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The Fifth Summit of the Americas: Recommendations for Action

Mitigate the Effects of the Financial Crisis to Ensure Long-Term Well Being

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Executive Summary

Financial crises are terrible for happiness. This is not a surprise. Crises bring about significant amounts of loss and uncertainty. During the crisis in Latin America in 2001-2002, individuals in the crisis countries had above average happiness levels before the downturn, and below average levels after. In those same countries, *satisfaction* with democracy and with how the market was working went down significantly. Yet *preference* for *democracy as a system* of government and for *market policies* went up. The majority of citizens in the region were able to distinguish between the poor performance of particular governments and the more general economic and governance systems they live under.

The 2008 financial market collapse has made 2001-2002 in Latin America, or even the 1998 collapse of the ruble in Russia, pale in terms of magnitude and reach. The welfare losses associated with the crises are difficult to predict, but are likely to be significant. Our first order estimates suggest in Latin America the associated losses in happiness are equivalent to a 53% drop in income for a citizen in the median range.

The Summit of the Americas brings an opportunity for the countries of the region to discuss a coordinated effort to deal with the welfare losses associated with the crisis, as well as the potential effects it could have on public attitudes. Governments should act proactively in order to preserve the positive trend in public attitudes and prevent loss of well-being. It should also include a visible commitment with the average citizen.