

**A CONFERENCE ORGANIZED BY  
THE CENTER FOR INTERNATIONAL PRIVATE ENTERPRISE  
(CIPE) AND  
THE RONALD COASE INSTITUTE**

**PROMOTING INSTITUTIONAL REFORMS IN  
LATIN AMERICA**

**Rafael Merchan  
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DAY TWO**

[TRANSCRIPT PREPARED FROM TAPE RECORDINGS.]

**Mr. ZEMKO:** Moving along now and broadening our theme a little bit, we'll turn to Rafael Merchan to talk a little bit about communication of reform ideas and how to broaden that message and gain more advocates.

We are running a little behind. Please stay with us, because we have a few more interesting speakers.

Rafael?

**MR. MERCHAN:** I will try to be brief.

First of all, the title of this conference, "Promoting Institutional Reforms in Latin America," is such a suggestive title, provided that we are being witness of very interesting political and economic phenomena in this continent.

Perhaps we are being witness of what we could call the growth of the neo-populist movement. We all know what is happening in Venezuela-- Aurelio gave us this morning a very good description. We all know what is happening in Bolivia with the [inaudible] movement, Eva Morales [phonetic]. We all know that in Ecuador, there are a few problems.

So we are in the presence of a very interesting moment for this kind of analysis. Just like we said yesterday, the Washington consensus and the economic reforms that Latin America tried to do last decade, most people think have failed, and they have failed because economic growth has not been achieved, distribution income is not as well as it should be. Many people think that we have increased our independence, our political and economic dependence of the United States, the IMF, and the World Bank, and there has been another important issue that Harvey talked a little bit about, and that is the wide spread of corruption.

So all those factors converge to minimize the support, at least at a first look, for economic reforms. But if we look closely, there are a few other reasons to increase the support for economic reforms.

Kurt Whelan [phonetic], who is an American academic and author of a book--I don't know the name in English, but in Spanish it would be something like [inaudible]--says that there are about ten arguments for supporting economic reform. I just want to point out two or three that he cites.

First is that the economic reform of course has brought to the continent much more economic stability. We all know that all the problems that Brazil or Argentina face with very big inflation. The common people knew what it was to have 2,000 percent inflation. They suffered that. So at the end of the day, they perceived that the economic reform has brought benefits to the normal life of people.

Most of you read Andres Oppenheimer's [phonetic] column in The Miami Herald two or three months ago where he said that Chavez should be awarded with the Milton Friedman [phonetic] Prize, because the Chavez process in Venezuela has been so bad and the economic performance has been so bad that no smart leader could do something like Chavez is doing in Venezuela. I think that sounds a little bit funny, but it is true.

Perhaps if Chavez were not leading the country in the way he is leading Venezuela, Lula's government would be quite different; his would be a more populist government.

Another point that is very, very important for explaining the importance of economic and institutional reforms in Latin America is that there is no other alternative. Commandant Chavez in the Zapatista movement used to say that the anti-capitalist movement is a movement of "many no's but just a few yes's."

I mean, there is a lot of diagnosis, a lot of criticism about what is wrong with the Washington consensus, what is wrong with the liberals, what is wrong with the [inaudible], et cetera, et cetera, but there are just a few consensus about what must be done. So in that sense, the economic reforms, the liberal economic reforms, are at the end of the day the only game in town.

So having said that, I would just like to focus on another point that I think is very important, and we just talked a bit this morning--perhaps Nicolas tried a little bit--and that is the political importance of when we are discussing this subject, because perhaps one of the most important problems of the way the Washington consensus was implemented is that the people who implemented it forgot too much about very important issues such as the representative institutions. And to some extent, that explains some of the phenomenon that I was talking about.

First of all, and perhaps the most important, is that I don't think it is just a coincidence that this growth of the neo-populist movement takes place in some countries that have weak political parties. So in a political system, someone has to fulfill the lack of power, and who is fulfilling that lack? Outsiders, very charismatic people, who are giving the citizens short responses to very complex questions such as how to grow, how to become more equal societies, et cetera, et cetera. So I think that is a very, very important point.

I mean, we cannot understand economic reforms without political reforms, and by political reforms, I am specifically saying that we have to strengthen the representative institutions. It is no coincidence either that political parties and Congress all around the country, such as [inaudible]--Steven talked a little bit about it this morning--are the institutions with the least confidence in this part of the continent.

So I think that we have to work a lot in the political phase of the institutional reforms. There are two sides of the coin. On one side, you have all the economic issues that we have talked about today and that we discussed yesterday. But on the other side of the coin, we have the political situation that must be faced.

I am saying that because in many countries--I think Colombia is a good example of that--we used to say why do political reform when we have a lot of economic and social problems? That is a big, big mistake, and that is my second point. There is no way to sustain an economic reform without strong political institutions. And in that sense, it is very important the role that political parties could play in that process, because without political parties, first of all, we don't have any kind of consensus. Political parties play a very, very important role in democratic systems because they are a way to get a minimum consensus and of course to have different opinions on a lot of things, but to create minimum consensus. Without political parties, all the institutional reforms that we can make are very weak, are very fragile. So that explains the importance of political parties.

