The Political Dimensions of the World Economic Crisis:

A Latin American Perspective

13 July 2009 • Santiago, Chile

FINAL REPORT

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"The Political Dimensions of the World Economic Crisis: A Latin American Perspective"
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THE POLITICAL DIMENSIONS OF THE WORLD ECONOMIC CRISIS: A LATIN AMERICAN PERSPECTIVE[1]

The global economic crisis has touched every region of the world to varying degrees but its impact on the countries of Latin America and the Caribbean has been especially discouraging. After two decades of economic malaise, debt overload, fiscal crises and hyperinflation, the region was enjoying a robust six-year period of economic growth - a "bonanza" – that was beginning to have tangible results in terms of poverty reduction and a growing middle class. Now, just one year into the global recession, the countries of the region are suffering major setbacks in economic growth, employment, remittances and exports, with expectations of significant backsliding in poverty reduction, fiscal stability and social investments. These developments, combined with elements of autocratic populism in some countries, rising public insecurity and the risks of climate change, present major challenges for democratic leadership at the national, regional and global levels.

On 13 July, 2009, the Club of Madrid, under its program on "The Political Dimensions of the World Economic Crisis," gathered at the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) in Santiago, Chile for an in-depth discussion with top experts on the regional aspects of the global recession. Present at the all-day roundtable were eight Members of the Club of Madrid, all democratic former heads of state or government, along with high-level representatives from intergovernmental organizations, academic institutions and civil society to analyze the economic situation and the political implications that flow from it. This report offers a summary of the key points and recommendations that were raised at the meeting as input to the Club of Madrid's annual conference on the topic in November, 2009.

THE END OF THE BONANZA... AND THE START OF A NEW PARADIGM?

After six years of strong economic growth and encouraging poverty reduction, the global recession has put the region's economy in reverse, with a likely contraction of two percent in 2009, unemployment rising to nine percent, remittances declining, tourism collapsing and exports falling. Despite the gloomy prognosis, however, there is cause for optimism that the region will be able to turn the corner and return slowly to a positive growth trajectory in 2010. As a result of painful economic measures taken by newly democratic governments in the wake of the debt crisis of the 1980s, fiscal balance sheets generally are in better shape now than in previous periods of economic decline. Inflation remains relatively low, credit is available and counter-cyclical policies are cushioning the macroeconomic blow. Initial predictions of dire consequences for the region have proven exaggerated. Remittances, for example, have not fallen as dramatically as feared, loss of reserves has been minimal, and central banks have been able to keep interest rates low, all in contrast with the worse scenarios of the past.

Unlike previous home-grown economic crises in the countries of the region, the global recession of 2008-09 was generated outside the region, principally in the United States. The bonanza itself had also been caused by external factors. Growing financing was coupled with rapid increase in consumption in the United States. China's rise as an economic powerhouse drove demand for Latin America's natural resources to unprecedented and perhaps unsustainable levels. Rapid world growth and booming financial and commodity markets also led to a mutual dependency between China and the United States in which all parties, including Latin America, benefitted before all were hurt by the collapse of the financial system. On the positive side, the generally safe macroeconomic approach of the region may have broken the myth of Latin America into what President Frei of Chile terms "a box of bad surprises." In addition, the period of bonanza delivered benefits to everyone – consumers, businesses and governments -- through lower interest rates and longer terms of borrowing. As opposed to past 'boom and bust' episodes in which public institutions took too many risks, this time around it was the private sector that pumped up the unsustainable debt balloon.

"The perfect marriage between China and the United States seemed marvelous but the foundations were unsustainable."

Jorge Quiroga
Former President, Bolivia
Member, Club of Madrid

This latest experience with the downside of globalization has added further weight to the view that the dominant neoliberal model of the 1990s is not only politically dead, but also economically spent. The gospel of broad market deregulation and smaller government has proven to be a recipe for financial disaster as banks took on more and more risk without proper controls. The now-defamed "Washington Consensus" created unrealistic expectations of linear growth; it also relied excessively on economic rather than political solutions to society's problems. Moreover, the abrupt reversal in the region's fortunes on the heels of a boom period has sharpened levels of societal frustration which could lead to tensions and conflict. As a result of the crisis, political and economic conditions are ripe for a paradigm shift toward a better balance between a stronger state, an efficient but regulated market, and an educated and active citizenry.

