Harold and to Ernesto.

Well, I guess I should start with a caveat, which is that this has been an exceptionally (inaudible) political year in the region, and the dust has yet to settle. So, whatever we say here is of a provisional quality, as it were.

And that's why I would much prefer to use my 10 minutes to focus less on the specific juncture and more on the long-term forces that are likely to shape the future of democracy in Latin America.

So, we'd like to kind of take a step back, and lay out four big political trends that I think will define politics in the region in the near and not-so-near future. And some of them dovetail with the kind of points that Arturo has just raised.

The first point that I would like to make, the first trend, is probably slightly controversial, which is the emergence of the deep trend towards ideological convergence in the region. And this may sound strange, given the headlines that we read day in and day out which talk about an ideological rift in Latin America, and about polarization, and so on, and so forth, but the truth is that when you scratch beneath the surface, and you take a close look at opinion polls in the region -- well, they consistently show that public opinion in the region has converged towards the center of the spectrum.

And just to give you an example, according to Latino (inaudible) 2013, when asked, 55 percent of citizens in the region are neither on the left nor on the right of the spectrum.

And if you look -- you know, if you see the results of the elections held this year -- well, quite frankly, there's no clear ideological pattern emerging. You have victories of the left in places like El Salvador, Bolivia, Costa Rica as a sort of center left, Chile, as well. You have victories for the center right in Panama, in Honduras, and Colombia. And you have elections yet to be decided in Brazil and Uruguay. And both of them are really a coin toss.

So, my sense is that, you know, below the headlines, there's a basic consensus that has emerged on key issues. And there seems to be a region-wide consensus on what good governance is all about. And to people, it does not matter that much whether politicians, candidates, hail from the left or the right.

And good governance, as I see it, is first about being elected in free and fair elections; second, it's about paying close attention to macroeconomic equilibrium, and being aware that playing fast and loose with macroeconomic equilibria is a very bad idea; and third is about implementing aggressive social policies able to make a dent on both poverty and inequality.

And, come to think of it, each of those things amounts to a massive intellectual and political shift in Latin America. Latin American societies are slaying fairly big dragons that have arrested their development for quite a long time. And my impression is that these changes are here to stay. So, that's trend number one.

Trend number two -- and when you've been involved with elections, as I have, a lot, this is something that you see, you know, in a very clear way, and Arturo alluded very, you know, in passing to this. The second trend is that political representation is changing fast in the region, and that the traditional instruments of representation, particularly political parties, are in big trouble.

You know, if parties ever had a monopoly over political representation in the region, which is doubtful, they own it no more. Take any opinion poll, and you will see that they are profoundly discredited -- that most party systems are extraordinarily fragmented. And one interesting thing is that this fragmentation tends to -- you know, one of the things that we're seeing all over the place in the region is weak oppositions. You know, no matter the political persuasion of the government, opposition seems to be hamstrung and weak everywhere -- almost everywhere.

So, political parties are deeply discredited and rather weak. And it's interesting to ask aloud, what has happened with political representation in the region so as to have, you know, such weak parties and legislatures? Well, one thing that has happened is that civil society is much more active in the region. And in a way, you know, political parties have been yielding, like, pieces of political representation to other actors. Civil society actors are much more reactive, and they are very fragmented, too.

Mass media has acquired traditional functions of political representation in the region. I would argue that mass media has become the natural vehicle for political representation.

And let me ask you a question. I mean, if you're, you know, a community leader -- almost anywhere in Latin America -- and you have a grievance that you want to present to the government, to the authorities, where do you go? Do you take that grievance to the local branch of the political party, or you take it to the local TV station? You go to the TV station, of course.

So, mass media has become a very important actor for political representation in the region.

And then you have social networks, which are deeply changing the nature of political representation in the region. And my sense is that political parties in particular have not been able to ride this wave successfully.

So, you have very profound changes in political representation in a way -- I mean, the bottom line is that you have a plethora of mechanisms of representation, and political parties, in particular, are in bad shape.

The third trend is a renewed interest in political reforms and broad-based pacts, which is a more recent thing. You know, there's a visible proliferation of political reforms all over the place. You see it in Mexico. You see it in Brazil. You see it in Chile. You see it in Panama. Colombia will have to engage. It's actually, I mean, currently, as we speak, discussing a big political reform, and will have to engage in a process of political reform should a peace agreement be signed at some point.

So, my impression is that this will be one of the big political trends in the region over the next decade or so.

Why is this so? In some cases, it's because the constitutional settlements negotiated during the transitions are showing their age and their limits. And when you take a look at some of the political crises that we've had in Latin America over the past few years -- you know, cases like Honduras, like Paraguay -- you know, a big

factor in those crises was the constitutional design. And there are plenty of crazy stuff in our constitutions in the region that I think a lot of countries are feeling that it's high time, you know, to revisit those constitutional settlements, and update them, or (inaudible) together, and rebuild a new settlement.

The thing is that the speed with which these reforms are introduced is a thorny issue. You have cases like Brazil that show, in a way, the effects of delaying an inevitable political reform. And it's interesting -- you know, something that Arturo said -- that, you know, in Brazilian politics, those Presidents that are able to cobble together, you know, a workable coalition are more successful.

The thing is that those coalitions come at a price. And the price is the enormous corruption that we see in legislative politics in Brazil. I mean, the way coalitions are forged in Brazil is all about pork -- or worse, you know. It's pork if you are charitable. It's probably worse in most cases.

