

LATIN AMERICA POLICY JOURNAL

A HARVARD KENNEDY SCHOOL
STUDENT PUBLICATION

Volume 9 - Spring 2020

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ACKNOWLEDGEMENTS

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EDITORIAL NOTE

BY THE LAPJ EDITORIAL BOARD

UNDOUBTEDLY, 2020 embodies a tipping point in the world's path. As the culmination of the second decade of the millennium, this year was expected to be filled with reflection and catharsis. The first quarter of the year, this expectation is being met in an unforeseeable way with the growing Coronavirus (COVID-19) epidemic public health crisis, an infectious disease that to the day of writing this editorial has spread throughout the globe causing almost 30,000 deaths, a number that is expected to grow exponentially in the coming weeks.

Governments have been forced to react rapidly to eliminate the spread of this virus at any cost and work together to reevaluate the policy tools available to keep the economic and social recession from turning into a depression. Latin America has not been spared from these circumstances. The region's governments are considering the scarcely available data and some of them responding accordingly based on the context and characteristics of each country. Yet, it is well known that times of crisis make weaknesses more evident, and this pandemic has exposed some of the biggest challenges that the region will face with a vulnerable population of 130 million

people, deficient public services and health systems, and low levels of citizen participation.

That's why it is now more important than ever for Latin America to establish a strong coalition and face these challenges as one. This is precisely the aim of the Latin American Policy Journal (LAPJ) at the John F. Kennedy School of Government: to create a community of regional leaders, politicians and policymakers that engage in reflection and dialogue to face the most pressing problems in the region. We are convinced that our shared past, present, and future are larger than the national borders that separate our countries, and that collaboration should be the basis of policy proliferation and technical assistance. We also emphasize this is a great opportunity for civil society to go into the public sphere and coordinate with the government work for the least favored and guarantee the effective implementation of these efforts.

The Editorial Board of the LAPJ chose the title of the journal's 9th issue, *Political upheaval: seeking a new paradigm*, before the start of the pandemic and preserved it afterwards, as consider it fits very well with the current environment. Periods of crisis

are also periods of reinvention or “*Creative destruction*,” a term popularized by the famous economist Joseph Schumpeter. There is no doubt that this moment is a game-changer in the regional policy arena and that coupled with the prevalent political instability creates an opportunity for the emergence of new leaders and ideas. Policymakers and politicians are being forced to rethink the future of the region and act fast and decisively to guarantee economic, political, and social sustainability. If nothing is done, the region might be doomed to a trajectory of underdevelopment and may have yet to face one of the worst moments in its history.

It must be noted that all articles were written before the epidemic started. Nevertheless, they all address topics related to deep-rooted challenges faced by the region that should not be overlooked once this epidemic is over. *Venezuelan migration, violence, international cooperation, informality, social progress, debt sustainability, economic crisis* – are all critical issues highlighted in the articles that are holding back the region from achieving greater development and sustainability. With these refreshing articles from different areas of study and countries in the region, the Spring 2020 edition brings together politicians, academics, students and policymakers to propose new ideas and opinions over the current social and political crises faced in the region.

The Editorial Team would like to thank all the article authors for their contribution, and everyone involved in the creation of this edition. We hope this is a breath of relief in the middle of the current crisis and the basis upon what the future will be built upon. At last, a special mention should be made to the Journal Coordinators of the Harvard Kennedy School, Professor Richard Parker and Martha Foley.

VENEZUELA: MIGRANT CRISIS, INTEGRATION, AND OPPORTUNITIES

IVÁN DUQUE MÁRQUEZ

President of Colombia

Iván Duque Márquez is a Colombian politician and lawyer who is the current President of Colombia, in office since 7 August 2018. He was elected Colombia's youngest president. He is a lawyer from the Sergio Arboleda University, with major studies in philosophy and humanities. Expert in economic issues, with executive studies at Harvard, and with master's degrees from Georgetown, in Public Policy Management, and from American University, in Economic Law. He served as head of the Culture, Creativity and Solidarity division of the Inter-American Development Bank (IDB), leading issues of social innovation, entrepreneurship, youth and creative economy. He was a consultant to the IDB presidency and principal advisor for Colombia. Duque returned to Colombia to become Senator in the legislative elections of 2014. During his time as a Senator, he was the author of five laws.

LATIN America has faced significant challenges and has always found ways to get ahead. The potential of Latin American countries is great and has been recognized around the world.