While it is difficult to generalize across such a diverse group of countries, there are a number of lessons the region has learned from previous downturns. For example, some countries prepared themselves better than others to cope with possible crises even though within countries some sectors are better positioned than others to take advantage of the enhanced trade and technological innovation that globalization offers. Second, pro-cyclical policies, including an increase in protectionist measures, have been shown to backfire, while counter-cyclical policies are proving to be a stabilizing factor. Third, social discontent is more likely to emerge in economic crises, making the normal functioning of democratic institutions more difficult and raising the importance of expanding social safety nets.

While states can take steps to incorporate these lessons in their response to the current economic crisis, developments at the global level are making it even more difficult to organize a coherent approach. For one thing, Latin America is less relevant on the international stage than it was 30-40 years ago. Compared to other regions, per capita income has declined. The region's share of exports as a percentage of the global total has dropped from 14 to 7%. Second, the traditional, export –led development model, based on a supposedly comparative advantage and high concentrations of commodity exports persists, particularly in South America, making the region more vulnerable to external shocks. Other regions with higher rates of productivity, savings and investment in education and infrastructure are pulling ahead. In addition, the region remains plagued by the highest levels of inequality and public insecurity in the world. To overcome these disadvantages, Latin American economies need to transition over the long term to more competitive, balanced models of quality economic growth based on macroeconomic stability, microeconomic efficiency, equity and environmental equilibrium.

In light of these circumstances, there is a clear need not only for stronger but for more responsible states, ones which are fiscally sound capable of protecting their citizens, delivering social services, promoting social cohesion and protecting the environment while empowering entrepreneurs, and regulating the market while giving private initiative the needed space. Such responsible states are also needed to respond to the impending crisis of climate change, the growing challenges of migration and the persistent menace of drug trafficking and organized crime.

"There are no rescue packages if we climb above two degrees celcius of global warming. There is no stepping back."

Ricardo Lagos
Former President, Chile
President, Club of Madrid

Unfortunately, governments in the region have grown weaker and more fragile with a wholly inadequate tax structure to support the aspirations of citizens for a strong state that can deliver public goods within a framework of democratic stability. To make matters worse, the growing competition for scarce financial resources on the global stage will make it more difficult for Latin American countries to borrow on preferential terms. For example, if the United States' fiscal deficit continues to grow, it will increasingly compete with Latin America for external financing. In the face of such competition, those states with the best policies and recognized respect for rule of law are more likely to succeed, making it virtually impossible for today's Latin America to secure the resources needed to reach adequate levels of growth.

Given such limited resources, states and society must make some fundamental decisions: to what extent should we raise taxes and redistribute income rather than borrow from the future to accelerate development in the present? To what extent can corporations self-regulate their behavior by, for example, acting in a more socially responsible manner towards and with the communities in which they operate? Must the state intervene more directly in commercial affairs, even if it means slower economic growth?

Latin America could learn from Asia in this regard. Asian states, including China, have pursued smart policies of political economy featuring higher rates of savings and investments in education and public goods. Latin America must do the same, increasing its levels of public and private investments and savings and improving the quality of education if it is to grow economically.

"Everyone says that we have better education but if you check Latin America's performance in international rankings of education, we can see this is just not so."