So, for a long time, there has been a sense that, you know, business could not go on -- I mean, that the political system could not go on as it has been working for the past couple of decades or so. So, Brazil is a case that shows the effects of delaying a political reform.

But, on the other hand, the haste in introducing political reforms and pushing those reforms down the throat of society without carefully thinking through the consequences can be a huge problem, too. And I have the sense that a little bit of that might well happen in Mexico. You know, this was a political reform. The recent reform that was introduced in Mexico, you know, was approved in an incredibly fast-track kind of process. And I have the impression that it was not very carefully thought out. So, you know, the haste in introducing reforms can also be a huge problem.

But you also have this renewed interest in political pacts as an antidote

to the gridlock generated by the combination of presidentialism and multiparty systems, which is something that political science, you know, had always told us was a toxic combination. Well, we've been living with that in Latin America for quite some time now. And it hasn't really proved that toxic, but it hasn't proved good, either.

So, I guess, you know, one of the reasons why there's this interest in pushing, you know, for broad-based political pacts is that, you know, gridlock is a permanent danger in the case of Latin American political systems. And, I guess, also, the example of Mexico is exerting a very powerful pall over all the countries. I mean, the example of the pact for Mexico -- which, by the way, raises the question -- the case of Mexico -- of, yes, I think they were very successful in cobbling a very interesting and structural pact, you know, to reform a whole bunch of things in Mexico. But, you know, you have to ask the nagging question as to how representative the political parties are.

You know, you have a pact between political elites, but you might well find that society -- you know, there are social forces that don't feel bound by that pact, and, therefore, you're going to find sources of social (inaudible) against the decisions made by political elites.

Anyway, my fourth point -- and I think this is a crucial one -- it's about the very intense proliferation of social demands in the region. The middle class is larger than ever before in Latin America, and, for the first time, is larger -- according to a number of societies -- is larger than lower-income groups. And middle classes typically provide the voice that demands the quality of public services and public goods.

And regional surveys detect extraordinarily high expectations about the future, you know, and as Ernesto was mentioning, we're coming out of a very successful economic decade. And if you take, once again, (inaudible), 51 percent of the population in the region believe, as we speak, that the economic situation of their family -- and that's,

you know, against the facts, right? But they still believe that the economic situation of their family will improve in the next year. And the figure's even higher for countries like Brazil or Colombia, where (inaudible) percentages over 60 percent.

And the problem is that there are very serious problems in the fiscal capacity of the state to fulfill the growing demand for better public goods and services. Tax burdens, with the exception of two or three countries, are very low and slow to change. And there's also the problem -- the quality of public management in Latin America. And in that respect, I think the case of Brazil is fairly ominous for those of us that believe that progressive tax reform is really one of the key pending issues in Latin America -- because Brazil is a case where you have, you know, high tax burden and poor quality of public services.

And I guess there's a warning here. If we're going to push for more taxes in the region, we better make sure that they will lead to better services, because that consequence is, according to the experience of Brazil, is, by no means, inevitable.

So, there's a great risk that democracy in the region will be overloaded with social demands in the near future -- and particularly now, with slow growth. And, well, it is difficult to predict how this will play out. I mean, one thing I can say is that the growth rates that we are approaching in Latin America are not that different from the growth rates that we saw in the '90s. Yes, it was a more politically unstable decade in Latin America, but democracy prevailed, you know, with ups and downs, but it prevailed.

And, you know, my hope is that, just as we learned to control inflation in the region, we will learn -- hopefully in time -- to do fiscal consolidation, sacrificing social gains as little as possible. And this goes back to one of the options laid out by Ernesto. I mean, we will engage in truly structural reforms to promote growth -- and particularly to raise productivity levels in the region. And there are many assignments in this regard,

but I would also -- I mean, I would like to mention two, which I think are of the essence.

One is about the quality of education, and the other one is about innovation, which is an area in which the region does dismally.

So, those are, I venture, four traits that would likely shape the markets in Latin America in the future. It will be a more consolidated democracy in some ways, but a more besieged one in others. So, in the next couple of decades or so, democracy in Latin America will, in many ways, lead a dangerous life. But I'm afraid that's the fate of political regimes in societies undergoing rapid social and economic transformations.

Thank you.

MR. TALVI: Thank you so much, Kevin; very interesting.

I actually think there is an interesting counterpoint. I'm going to come back to that, between what Arturo said and you said. Just one, please, very short clarification for those of us who are not political scientists.

You say that the combination of presidentialism with multiparty systems or fragmented political systems has been a problem, and that the way to solve it is to elicit the demand for broad-based political pacts. If that's the problem, then broad-based political pacts should be very difficult to come up with. So, how is that a solution to the problem?

MR. CASAS-ZAMORA: I'm not saying it's easy. I'm saying that it's easier than to continue living just like that, with political systems which -- like in the case of Brazil -- has 28 parties in Congress. I mean, at some point --

MR. TALVI: But living just like that would mean that you are -- rather than a broad-based political pact, you would be approving law by law, or --

MR. CASAS-ZAMORA: Or cobbling coalitions --

MR. TALVI: -- by initiative.

MR. CASAS-ZAMORA: Cobbling coalitions on particular issues, but, as I said -- and the case of Brazil is particularly eloquent in this -- those coalitions, first of all, you know, they have huge transaction costs. I mean, these are political systems that have enormous transaction costs.