However, we are now witnessing a crisis that endangers the democratic progress of Latin America. Nicolás Maduro's regime has plunged Venezuela into a dire situation where violence, scarcity, corruption, and despair are part of the daily struggle.

Since 2015, approximately 4.8 million Venezuelans have migrated—primarily to neighboring South American countries—fleeing the humanitarian, political, and economic crises in Venezuela. Among them are a total of 1,630,903 Venezuelans now living in Colombia.

Our country has welcomed our Venezuelan brothers with open arms. We have maintained a policy of support and solidarity: we signed a resolution that granted Colombian nationality to more than 39,000 Venezuelan children who were at risk of becoming stateless; we are offering health services, education (with 210,000 children studying in public schools), and work training; and we are making every possible effort to regularize

the situation of immigrants and consolidate their integration into Colombian society.

Mayors and governors have been crucial to bolstering these efforts. They have worked tirelessly to serve as many migrants as possible. The general population has also done its part to alleviate the terrible situation of those who have been expelled from their homeland due to the precarious dictatorship.

Colombia has been and will continue to support Venezuelans. However, the magnitude of the migrant crisis has exceeded all national and local capacity. That is why we emphasized the importance of the support from the international community to continue the efforts to manage and regulate the flow of migration, address the humanitarian needs of the immigrant population, and promote opportunities for their socio-economic inclusion.

In December 2018, we created the Inter-Institutional Unit for International Cooperation for the Migrant Crisis to coordinate the actions of the different cooperation stakeholders, and to ensure their alignment with the priorities of the national and local authorities.



This unit works with various actors, including embassies from cooperating countries, United Nations agencies, non-governmental organizations, and the private sector. Additionally, it brings together cross-sectoral entities and institutions at the national and regional level to identify the needs and priorities we have in this crisis.

This coordination has facilitated support from countries around the world, as well as from organizations that include the Inter-American Development Bank and the World Bank.

Furthermore, it ensures the implementation of actions that complement the efforts of the State based on the comparative

advantages of the implementing partners in the field. And it contributes to the nexus between humanitarian aid and sustainable development interventions.

It also emphasizes the importance of including all of the affected populations in the interventions: Venezuelan immigrants, returning Colombians, and host communities.

Integrating Venezuelan immigrants is a matter of solidarity and humanity. The lack of integration will only lead to a vicious circle of vulnerability for those seeking to flee from the opprobrious regime.

But integration is also a great opportunity for Colombia and for other countries. The immigrants are full economic agents,

not just workers. They are clients, entrepreneurs and investors. Based on the current rate of growth, between 2018-2019 the number of companies created by Venezuelan immigrants will have grown by 143 percent (564 companies were created in 2018; 656 created in June 2019, and 1,388 are expected by the end of 2019).

More companies and more jobs translate into an increase in tax collection. According to some studies, this reflects the potential for additional aggregate growth (+ 0.5 percent to 0.9 percent in 2021)¹, consumption (+ 3.3 percent), exports (+ 4.4 percent) and investment (+3.5 percent).²

Latin America is experiencing a humanitarian tragedy and the worst migrant crisis in its history. There is no room for ambiguity here: everyone must support the Venezuelan people who have been beaten down and impoverished by the regime, and everyone must unambiguously condemn the dictatorship that has caused this terrible debacle.

We are willing to face the great challenge that has been presented to us. The support of other nations, multilateral organizations, and the private sector will be essential in reversing the situation in Venezuela. Only a joint effort will help restore Venezuelan democracy, another step toward consolidating the unstoppable democratic progress in Latin America.

ENDNOTES

1 Estimates from Fedesarrollo (annual GDP growth .1 percent-.5 percent) and the World Bank (-2-.9 percent).

2 Estimates from Venezuela Migration Project, according to the publication "The economic contribution of migrants, Bulletin 2, 2019," based on figures from DNP (2018) and Fedesarrollo (2018).

*The original version of the article can be seen here:
<https://lapj.hkspublications.org/wp-content/uploads/sites/19/2020/03/Original-LATIN-AMERICAN-POLICY-JOURNAL-Venezuela-Duque-1.pdf>

Translation was made by the Latin American Policy Journal Team.

LATIN AMERICA'S CHALLENGES AND INTERNATIONAL COOPERATION

AN INTERVIEW WITH ISABEL GUERRERO

ANA MARIA GARCIA

Guerrero responded to the questions formulated by LAPJ Managing Director Ana Maria Osorio on 27 February 2020. What follows is a lightly edited transcript.