"UNASUR not only excludes Mexico, it weakens the OAS"

César Gaviria
Former President, Colombia
Member, Club of Madrid

The impact of a major decline in foreign trade raises some particularly challenging questions for Latin America's export-led development model. Will the region turn again to a more internally driven market model, not merely at the national level but the regional level as well? The current blow to global trade should, in theory, be the moment for accelerating regional integration. Instead, regional integration is in crisis, in large measure because of internal political divisions in the region. Tensions, for example, have grown between Colombia and Ecuador, Peru and Bolivia, Venezuela and Colombia, Peru and Chile, Uruguay and Argentina, and so on. Brazil's initiative to create the Union of South American States (UNASUR), which excludes Mexico, and the potential inclusion of Venezuela instead of Mexico in Mercosur, are sowing discord as well. The great diversity of the region -with populations ranging in size from 300 million to only 50,000 and wide disparities in wealth, resources and power – makes it even more difficult to achieve consensus on common interests.

The diversity of the region is also seen in the way different states are handling the economic crisis. Some have built strong fiscal positions, with low public sector debts that provide some room for counter-cyclical policies, Others, however, spent heavily during the boom years and have little room for maneuver. Still others remain heavily dependent on the U.S. economy, and have been hit hard by the crisis in the world's major economy crisis. Some others have been diversifying into Asia and, particularly, China, and have been able to expand exports into those markets. Despite these variations, a general consensus seems to exist around such themes as open economies, sustainable fiscal policies, control of inflation, and anti-poverty programs. This may be insufficient, however, to regain the momentum of the 1990s toward regional integration.

"Today we are further apart than ever, with no coordination in economic [terms or] infrastructure or energy matters."

Eduardo Frei Ruiz-Tagle
Former President, Chile
Member, Club of Madrid

"We want to have states like Denmark without paying high taxes."

Jose Miguel Insulza
Secretary General, Organization of American States

Mexico in particular faces a number of daunting challenges. With the arrival of democracy in the 1990s, Mexico was able to reduce its external debt, double its reserves, cut inflation and interest rates and reduce poverty. However, its heavy dependence on the U.S. economy (90 percent of its trade is with the U.S.), particularly in the energy and auto sectors, disproportionately affected the country when the U.S. economy hit bottom in 2009. The North American Free Trade Agreement (NAFTA) is dormant. A politically contentious and immature debate on fiscal policy (Mexico's fiscal income is one of the lowest per capita in the region) prevented any significant reform during the period of bonanza even though the government is dangerously dependent on oil as its main source of income. A confluence of negative forces – the economic crisis, the H1N1 virus, a surge in drug-related crime and violence - has exacerbated these structural problems. The way out demands strong democratic leadership, with the courage and wisdom to focus not just on economic efficiency but on human development and gender equity if it is to escape its current path of turmoil.

IMPACT OF THE ECONOMIC CRISIS ON DEMOCRATIC DEVELOPMENT

While Latin America's economies are, in general, better prepared to cope with the economic crisis than in the 1980s, the average citizen is not. The new middle class is highly vulnerable with few guarantees of social security. Because the bonanza period was short-lived, savings rates and home ownership remain low. Chances of a quick recovery that will directly benefit vulnerable households are also low. Based on the experience of prior periods of contraction, it can take twice as long to recover levels of social progress as it does to recover economic growth. Similarly, productivity recovers more quickly after a crisis than does employment. On the bright side, however, some states have made important progress in establishing large social safety net programs (e.g., Bolsa Familia in Brazil, Oportunidades in Mexico). Nonetheless, the beneficiaries of public policies in Latin America remain segmented – education and health services are not the same for all, impeding social mobility. And tax policies, compared to other regions of the world, fail to redistribute income and wealth.

"Democracy has brought us a period of growth but it must be nourished and protected because surprises are always around the corner."

Vicente Fox
Former President, Mexico
Member, Club of Madrid

In the meantime, political polarization and social tensions are likely to grow, endangering the region's advances in democratic and fiscal stability. The timing of the economic downturn is particularly sensitive given the impending heavy schedule of elections throughout the region, contests that will present voters with a choice between democratic reformism and autocratic populism. Now that it is no longer as easy for autocrats to write checks, as they did in the not so distant past, tendencies toward "Cesarismo" – the substitution of republican institutions with monocratic leaders -- are more pronounced and more dangerous. This phenomenon is distinctly Latin American – the classic concept of representation is substituted by a president above the constitution and the law; the parliament is replaced by direct dialogue between the president and the masses; and the tools of the state are used to serve the president, without intermediaries. Even after 200 years of independence, the region still looks for scapegoats for its sins and omissions.