And it comes at a cost of very significant levels of corruption, which, I think, is the only way, quite frankly, you know, to make a Congress where you have 28 political parties represented at work.

MR. TALVI: I'm sorry. We'll come back, Arturo, so we can give a chance to Harold. But then I would like you to discuss why broad political pacts do not need the corrupted practices that you would need for one-by-one coalitions. I'd say, simply, I don't understand why that's a cure. But you can come back to that, and Arturo has something to say about that.

Harold?

MR. TRINKUNAS: Thank you, Ernesto.

And, in fact, one of the things I want to focus on in my remarks is precisely this issue of presidentialism. I think we haven't talked about the other alternative answer to your question, which is to degrade institutions, and sideline oppositions, and increase the power of the President to act alone -- which we have also seen a number of countries in the region.

And, in fact, I think one of the very interesting things that's (inaudible) is, as you pointed out in the beginning, we're coming to the end of an electoral cycle and the end of an economic cycle, in a sense. We've gone through a cycle of reelection of Presidents across the region. By the end of the year, I think almost country will have had some sort of presidential (inaudible) 2015/2016 cycle.

And so many of the things that were conventional wisdom, I think, until

now, we can start examining these things, and see how well they hold up to test of a different set of economic conditions (inaudible).

We've already mentioned the power of presidential incumbency, particularly powerful in the region. Until this year, people would've only pointed to, really, a couple of Presidents who have failed to win the election, you know, since 1990 (inaudible) public and pure incumbents -- a President seeking reelection within the constitutional mechanisms has, by and large, won in Latin America.

And that, in fact, has led to a question that we've seen across the region -- this troubling trend towards changing the rules about reelections. Presidents in Venezuela and Nicaragua -- it's been discussed also in Ecuador -- have talked about seeking either indefinite reelection or loosening conditions for reelection across the region, taking advantage of the support they had during this last economic cycle of the boom times. In some cases, they've succeeded.

And the question is, I think, as we go forward, how will that set of institutional changes hold up in this new economic cycle we're facing where the economies will not be performing as well? So, that, I think, is one question mark going forward that the elections this year will be able to tell us something about.

And the other thing I would point out, too, as to why it's important -- I think (inaudible) question just kind of reminded us of this -- is the question of indefinite reelection comes back to this issue of institutions and how Presidents govern. And to the extent that many countries in the region have particularly weak institutions, failure to consolidate democracy -- one of the historical lessons in Latin America has been that term limits for Presidents are a good idea, because, when all else fails -- once the institutions fail, and the other branches of government aren't able to check the president, and the opposition is weak -- at least you had term limits on the President -- and to the

extent that that has been weakened, there's decline in the region. I think that's a trend we'll have to think about and consider, going forward.

The other question that I think we have to think about going forward is the link between economic performance and elections, and the success of parties and presidents. In a certain sense, one of the interesting pieces of economic research (inaudible) incumbency -- finding that it's actually very strongly related to good economic times, which, by and large, for Latin America, means high commodity prices and low interest rates in the United States -- although that effect is, by far, stronger in the commodity exporters -- so, really, South America, more than Central America and the Caribbean.

And for those countries of South America that fit this category, presidential incumbency is an extremely strong effect. But now that the economic cycle may be shifting towards not-so-good economic times, then I think maybe we'll start to see this year Presidents running into some real trouble.

We already saw President Santos in Colombia having a real challenge in his reelection campaign earlier this year; obviously, President Rousseff also coming into the election facing a real challenge from the opposition -- very close election right now. And as we go forward, we'll have to see whether the power of incumbency really holds up, because, obviously, to the extent that incumbency is not such a powerful effect, it actually offers some hope that voters are still able to hold Presidents accountable for their performance in office, providing some check on the presidential power that I pointed to at the beginning of my remarks.

And the final kind of broad set of comments I'd like to make before turning to some particular elections is this issue of the role of the opposition. It's already been mentioned, but I think it's particularly important to pay attention to this dimension of

democratic consolidation (inaudible).

In a region where presidential power is quite high, even (inaudible) hyper presidentialism in certain countries, where other branches of government are relatively weak or unable to check the power of presidents, depending on the countries, the opposition really plays a critical role in ensuring that democratic institutions continue, that there is accountability of the party in power, that there's a possibility for alternation, that some of the schemes of Presidents to overcome obstacles to their plans are not successful, the power of a coherent opposition is particularly important for the success of democracy.

And I think there's a real divide there across the region -- not, as Arturo said, between left and right -- and even beyond consolidated democracy and unconsolidated democracy. But, really, I think this issue of the opposition and how to form coherent, successful oppositions during democracies -- I mean, Latin America has experienced (inaudible) those kinds of oppositions during authoritarian periods and resistance to the military regime, for example.

We don't have quite as many cases, I think, of forming successful oppositions in sort of the democratic periods. In fact, all the trends that you pointed to, Kevin, are going the opposite direction -- trends towards the media becoming more dominant, the trends towards the decline of the political parties, and in countries where we already have other institutions that are unable to check the power of presidents, what does that mean?

And I think, actually, the trends are probably bad. But we really have to take a nuanced view country by country, because I think if we just contrast a few different countries, looking forward, we can see how this (inaudible) and how these different actors coming together affect the presidential races that we're seeing coming up now.