And in the second place, they are very important because they are the only way to create long-term visions. If we become political systems that depend on a one-person, personalistic political system, we will not have the chance to overcome one of the most important problems that we have in Latin America, that is, the lack of long-term vision.

So pointing out those things, I would like to refer to the role that media can play in this task that we have faced of promoting economic and political reform. And in that sense, perhaps the two most important things that we as think tanks or business leaders or whatever have to overcome is first of all what I call the "club syndrome." What is the "club syndrome"? It is the fact that we are very prone to all the time having meetings, being together, but we are always the same. I mean, as think tanks, we have the great challenge of going out of those who are convinced, going to labor, going to the unions, going to academia, going to the simple citizen who doesn't know about all these things that we have been talking about today and yesterday. So that is a very, very challenging issue. We have to overcome the fact that we are usually speaking among the same people. We are convincing those who are already convinced.

The second problem is what we could call the "erudition syndrome," and it is the fact that we are always trying to get the truth. The problem is not who has the truth. This is a political and economic problem. This is not an academic problem. So the challenge that we have ahead is getting simple the most complex issues.

When we are talking about institutions such as we were yesterday, if you explain it in a good way, that's a simple issue--how much money does it cost you to have an inefficient institution, how much money does it cost you to have a lot of regulations that are not working well. The same with privatization or the same with independence of the central bank. Those are very complex issues, but we have the tax to get them in a simple way and to spread that message.

In the same sense, I think that we have to work global. By "work global," I am saying that we have to learn each institution from what other institutions are doing in other countries, because of course, every country has its own problems, its own history, its own institutions, but there are a lot of common themes, and we have to learn how all these different things stand, how these business institutions are facing the problems that we have.

In all these countries, we have pressure groups, in all these countries, we have bureaucratic systems, in all these countries, we have a lot of interest from the public sector, in referring some of the reforms; in all these countries, we have the problems that we were discussing in the last panel about the lack of union of the business sector. So we have to benchmark in order to know what are those other institutes where there is success.

Another important thing--and I think that [inaudible] is playing an important role in that--is showing the success, because all the time we hear about the failures. We have heard that Argentina has failure. We have heard that the other countries have had success. We have here with us Cristian Larroulet from Chile, and Chile is a success. Chile is a country with the same history that we have. It was conquered by the Spaniards. So if Chile could, why aren't we able to do the economic and the political reforms in the best way?

So, showing the success I think is a key issue in spreading these institutional reforms.

The other point is that we have to produce political facts. This morning, we were talking with Aurelio, and he was telling me something that I think is really important. In the same way that [inaudible] spread left views of society, we have to meet together and spread liberal views of society--but perhaps we have to change the label. I mean, it is very difficult nowadays to say, "I am a liberal," or "I belong to the right wing in the political spectrum." That doesn't matter. We can invent a new label. The problem is not between right or left or between social democracy versus liberalism. The problem is what works and what does not work, and we have to advance in that sense.

The other important point is that actually, we have to create internal networks. We were discussing yesterday that most of the institutions that work in the same country don't know what the other institutions that have similar goals are doing. So we have to create internal networks, and sometimes it is more difficult even than creating external networks, because they are competing for the same public, they are competing for the same resources, et cetera, et cetera, but that is a very, very important task.

And of course, in all that I have said, the media plays a very, very important role, because the media is the only way first of all to spread to the large public all these ideas. We can print a magazine like "Perspective," but "Perspective" will never go to the general public. So we only have the TV, the national newspaper, to spread to the general public what it has been doing.

And of course, media play a very, very important role in what I was just talking about a few minutes ago, in spreading the message but in a simple way. We must not be surprised or concerned if we don't produce a lot of papers and papers and papers. Perhaps one opinion [inaudible] in a national paper is much more important than to produce a big paper than only 20 or 30 people will raise and will praise or critique. So in that sense, the media play a very, very important role. And that is the objective that we had when we created "Perspective," because we thought first of all that we didn't have any way to communicate between the different [inaudible], that we didn't know what was happening in Venezuela, in Ecuador, and there is a lot of production that is there that could be useful in our countries.

That explains why "Perspective" is not a Colombian magazine or a Peruvian magazine or a Venezuelan magazine. It is a Latino American magazine.

And second of all, that explains why we are not trying to be very academic. We are trying just to spread a message, a simple message, a message that could be understood by most of the people--businessmen, politicians, journalists--in our countries. And the challenge that we have ahead is that we have, just as I said before, to work closely with the big media, with the newspapers, with the TV programs, with the radio, because we must not consider them our opponents, we must consider them our allies in order to spread all these messages, because as I said before, this is a really difficult task. It is difficult to understand all these issues when we have a bad economic performance, but that is the task that we have to face, and that is the invitation that we are doing today in the sense that we have to have many, many allies in this project, because we expect in two or three

years, "Perspective" will be consolidating as the most important Latin American way to communicate liberal ideas throughout the region.

Thank you very much.

[Applause.]

**MR. ZEMKO:** Thank you.