There is a powerful demand for internal consensus on key societal issues beyond what can be achieved through elections. Building such consensus, however, is proving difficult in the face of weak and immature democratic institutions and flaws in the implementation of the rule of law. There are some notable examples of persistent state weakness due to politicization and corruption. Argentina's troubling experience of manipulating official economic statistics and its impact on bond holders is a recent case in point. The tendency to maneuver constitutions and elections to stay in power, promoted both by sitting presidents, political parties and special interest groups that benefit from privileged access to power, is particularly worrisome. This risks undermining the public's faith in the constitution as the highest law of the land. Meanwhile, just as parliaments held sway in the 19th century, and the executive in the 20th century, judicial authorities are emerging as decisive political actors. The consequence of turning to the courts to resolve political problems – the 'judicialization' of politics -- is the inevitable politicization of the judiciary. Without sufficient legal guarantees and a truly independent judiciary, it will remain difficult to attract investors.

"The economic growth needed to reduce poverty will not happen in the next 4-5 years and social problems will be aggravated as a result."

Rebecca Grynspan
Director, Regional Bureau for
Latin Americaand the Caribbean,
United Nations Development Programme

"Our Latin America still has formidable deficits of democratic culture."

Julio María Sanguinetti
Former President, Uruguay
Member, Club of Madrid

"It is vile towards democracy for a constitution to be modified in benefit of a sitting president."

Julio María Sanguinetti
Former President, Uruguay
Member, Club of Madrid

Another critical factor to explain Latin America's weak democratic institutions is its deficit of citizenship, i.e., the overreliance on leaders to resolve our problems combined with low levels of civic education and critical thinking.

The critical question, then, is what kind of state is necessary to ensure appropriate interventions in the economy, promote social welfare and protect democracy and the rule of law? What kind of leaders will emerge to guide the state through these turbulent waters? Which institutions are capable of mediating the growing conflicts of ideology, redistribution of resources and demands for greater public participation?

To move in a new direction, leaders need to marry the political with the social, meaning they must harness political change to legitimate social demands. A new, much more ambitious political agenda needs to respond to the big challenges – corruption, violence, child labor, extreme poverty – and give them the importance they deserve. Instead, the region is sliding back toward "caudillismo" as an escape from weak democratic institutions and leaders. A strong leader is particularly appealing to the poor and vulnerable, facing the abyss of chaos everyday and needing some order and stability in their lives.

Tackling the very high levels of insecurity and drug trafficking prevalent in the region – the highest in the world -- must be a top priority for democratic states. The potential collaboration among Mexican cartels, Colombian narco-guerrillas, Central American gangs and Andean cocaleros could overwhelm weak states and pose a grave risk to our democracies. A proper and more efficient use of resources, can help achieve this, as shown by the progress made in Colombia through improvements in the public security forces and judicial system. Mexico can and will likewise get the drugs and crime situation under control. But no amount of effort by Latin American states will solve these twin scourges as long as the United States continues to criminalize drug consumption, which has utterly failed to slow down demand for Latin America's illicit drug products. Treating addiction as a public health problem and reducing the harm associated with drug consumption is proving to be a better approach, as demonstrated in Europe. Legalization of small quantities should also be considered. Latin America should move in these directions given the strong evidence against the effectiveness of punitive approaches. Throwing young people in jail for consuming small quantities of drugs will condemn them to delinquency as adults. Local demand and supply markets must be controlled through prevention and education through public-private partnerships.

"State resources benefit the politically powerful and do not help the poor."