I mean, if we look at what's going on in Brazil, we really do see country where consolidated democracy (inaudible) institutions being dysfunctional, but, by and large, a lot of institutions that work -- and, in fact, even though there's a relatively fragmented opposition, there is an opposition that's relatively coherent, that has points of view. It comes together at times of elections, where you see, you know, two or three important candidates running, where candidates are able to make pacts, as you kind of see now between Marina Silva and Aecio Neves, in the opposition coming together to oppose Rousseff, and where you can actually see that incumbency advantage for Rousseff providing some advantage to her, but not such an overwhelming advantage that Neves is uncompetitive.

So, you really do see in that case, even with all the issues that Brazil has, a number of institutions coming together in a workable way to ensure that there is at least some accountability, that the ruling party is challenged, that its programs are questioned. There's a real chance for opposition candidates to take power.

On the other hand, you have a series of countries where Presidents have been able to consolidate a great deal of power: Ecuador, Bolivia recently, obviously Venezuela in the recent past, Nicaragua, (inaudible) lot of presidential power. And how these countries will do going forward -- whether the opposition has a chance to hold the ruling party accountable, and whether people really have a choice in elections, I think, has become very important.

And I would just, in this instance, point to the case -- I think we have an important election coming up next year in Argentina, where even though there's a debate going on now in Argentina over whether the Kirchner period was an economic success or an economic failure -- there's a debate inside Argentina; made from the outside, we might have a slightly different perspective.

I mean, I really do think there's an accountability movement next year where Argentines will have a choice between different political parties and different candidates -- well, candidates more than parties, because the party system is peculiar in Argentina -- but an election that would make a real difference for Argentina's position in the world. Argentina is currently, obviously, quite isolated from the international markets -- but just isolated in general, I think, from the international system. It has become really quite parochial in many of its politics.

And, you know, voters have a real chance to make a decision next year. And we can see it in the numbers, that there is really -- although there is, you know, a horse race, there's no dominant, overwhelming lead candidate in Argentina, and people will really be able to make a choice.

And I would just contrast that with, for example, the situation in Venezuela, where we have legislative elections next year coming up, which I think are going to be very important. Venezuela is now in a position of having severe economic crisis; the price of oil is trending downwards.

There's really some relatively desperate economic measures underway internally to try to deal with the combination of extremely high inflation and a great deal of scarcity -- and the moment for voters to hold the government accountable in 2015 is coming up, but we have a system where a great deal of power is constituted in the presidency; other institutions and governments are really not able to hold the presidency in check -- and where there's a lot of people associated with the presidency in the security services, in the military, in the bureaucracy, who have a lot at risk if there's an accountability movement, and the party loses power in Congress.

So, there really will be a time where, I think, we'll really see the test of whether democratic institutions really work in Venezuela anymore, and what does the

region as a whole do in such a movement? Because I think one of the things that -- I mean, maybe you can talk a little bit about it in the Q&A, Kevin -- would be, what does the region do in terms of supporting democracies, and what can it do in a situation like Venezuela, where it's pretty clear that the answer has been given that this is really for South America to look at -- and that South America has, by and large, decided to soft-pedal interacting with Venezuela at this moment, with its government trying to deal with what's going on there in a very low-key way, which may no longer be possible in the instance of an actual electoral crisis, not just an economic political crisis in Venezuela. We'll have to see what happens there.

But I think that -- just to sum it all up -- I think, going forward, we really do have a situation where we really will be able to say whether Latin America's presidents, which have had a great deal of success over the past decade -- in part because of the strong economic performance of the region -- whether the other actors in the system would be able to play their roles in a scenario where the economy's really not doing as well, where Presidents face greater challenges, where they're not able to use the resources ahead at their disposal in the past decade to solve, or overcome, or provide the pork necessary to come up with those political solutions to bringing their countries forward.

I'll just stop there.

MR. TALVI: Thank you. Thank you very much, Harold.

Well, (inaudible) issues to discuss. Let me start by asking perhaps Arturo and Kevin -- because if I hear you correctly, Arturo is worried about the degree of democratic consolidation, in the sense that you have shallower democracies, while Kevin is talking about the emergence of the trends towards ideological emergence. I mean, these two opinions are not necessarily compatible, and not necessarily compatible what

you see out there -- I mean, where you have autocracies, a la Argentina, Venezuela -- pragmatic autocracies, and then some consolidated democratic governments. I'll let you two do the talking.

MR. VALENZUELA: Look, let me take a stab at this, because, actually, we have a lot of convergence. And, in fact, we don't have a disagreement on this. But this gives me a chance to perhaps go a little bit further than I did earlier, with regard to the perhaps necessary constitutional reforms. And it won't surprise a few of my students who are in this room right here to say that one of the things that I've been most concerned about in my own academic work, after having studied breakdown of democracies and democratic consolidation, has been, how do you ensure, in fact, that you get democratic governance in Latin America?

And here's where I agree completely with the notion that part of the fundamental problem of presidentialism in Latin America has been what you might call the problem of the double minorities -- the double minority being a President who is not elected with a majority of the vote, and, at the same time, does not have a majority in the Parliament.

Now why is this a problem in Latin America? Because Latin America has trended much more towards multipartyism. It trended towards two-partyism, but presidential democracy really was not very successfully. I mentioned the 42 percent of the coups that would replace governments.

Let's remember that in this period of democratic governance, there were 16 Presidents who did not finish their terms in several countries several times -- you know, Ecuador, Argentina, and so on, and so forth.

What is the nub of the problem? The nub of the problem is, how do you make presidentialism work in the face of double minorities -- that is, a President that does

not have a significant majority? And what does it do to democracy to have this presidentialism -- you know, Presidents want to come back, particularly afterwards. But let me get to both of those points real quickly, because I don't want to monopolize too much time.

