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COMMENTARY

The populist prescription

John Murphy, SPECIAL TO THE WASHINGTON TIMES

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Are these the best of times or the worst of times for Latin America - or both? Is there a connection between the region's recent economic uptick and the rise of populist leaders seeking short cuts to development?

This week, as Congress considers extending trade preferences to Bolivia, Colombia, Ecuador and Peru, members will note that some nations are making real strides to form partnerships with the United States and other countries, while other nations hostile to international investment are already reaping as they've sown.

For 2008, the United Nations' Economic Commission for Latin America and the Caribbean forecasts a sixth consecutive year of economic growth near 5 percent. Fueled by high prices for its grains and metals, Latin America's exports have boomed, driving growth across the region.

Can it last? Analysts fear this is merely another upswing in the commodity-reliant region's usual boom-and-bust cycle. Some lament that even prudent leaders are not seizing the chance to advance economic reforms that will allow Latin America to keep pace with Asia's tigers.

Most dangerously, today's moment of prosperity has tempted some leaders to reach out and seize assets and discard contracts. Some are changing the rules of the game under which foreigners have made investments.

However, evidence mounts that wealth is made, not found - let alone seized. Last year, the World Bank issued a landmark study titled "Where is the Wealth of Nations? Measuring Capital for the 21st Century," which found that natural

resources such as oil, minerals, or farmland account for just 20 percent to 40 percent of the world's productive capital. By contrast, "intangible capital" such as effective institutions and an educated citizenry accounts for a large majority of a country's productive capital.

In fact, the study found that the rule of law - clear property rights, a properly functioning judiciary, and good government generally - accounts for more than half of a country's intangible capital. Education represents more than one-third. These are the keys to productivity and rising prosperity in the 21st century.

Sadly, some Latin Americans are learning this the hard way. The populist temptation to disregard the rule of law has brought a few governments some quick gains in popularity or ready cash. But already, countries are having to pay the piper:

- In Bolivia, expropriation of oil and gas resources in 2006 sent foreign firms packing, along with their technical know-how and badly needed capital. The upshot is that production has so fallen that the country can no longer fulfill its contract to sell natural gas to Argentina. Production is barely sufficient for domestic use.
- **In Ecuador, the judiciary is under strain in a high-profile case involving charges of environmental damages by Texaco, which is now part of Chevron. While Ecuador's government years ago absolved the firm of liability, a civil lawsuit has proceeded despite judicial irregularities, attorney**

misconduct, and interference by the executive branch. A U.S. federal Judge recently dismissed a related case, finding the plaintiffs' lawyers had fabricated their clients' damages.

- In Argentina, price controls in the electric power and water sectors have led to under-investment, blackouts, and water shortages. In the oil and gas sector, constraints on private investment have set the country on the road to becoming a net oil importer. Newly elected President Cristina Fernandez de Kirchner has a chance to embrace more sustainable policies.

This week, Congress is expected to vote on an extension of the Andean Trade Promotion and Drug Eradication Act (ATPDEA), which provides trade preferences to Colombia, Peru, Ecuador and Bolivia.

Many have advocated that Congress limit the extension to 10 months. This would allow Congress to focus on passing a trade agreement with Colombia, which has been a committed U.S. ally, and would also send a message to Ecuador and Bolivia that their actions will not be rewarded indefinitely.

The populist prescription, far from offering economic health, is the road to poverty. Latin Americans must remember that respect for property, contracts and the rule of law make up the path to development and to long-term trade relations. Governments that ignore this lesson will have to learn it in the end - the hard way.

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