César Gaviria
Former President, Colombia
Member, Club of Madrid

The political crisis in Honduras has forced the region's governments to face some tough questions regarding the quality of democracy in some states as well as the capacity of the inter-American institutional architecture to respond to democratic backsliding. In the Honduran case, the political elite felt so threatened by the risk of a Chavez-style constitutional reform process that it violated the very constitution it aimed to protect by ejecting the democratically elected president from the country. On the other hand, it appears certain that President Zelaya also made many mistakes, including his attempt to order the military to carry out the popular referendum despite a judicial order against it. The role of the military in facilitating the coup reminds us of the autocratic tendencies still present in Latin America, even though trends of democratization – free and fair elections, continuity and alternation of elected governments, independent media and active civil society -- appear predominant. Nonetheless, the Organization of American States (OAS), despite its Inter-American Democratic Charter, appeared unable to deter or mediate the conflict, leading several experts to call for its strengthening as a diplomatic tool for defusing conflict. While the Honduran crisis showed the strong regional consensus against coups deposing presidents, other branches of the state (judiciary, legislature) cannot call upon the OAS to intervene when their powers are usurped. It also has no clear guidelines regarding attempts to change the democratic rules of the game in mid-stream, a phenomenon which many felt was a threat to democratic stability in the region. Re-opening the Democratic Charter under the current fractured relations in the hemisphere, however, could be more trouble than its worth and would likely fail.

"If the United States did not own the dollar, it would have to be in the Paris Club."

Jorge Quiroga
Former President, Bolivia
Member, Club of Madrid

LATIN AMERICA'S ROLE IN REFORMING GLOBAL GOVERNANCE

The global economic crisis has catalyzed the growing debate surrounding the quality and fairness of the current architecture of global governance and of the institutions created over the last sixty years to manage insecurity and deter conflicts. Latin America's past experience with such institutions, both at the regional and global levels, has informed this debate and moved it toward favoring proposals to diffuse power and increase resources.

The initial effort by central banks to coordinate responses to the crisis was largely productive. The Group of 20's decision to increase resources to the International Monetary Fund so that developing countries could sustain counter-cyclical policies was particularly important. The May 2009 announcement by the World Bank, the IDB and the CAF to co-finance $100 billion (cien mil millones) dollars for this purpose over two years is a concrete example of positive collaboration in support of the countries of the region in the face of the crisis. On the other hand, the capital replenishment of the Inter-American Development Bank is urgent and must be quickly resolved. The critical task of reforming bank regulations in a way that does not create distortions between the United States and other countries also remains incomplete. Also pending

"How do we eliminate a certain ideological dogmatism and strengthen realistic pragmatism in solving the region's problems?"

Enrique García
President, Corporación Andina de Fomento (CAF)

is the job of reforming the international monetary system, including the question of whether the U.S. dollar should retain its role as the reserve currency, a system some felt was unstable and unfair. International policies concerning debt relief and regulation of capital flows – factors that played a major role in generating previous crises -- should also be added to the unfinished agenda. Better control of credit risk agencies should also be considered, as well as completing the Doha Round of the trade negotiations and approval of free trade agreements, starting with Washington's long-awaited assent to the accords with Colombia and Panama.

One important political issue that continues to challenge the international community with increasing intensity is, simply put, how to organize itself in the 21st century era of globalization. The ad hoc institutionalization currently underway, in which the G-8 has expanded to include a more diverse set of large economies (including Mexico, Argentina and Brazil) under the banner of the G-20, is a positive development but some felt a more fundamental restructuring is desirable. This would include placing a reformed IMF, with a more balanced share of votes among its members, at the center of macro-economic policy coordination. Ideally, the international financial institutions should play a catalytic role in mitigating risks, a more creative role in adapting to diverse national circumstances and a conservative role in how they manage resources. The role of the UN on international economic matters should also be on the agenda.

"A new political geometry is being constructed in which the future is not just shared but negotiated, and we [Latin America] have to be at that negotiating table."

Alicia Bárcena
Executive Secretary, United Nations Economic Commission for Latin America and the Caribbean (ECLAC)

Latin America's leaders, especially those of the three countries that are part of the G-20, have a special role to play in insisting that such issues get on the international agenda.