Remember that Peña Nieto in Mexico -- correct me -- won the presidency with 38 percent of the vote. Lopez Obrador came in at 36 percent, and then, of course, (inaudible) was down a little bit further, you know. He does not have a majority of Parliament. One of the real successes of the first part of his government was, in fact, the (inaudible) pretty much disappeared. You're back to the situation of a President without necessarily strong majorities (inaudible).

How do you fix that? How do you get around that, you know? And you're right, Kevin, in noting that, in Mexico, this debate is, again, very strong. And I've been participating in this debate, as I have in various debates that are comparable in many other countries in the region, in advising on constitutional reform sorts of questions.

What are the Mexicans looking to, to try to overcome this problem? They're looking -- oh my gosh, what we need to do is to make sure that we have a majority President -- which, in turn, means, let's go to a second round, because the Mexicans still don't have a second round. And they're very excited about maybe trying to get to the second round, because, in fact, you cannot have a President elected with only 38 percent, you know; let's go to a situation where you have a second round, which is what we're facing in Brazil.

But the other proposal in Mexico is, let's also have a government of coalitions. You referred to the issue of coalitions. So, let's try to see how we can generate more of a logic for coalition behavior within the Parliament itself. And so they're talking about creating a Prime Minister in a cabinet kind of government, where the

President will be elected. He would then appoint a Prime Minister, and the Prime Minister would then have to get a validation by the Parliament -- which is a parliamentarization of the situation in Mexico.

Now I've been in this debate for a long time. I'll do a little commercial right here. My book that I edited with Juan Linz, called *The Failure of Presidential Democracy*, dealt specifically with this issue. So, this has been around for a long period of time.

My recommendation, to summarize this conceptually to the Mexicans, is this: Wait a minute. You're making a real mistake if you go to the second round, because what does the second round do? What does the second round do? It gives you the impression that you're going to create a majority President who is not a majority President. He's the second, third, or fourth preference for much of the electorate.

You get a situation like the one in Peru, where what were the options for the Peruvians in the second round? It was Ollanta, then perceived by many as being way off in the left. It was Keiko, perceived to be way off in the right. It was (inaudible), perceived to be by most Peruvians not sure, because he was a good Mayor. And, by the way, he was just reelected, because he was a good Mayor -- but most people in Peru didn't know. And then there was Toledo, of course, who -- and then Pedro Pablo Kuczynski. You know, these are all the candidates that go into the second round. Where are the three moderate centrist candidates that occupy the center?

Kevin pointed out that most people in Latin America aggregate more in the center and not on the extremes. There was PPK, Toledo, and (inaudible). And what do they do? Did they get together to try to get into the second round? No, they didn't get together to get in the second round; quite the contrary. They destroyed each other, making it possible for the second round to be Ollanta and Keiko, right?

Now is that what you want in order to really be able to create the strong political parties and that kind of thing? No. I don't think that that is the formula that you want.

And I'll end with this: What is my proposal for the Mexicans? And I've discussed this fairly significantly with them, and there's a lot of sort of pushback on this. Look, you have to evolve more towards a really genuine Parliamentary form of government. Essentially, it's this. You know, if you don't have a President who gets in on the first round -- if you don't have a President that gets 48 percent or whatever the constitution says -- 45 percent, or 52 percent, or 53 percent -- then the election goes to the Parliament.

That's exactly what actually happens in the United States, folks. If there isn't a majority electoral college, who decides? It's the House of Representatives. These are things that were thought of by constitutional, you know, (inaudible) a long time ago. And, of course, that was the formula that you had in Chile for a long period of time, what you had in Bolivia for a long period of time.

If you don't have somebody who has the majority of the population, then let the collective body decide. And then from there, you create essentially more of a Parliamentary sort of formula, because it's the Parliament that decides between the first two frontrunners or the three. The Bolivians don't like that, because (inaudible) says that was the political of coalitions, and they didn't like the politics of coalition. But if, indeed, we like the politics of coalition, the way we have to go with some of these reforms is, in fact, to try to address the problems of presidentialism or taking seriously the idea of shifting more to a Parliamentary form of government.

MR. TALVI: Okay, I think Kevin wants to --

MR. CASAS-ZAMORA: Yeah. Well, I was ready to say amen to

everything until you mentioned this thing of the election going to Congress.

I mean, you know, that's what the Bolivians had for a long time, and I'm not sure, quite frankly, if I would like my political system to resemble what Bolivia had for 20 years. I mean, let me be very blunt. I mean, that has generated its own share of problems.

But I wanted to raise a couple of issues. I mean, with regards to your question, Ernesto -- I mean, I don't think there's a contradiction. I mean, first of all, when we talk about democratic consolidation in general in Latin America, we're painting with a broad brush. I mean, you know, democratic consolidation comes in different flavors and in different countries.

What I mentioned in my remarks was that there are a number of good tectonic trends in the region, particularly at the level of public opinion, that one would think make democracy more resilient in Latin America. I mean, when we say that free and fair elections are the only game in town in Latin America, where? You know, for a long time, neither the right nor the left in Latin America believed in elections.

When we talk about macroeconomic equilibrium being an important thing in Latin America, you know, the left never believed in that in Latin America. Now they do -- most of them. When we talk about robust social policies -- well, the right never believed in that in Latin America.

So, those are trends that I would posit that make democracy more robust in Latin America. And it's not written in the stars. It's not written in the stars that a democratic breakdown will not happen in Latin America. I think there's a real risk -- and now I come to one of the things that Harold alluded to -- which I think is very important -- you know, one of the risks that I see in Latin America is that (inaudible) particularly in situations where you have a lot of political parties where Congress is able to check the

power of the executive, you can either drift towards what Fukuyama calls -- just recently, in his latest book -- a vetocracy, which is pretty much what we have in Costa Rica, by the way -- and not just in Costa Rica. I mean, you see it in other places in the region.

You either drift towards a vetocracy, or you drift towards an autocracy. And that's a defining choice that the countries in Latin America will have to face up to. So, there are risks, for sure. I mean, it's not a done deal that, you know, democracy's written in the stars in Latin America.

And my very last point, which is a reaction to something Harold said, is, you know, a very self-evident one. I mean, if we want effective political oppositions in the region, we need effective political parties first. The fact that we don't have political parties to speak of, you know, has, as one of its consequences, that, you know, political oppositions are hamstrung.

MR. VALENZUELA: Could I jump in right here on the effective political parties? And just, again, to be hard on Presidents in Latin America -- and this goes to your point about the reelection issue.

The real problem, you know, with political parties is Presidents that never leave -- the Presidents that want to come back, and come back, and come back. Even failed Presidents want to come back, you know. I admire enormously some people who have continued to be in the opposition for years and years, and never go away. Think about Prime Ministers in Europe. If they're reelected, you know, it's because they continue to have the support of the party apparatus -- of the institutional party.

But in Latin America, with the issue of Presidents being plebiscitarian, we want to come back, you know, and they never let go. And when they never let go, what they do is they wind up destroying the -- look at your country. Look at Uruguay, you know. Its Presidents, or children of Presidents, or spouses of Presidents -- how many

spouses of Prime Ministers have come back in Europe? It's a completely different thing.

So, you know, if I had one reform to do, to be honest, President elected one time and never again. And I like the sort of provisions in some of these constitutions that bar family members and various others from doing it, because it really does continue to undermine political parties.

MR. TALVI: Well, that would be a little bit of -- I'll get to you, Harold -- now there will be a little bit of a loss of human capital there, because sons of Presidents sometimes actually got trained to be President. So, that's not necessarily something -- if they are elected --

MR. VALENZUELA: Okay. Well, sons of Prime Ministers are not trained to be Prime Ministers.

MR. TALVI: No, I know.

MR. VALENZUELA: That's because they have to work through parties and through the institutions, and not have the --

MR. TALVI: Let me go to Harold, because he was alluded many, many times, and he said many interesting things. I'll add my own allusion.

Harold, this is what I think about -- I mean, that it's sometimes contradictory. We always said that populism flourishes when you have abundant resources. And now we are going to go into (inaudible) in which resources are going to be more scarce.

Now my question would be -- and I'll let you answer first, Harold, and address the issues -- would way more scarce resources lead to the end of the populism, a la Argentina, Venezuela, and mutate into autocratic pragmatism, a la (inaudible), or will it go in the direction of strengthening democracy?

MR. TRINKUNAS: I think that in the countries that have already

experience populist governments, I think a great deal has to do with the strength of the institutions that we were just talking about.

In countries like Venezuela, for example, where the institutions really have deteriorated dramatically -- I mean, we've already seen, in a sense, Argentina -- it's almost like leading indicators, because they suffered economic problems first; they had populist governments first. We can see how Presidents react to no longer having the resources to be able to take the soft approach to solving (inaudible) dealing with an opposition in a populist style of government (inaudible) you can build coalitions, you can have pacts, you can buy people off.

When that's no longer available, then either you can lose elections -- and if institutions are strong enough, then that's the way that will work -- or you can undermine the institutions to ensure that you don't lose elections. And I think here we may still see a difference between Argentina and Venezuela, where we still expect the --

MR. CASAS-ZAMORA: Or you can print money.

MR. TRINKUNAS: Which is another way of eroding the institutions of sound currency, right? It's another kind of (inaudible).

No, no, and it's very interesting numbers, actually, in *The Wall Street Journal* published recently about oil producers -- and what price of oil do they need to make their (inaudible)? And I think for Iran, it was, like, $140 a barrel oil. Venezuela was $120/barrel oil, and that was only based on the central budget in Venezuela. There's a lot of off-budget public spending that's not accounted for. So, Venezuela is in a very dramatic place economically.

So, I think that's the divide. There's going to be populist governments where you still have strong institutions where, you know, those governments will either have to change their economic policies, or there'll be elections, and they will be replaced.

And then there's the other side of governance, where we've already seen leading indicators of (inaudible) where you will try to manipulate the institutions or undermine the institutions to avoid electoral accountability as much as possible. And that's the kind of dividing line in Latin America.

MR. TALVI: I think we are going to finish on Latin American punctual time, at 11:40, because we started 10 minutes late. So, if you'll bear with us 10 more minutes, we would have, I think, time for the audience to ask some questions to the panel, which I think you probably have a lot of questions.

So, there are mics around. So, please identify yourself and ask the questions.

SPEAKER: Thank you. I'm (inaudible).

I just wanted to follow up on one remark made by Professor Arturo Valenzuela on Nicaragua. So, you rightly pointed out that, until now, the security institution in Nicaragua were quite autonomous and functioning quite well. But I've heard some skeptical rumors lately, saying that, well, the Sandinista influence is growing. And so on the institutions -- maybe also the corruption is increasing -- not only in Nicaragua and Central America.