In this regard, the recent encyclical of Pope Benedict XVI reminds us of the historic opportunity our political leaders have today to re-order the international agenda toward the common good and toward the full realization of human development for all the world's citizens, especially the poor.

"Mexico, Brazil and Argentina play a key leadership role in advancing Latin America's perspectives at the G-20."

Ricardo Lagos
Former President of Chile and Member of the Club of Madrid

At the regional level, however, Latin America's institutional architecture in the financial arena is in good shape. It has one of the most comprehensive set of financial institutions, including the Inter-American Development Bank, the Corporacion Andina de Fomento (CAF), the Central American Bank for Economic Integration (CEBEI), the Latin American Reserve Fund (FLAR), and the Treaty for Payments and Reciprocal Credits of the Latin American Integration Association (ALADI). Countries of the region should steer all efforts to build upon and strengthen these institutions to adapt to and facilitate greater regional integration, but should not create new ones.

"We should strengthen the existing regional financial architecture instead of creating parallel institutions."

José Antonio Ocampo
Academic Coordinator, Club of Madrid Program on the International Financial Crisis. Professor of Professional Practice in International and Public Affairs and Director of the Program in Economic and Political Development at the School of International & Public Affairs, Columbia University

ANNEX • ROUNDTABLE

THE POLITICAL DIMENSIONS OF THE WORLD ECONOMIC CRISIS: A LATIN AMERICAN PERSPECTIVE

13 July 2009, Santiago, Chile

PRESENTATION

The financial crisis that was originated in the United States in the middle of 2007 has since September 2008 become a global systemic economic crisis. The current strong worldwide recession now threatens to become a profound social crisis with repercussions for all States.

This crisis is however affecting countries and regions differently, depending on their level of development and degree of insertion in the world economy. Since there is a strong interdependence between the industrialized economies – where the crisis started – and the emergent and developing economies – which Latin America is part of – there is no doubt the crisis will have a deep impact in this latter region.

The socio-economic and political changes resulting from this crisis may be very profound. After six years of economic prosperity, with an average regional growth of 5.6% - grounded in the financial peak, a dramatic increase in commodity prices and high levels of remittances sent by workers – the region is now witnessing a major break in its expanding cycle.

The crisis threatens to severely undermine these years of growth, stability and improvements in human development, which many countries in the region have experienced in the last few years. The subsequent lost in confidence in governments being able to restore the socio-economic stability will further be reflected in a new electoral cycle in which one will have to choose between democratic reformism and autocratic populism.

As a result of this crisis, new political challenges, particularly for democratic leadership in the region, will arise. If one does not adopt the adequate measures to confront them soon enough, the crisis may put at serious risk the democratic advancements booked in the last decades, as well as foment conditions of social outbreak with possible violence, and ultimately worsen the conditions of injustice in which millions of people are living in that part of the world.

In this context, the various governments of Latin America and the Caribbean, together with the relevant international organizations, must adopt the necessary measures to address the economic crisis, as well as the other critical issues affecting the region, such as poverty, global warming, the realization of human rights and peace-building, whose management will be crucial in strengthening democratic values, good governance and human development.

In addition to an effort to design and adopt a new international and regional financial architecture which would help us conceive a more democratic and transparent world order capable of responding to the political challenges of the 21st century, one will also need to set off reflexion and decision-making processes that will specifically tackle the challenges democratic leadership is facing. In this context, various members of the Club of Madrid, together with prominent experts and senior policy-makers will be gathering at this roundtable to discuss the political dimensions of this crisis from a Latin American perspective, and to formulate recommendations that will help address the political issues resulting from the crisis.

The results that will come out of both this roundtable and the other ones organized in Africa, Asia and the Middle East will ultimately constitute the building blocks of the Club of Madrid Annual Conference (12-13 November 2009, Madrid) in which participants will then be designing a global political perspective on the current economic crisis.