So, I wanted to ask all of you, what do you think will be the trend concerning the fight of corruption? Because I think it has a really great impact on growth, and democracy, and so on -- especially now that the (inaudible) are decreasing in all countries. You know, not everybody will be benefitting off this (inaudible).

MR. TALVI: Thank you. We are going to collect a few more questions for the panel.

MR. WHISTLER: Simon Whistler, Director for Latin America Control Risks.

Just a question about political parties -- I agree completely that the need for stronger political parties in Latin America is paramount, but how do you go about creating them? I mean, if you think about -- it's not just about Presidents or parties themselves; it's also about the institutions that go beneath them in terms of judiciary bureaucracy.

But, also, in Latin America, you see a number of countries where (inaudible) Peru -- around the whole strength of local government, as well, and how that feeds into the whole sort of national (inaudible). You have regional elections run completely on local politics, and completely undermines any attempt by sort of national government to sort of run things effectively at a local level. So, just interested on thoughts there.

MR. TALVI: (inaudible).

SPEAKER: (inaudible) formerly from the IMF.

I wanted to ask the panel, what do you think might be the effect on other countries in the region, particularly (inaudible) area, if there were a change in government in Brazil, in the sense of, you know, the opposition winning?

MR. TALVI: Let's take one more question, if there is one more.

Well, then I'll add my own question, and let the panel do the final remarks on the questions and any other comment you want to add.

And this is the question I would like to add: The fact that citizens now have alternative means or vehicles of representation, like the social media, the press -- isn't that going to eventually strengthen democracy and political parties, in the sense that they are going to be held more accountable? That's the only question I would like to add.

So, let's start on the reverse order. Harold, why don't you start? Then we'll go to Kevin, and we'll let Arturo close the panel.

MR. TRINKUNAS: I think I'm just going to pick up on a couple of questions -- maybe the one on parties and the one on Brazil elections (inaudible).

Again, I think our experience of party-building has often taken place during (inaudible) resistance and having to work together, of building those personal connections and trust -- and even among different people in opposition. An opposition is not just one party; it's a collection of parties that share a certain sense of at least baseline values about things like democracy, and institutions, and what's acceptable forms of behavior.

And parties also play a very important role, then, in democracy, though, in holding politicians accountable -- because especially in systems where maybe judiciary is very slow, where there's corruption, parties, or brand, or image, their reputation -- to the extent that parties can play that role of control, it's very important.

That said, how do you build parties today? I don't think we have a lot of good experiences with party-building (inaudible) nor is there a great deal of incentive to build a party in a media-driven -- including social media-driven -- environment.

So, I don't think we actually have a terrific answer on that yet, but a lot of it has to do with, I think, the extent to which you craft electoral rules and party registration rules that encourage politicians from across different parts of the country to work together.

I think (inaudible) maybe almost forming too many parties, so maybe you could, you know, dial back in certain instances. But there are some experiences you could look to where you have had some efforts to foster the formation of more broadly-based parties at both the local level. So, that's something I would point to.

But then coming back to this Brazil issue and the elections -- I do think that the elections in Brazil could be consequential for foreign policy in the region --

specifically, obviously, (inaudible) promised a greater focus on trade. I think there's an implication for (inaudible) because I think one of the things that has been -- at least in Brazil, people have said that (inaudible) Brazil back from looking at some of these broader paths that go over to the European Union (inaudible) and whether people in Brazil increasingly -- even within, I think, the government -- are acknowledging the fact that they have to look outside (inaudible) to make these trade deals with the European Union, within the Americas.

As (inaudible) suggested in a recent op-ed, looking at TPP and TTIP, also -- I mean, how does Brazil react to those? The extent to which you're just going to have to go it alone and push (inaudible) to the side -- create a rule that says that countries in (inaudible) are allowed to negotiate bilateral agreements, rather than just (inaudible) as a whole negotiating.

And I think that this next election might have an implication for that, as well -- whether (inaudible) to say, okay, it's time to change the rules for (inaudible) and we each have to be able to make our own trade agreements as we go forward.

There's also some implications, I think, maybe for human rights, and democracy, and other foreign policy issues in the region -- elections, as well -- if Neves wins versus Rousseff, but I'll leave those aside in the interests of time for my colleagues.

MR. TALVI: Thank you. Thank you very much, Harold.

Kevin?

MR. CASAS-ZAMORA: Thanks, Ernest. I mean, I'll take a couple of questions, as well.

I mean, the question about strength in political parties -- that's a heck of a question. I mean, look, I've been doing, you know, this kind of discussion on political parties in different incarnations for probably about 20 years. And every time we have one

of these discussions, we close the discussion saying, oh well. You know, strengthening political parties is a systemic need of the highest order. We've been saying that for 20 years.

And, quite frankly, we have very little to show for it. So, it really raises the question -- what I think is a very profound question -- which is whether political parties are a creature of the 20th century, and that political representation is moving into something completely different, the contours of which we don't know.

And it also raises the question of whether, you know, by insisting on strengthening political parties, we're just flogging a dead horse. I don't know the answer to that, but I think it's something that we have to think seriously about.

Having said that, I think that on the margins, there are things that you can do. There are things that you can do with regards to what we in Spanish call -- I don't know how you call that in English -- (inaudible) -- you know, the members of Congress are elected on, you know, part of one party, and then they defect and move to a different party, you know, to stop that. And a number of countries are doing that at the moment.