PROGRAMME

MONDAY, 13 JULY 2009

09:30 – 18:00

Roundtable
"The Political Dimensions of the World Economic Crisis – A Latin American Perspective"

Moderator:
Héctor Aguilar Camín
Historian and political analyst, Mexico

Rapporteurs:
Ted Piccone
Advisor, Club of Madrid; Senior Fellow and Deputy Director, Foreign Policy, Brookings Institution

Ernesto Ottone
Advisor, Club of Madrid; Professor of Globalization and Democracy, University Diego Portales

09:30

Welcoming Words (Room: Raúl Prebisch)

Ricardo Lagos
Former President, Chile
President, Club of Madrid

Alicia Bárcena
Executive Secretary, United Nations Economic Commission for Latin America (ECLAC)

Jose Antonio Ocampo
Programme Academic Coordinator. Professor and co-President of the Initiative for Policy Dialogue at Columbia University. Member of the Commission of Experts of the UN General Assembly on Reforms of the International Monetary and Financial System

Block 1:
The Effects of the Crisis in the Region: An Inside Perspective

Speakers:
José Miguel Insulza
Secretary General, Organization of American States, OAS

Jorge Quiroga
Former President, Bolivia
Member, Club of Madrid

Eduardo Frei Ruiz-Tagle
Senator, Chile
Former President, Chile
Member, Club of Madrid

11:30	Coffee Break
12:00	**Block 2: Latin America in a World in Crisis**
	Speakers: **Enrique García** President, Andean Development Corporation (CAF)
	César Gaviria Former President, Colombia Member, Club of Madrid
13:30	Lunch (Venue: ECLAC's VIP Dinning Room)
15:00	**Block 3: Latin America - Crisis, Politics and Leadership**
	Speakers: **Julio María Sanguinetti** Former President, Uruguay Member, Club of Madrid
	Patricio Aylwin Former President, Chile Member, Club of Madrid
	Vicente Fox Former President, Mexico Member, Club of Madrid
16:30 – 18:00	Conclusions
20:30	Dinner at the Museo Chileno de Arte Precolombino

PARTICIPANTS LIST

MEMBERS OF THE CLUB OF MADRID

Patricio Aylwin	Former President, Colombia
Vicente Fox	Former President, Mexico
Eduardo Frei Ruiz-Tagle	Former President, Chile
Cesar Gaviria	Former President, Colombia
Lionel Jospin	Former Prime Minister, France
Ricardo Lagos	Former President, Chile • President Club of Madrid
Julio María Sanguinetti	Former President, Uruguay
Jorge Quiroga	Former President, Bolivia

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Ted Piccone	Senior Fellow & Deputy Director of Foreign Policy, Brookings Institution

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Hector Aguilar Camín	Historian and Political Analyst
Alicia Bárcena	Executive Secretary, CEPAL
Edgardo Boeninger	Former Secretary of State, Chile
Fernando Calderón	Sociologist, Permanent Advisor, UNDP Argentina
Georges Couffignal	Director, Institut des Hautes Etudes de l'Amérique Latine
Enrique García	President, Corporación Andina de Fomento
Rebeca Grynspan	Regional Director, Bureau for Latin America and the Caribbean, UNDP
José Miguel Insulza	Secretary General, OAS
José Antonio Ocampo	Academic Coordinator of Club of Madrid Program on the International Financial Crisis. Professor of Professional Practice in International and Public Affairs and Director of the Program in Economic and Political Development at the School of International & Public Affairs, Columbia University

DECLARATION OF THE CLUB OF MADRID

Santiago, Chile • 13 July 2009

We, Members of Club de Madrid, met at the Economic Commission for Latin America and the Caribbean (ECLAC) in Santiago de Chile to discuss the political dimensions of the world economic crisis from a Latin American perspective, agreed on the following issues:

1. The international crisis has strongly affected Latin America. We are particularly concerned with the social and the likely political consequences arising from this crisis.

2. The crisis threatens to severely undermine six consecutive years of growth, improvements in human development and political stability, which many countries in the region have attained with great sacrifice. The resulting loss of confidence in the governments' capacity to regain economic growth with equity could result in more polarized electoral processes which could in turn weaken democracy and contribute to the re-emergence of authoritarian tendencies.

3. The crisis brings new political challenges to democratic leadership in the region. If adequate measures are not adopted, it could endanger the political and social progress achieved during the last decades, generating conditions conducive to violent social outbreaks and the exacerbation of the injustice which millions of people in the region still face.

4. Overcoming the crisis will be more difficult as result of the growth and intensification of drug consumption and drug trafficking and organized crime in the region. These phenomena respect no frontiers and challenge both the quality of democracy and the rule of law, as well as intergovernmental cooperation in security matters.

5. The origins of the crisis have made manifest the dangers of market fundamentalism. We underscore the need for a strong and active State, fiscally responsible, capable of protecting its citizens and of promoting prosperous economies and public policies that guarantee social cohesion. The region needs more active and higher quality States without ignoring the value of the market.

6. The adoption of anti-cyclical macroeconomic policies is crucial. We celebrate the reduction of interest rates by the central banks of the region, the fiscal packages adopted by the governments, and the renewed focus on intra-regional trade.

7. Latin America has the best network of regional financial institutions – IADB, ADC, CABEI, LARF and the Agreement on Payments and Reciprocal Credits of LAIA[1]. We draw attention to initiatives aimed at a better use and further deepening of these mechanisms to improve intra-regional payments, which exclude the need to create parallel institutions for this purpose.

8. We emphasize the need to improve international support for anti-cyclical policies and to reactivate credit to developing countries. In this regard, the effective use of multilateral development banks and their replenishment, if needed, as well as the simplification and modernization of conditionalities associated with multilateral lending will be essential. We welcome the increase in IMF resources, including the creation of a New Flexible Credit, the renewed and increased allocation of Special Drawing Rights and the reform of other IMF programs.

9. We call for the improved voice and participation of developing countries in multilateral financial institutions.

10. We highlight measures aimed at combating the effects of the crisis on the poor and most vulnerable. Experience indicates that recovering social indicators is twice as costly as regaining economic performance. It is therefore necessary to develop more ambitious social protection systems, based on the principles of universality and solidarity, including measures to maintain and create new jobs.

11. The contraction of international trade has resulted in a 26% decrease in Latin American exports during the first quarter of 2009. We condemn the reappearance of protectionism in its various forms. We urge the rapid and equitable conclusion of the Doha Round and call attention to the need to deepen our own processes of regional trade and economic integration, overcoming the political tensions that have weakened them in recent years and taking into account that in crisis only multilateral responses can be efficient.

12. The presence of three Latin American countries in the G20 provides us with a unique opportunity to influence the design of the new institutional architecture which surely must result from the crisis. Convergence of views will be imperative and, in that sense, we highlight the need to present a coordinated regional agenda before the G20 meeting in Pittsburgh in September. This consensus must include issues repeatedly raised by developing countries, such as: the reforming the reserve system; correcting global payments imbalances; regulating capital flows; creating an adequate institutional mechanism to resolve the problems of excessive over-indebtedness; and a greater representation of developing countries in international financial institutions.

1 IADB: Inter-American Development Bank, ADC: Andean Development Corporation, CABEI: Central American Bank for Economic Integration, LARF: Latin American Reserve Fund, AIA: Latin American Integration Association

The Club of Madrid responds to the demand for leader-to-leader support to confront today's global, regional and national democratic leadership challenges. It is an independent organization dedicated to strengthening democratic values and leadership around the world by drawing on the unique experience and resources of its Members –more than 70 democratic former Heads of State and Government from 50 countries who contribute their time, experience and knowledge to this mission. The Club of Madrid's membership constitutes the world's largest forum of ex-Presidents and ex-Prime Ministers and offers today's leaders an unequalled body of knowledge and political leadership.

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