There are things that can be done with regards to political finance -- and particularly by providing state subsidies to political parties on a permanent basis. That has been proved time and again to help during (inaudible).

There are things that can be done with regards to electoral thresholds -- you know, the kind of things that the Germans did back in '49, you know, to establish a very robust electoral threshold for representation, so that, in Congress, you have real political parties that mean something.

So, there are things that you can do. But to tell you the truth, I'm not very helpful. There's one of those things that you have to go on repeating until there's

some better alternative, and we don't know what that alternative is to political parties.

And Ernesto's question about alternative means of representation -- I think, you know, those other means of representation are phenomenal for democracy in many ways, but are bad for political parties. And there's no contradiction in that.

In particular, I think the press and social networks are wonderful as a check on power. They're wonderful to denounce corruption. They're wonderful to check the power of authorities. But they are lousy in terms of laying out clear political agendas. They are wonderful to check on power, but not to decide what to do with power.

And the thing is that for democracy to be effective, for democracy to be resilient, you need power that is checked -- but also power that is effective to make a difference in people's lives. You know, and for that, I'm not sure that this new means of representation are very good.

MR. TALVI: That's an excellent concept to end your -- power that is checked, but power that is effective. Let's hope that the political parties will be able to adapt to this 20th century kind of technology, in order to remain effective while checked.

Arturo?

MR. VALENZUELA: Well, okay, I'll take on the parties thing first.

You know, part of the problem is, in fact, that the surge of these other alternatives has been misconstrued as meaning that parties are less relevant and should be less relevant on the part of social actors that think that we should have a direct relationship with the authorities -- or that maybe we should be able to even run for office, you know, but not on parties. This is this whole trend towards independence in politics.

And all you're doing by trying to sort of encourage the notion of independent candidacies for this is to undermine, of course, political parties.

Now there is absolutely no question in my mind that political parties are

absolutely essential for the functioning of any democracy. You know, in the *Federalist Number 10*, Madison was skeptical about factions, and parties, and so on, and so forth. And this was a time when they really felt that, you know, elected legislatures would be proper representatives of the people, but they shouldn't be involved in factions.

And yet, after having been President, he famously said, you know, that the political parties wound up being essential tools of democracy, essential -- I can't remember the exact quote on it. Why? Because they are the transmission belt between what you might call the party in the electorate -- the formulation, the aggregation of the interests into some kind of programmatic proposals -- and the party in governance. It's the party that needs to in the legislature structure proposals.

Now if you only have one party that's majority -- and this is where there's some difference between two-party systems and the multiparty systems -- it's a lot easier if you have a majority of your party. And, by the way, the Presidents that have been most successful in Latin American with this authoritarian streak in this modern democratic era have been those that have strong majorities, like Evo Morales getting almost 2/3 of the vote this last election. That's a guarantee for them.

But what happens in most places where you have this double minority sort of issue? And this is where parties really need to be strengthened.

And I like the idea that you have to make a significant distinction between the role of civil society organizations as instruments to hold the authority accountable, but that does not mean that they substitute for political parties.

And then, without going into any detail, there are a host of things that you can do to strengthen political parties -- by having proper party laws -- and particularly proper electoral laws, because you can encourage through those sorts of legislative means the authority of political party leadership, for example. All you need to do is just

go in, look at Britain, and see, you know, what the laws are there for things like constituting, you know, the authority of the political party leadership over nomination of candidates, or the funding of candidates, and so on, and so forth.

You know, strong parties require strong rules to support parties and an electoral system that also goes in that direction. So, I think that is quite clear.

And let me just repeat again -- you know, if Presidents didn't continue to be the leaders of the parties forever, and ever, and ever, and never let go, and not allow a drafting of new leadership -- this is part of the problem. These guys don't leave -- and it's mostly guys. And, you know, they don't allow (inaudible) important for any kind of political system.

And then, finally, you know, the issue of corruption is a problem for everyone in Latin America. I've expressed my bias towards Presidential leaders who are too dominant and maybe have ambitions to continue to have some of their own family continue to follow through. And this would be with regard to your first question.

I think ultimately, you know, rule of law, transparency, and so on requires us in Latin America to depersonalize somewhat much more than we have the politics. And that is accentuated by presidentialism.

And then just a final remark -- I agree with you, with regard to Brazil. It's really astonishing what's happened in the polls. It's not at all out of the question that Aecio Neves is now going to win, which is really rather stunning. At one point, we were sure that Dilma was going to win; another point, we were sure that Marina's going to win. And now, you know, it looks like -- and I think the key there is, what happens to (inaudible)?

Does it stop being a customs union that is essentially designed in order to sort of protect one of the most (inaudible) countries in the world? You know,

protectionism in Brazil -- or do you get an opening up of (inaudible) in such a direction that you see a comparable phenomena as what you've seen with the Alliance of the Pacific?

MR. TALVI: Okay. Thank you so much very much, Arturo, Kevin, Harold, for a really fascinating discussion.

I'm so happy that this panel went way beyond, as Arturo said, the left/right Manichean view. I mean, it basically disappeared from the discussion, and I'm happy because *The Economist* just ran an article essentially proposing the idea that the continent is getting prepared to move back to the center right. And I think that we are way past that discussion, and I'm glad that this panel actually discussed the things they did.

Thank you so very much, and thanks to all of you for coming.

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I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

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