Isabel Guerrero is an economist that has worked in development all her professional life. She started as a macro-economist, designing policy reforms from the World Bank adjustment operations in Philippines, Morocco, and the Former Soviet Union. Between 1997 and 2008, Isabel was a Country Director for Bolivia, Ecuador, Paraguay, Peru, Colombia, Mexico, and India. In 2013, she retired from the WB after five years as Vice-President for the South Asia region. Isabel studied economics at Catholic University in Peru and at the London School of Economics. She studied psychoanalysis at the Washington Psychoanalytic Institute and the Peruvian Society for Psychoanalysis. She is co-founder of the non-profit IMAGO whose goal is to support grassroots organizations on scaling up.

HOW do you think the common challenges of Latin America have changed in the past twenty years?

In the early 2000s we were discussing the middle-income trap and how to deal with the dependency of commodities of Latin America. One of the aspects that has changed in the last twenty years has been the perception and tolerance of corruption. Even though, corruption has been a widespread issue in Latin America, now people have become much less tolerant about it. Even Chile, where we were under the illusion that there was little corruption, its now clear that it was not true. In order to face today's challenges, Latin America has to have a long-term strategy that represents an adequate response to climate change, inequality, and technological change (particularly in terms of preparing the education system to changing needs of the labor market). Today there's no long-term strategy to address these issues, that's why I think that things might get worse before they improve. Each country needs to have its own long-term vision that doesn't depend on each presidential period, and then the region should converge in a long-term regional vision. This joint strategy should explore synergies and leverage each

country's strength to improve the region's response to the main challenges.

How to create a common Latin America strategy that does not depend on political affinities of rulers?

Attempts to achieve a common Latin America vision have always been politicized. I think that crises are opportunities to leave ideological barriers aside to work together and help policymakers look for a better response. Shocks like the coronavirus could be an opportunity to have coordinated regional responses to tackle this issue. Another opportunity for cooperation could be the current political crises that the region is facing, these crises are not ideological but represent a failure of the traditional political system. Hopefully they will result in different sectors of society to cooperate in co-creating a new system, sector as diverse as young people movements and the private sector which have usually stayed away from politics.

How do you see the future of Chinese influence in Latin America?

I moderated recently a conversation

between the Chilean ambassador to the US and the Peruvian ambassador to the US here at HKS. They were both saying that the Chinese premier had been in Latin America three times already that year, whereas their American counterpart had not been there even once. China is clearly very interested in Latin America in terms of investing and financing loans, whereas we can see that the US has lost interest in the region. China is seeking to have a leading economical role in Latin America, profiting from foreign financing vacuums inside Latin America. This fulfills their very long-term vision of becoming the leading economy worldwide. China shows the powerful difference of having a very long-term vision instead of visions that change every four or five years with each new government.

What were the main challenges that you faced as a woman in the World Bank (WB)?

For me, I don't think there were a lot of challenges. I was a macroeconomist for my first 15 years in the WB, back then there were very few female macroeconomists. I think that I used this fact to my advantage, I knew that, because I was a woman people would remember what I said during meetings, so I used every opportunity to make smart comments and to showcase leadership. I always perceived the WB to be very meritocratic, if you did a good enough job people would notice and reward you for it. It's true, professional women were working even harder than most men, but we knew we would be rewarded. When I hired managers, I always knew that a top-notch woman would be a better hire because she had needed to prove herself more than the men did. But honestly, I never felt at a disadvantage for being a woman. I think that in more political settings where contacts and networks matter more, perhaps being a woman would have probably been a disadvantage.

What have been the main changes in your International Development vision of the past twenty years?

After I left Macroeconomics and started working on country programs, I discovered that there are certain things beyond macro that can also be very powerful. For example, making infrastructure investments such as rural electrification or rural roads can be a game changer for the communities, just like today it would be to provide internet to remote regions. My deeper learnings would probably be two:

1. I learned that adaptative and behavioral changes -which are needed to improve quality of education, open defecation, and so on- don't respond well to top-down approaches. Yet these changes are being done by many organizations that work from the bottom up. However, these organizations are not able to scale up their interventions.
2. I learned that we were mistaken when we thought that we could help the poor by giving them resources and providing them their physical needs. You need to put the poor people and their organizations at the center of the development efforts. By doing this, you ensure that they are the ones that lift themselves out of poverty instead of them always asking for external aid. Poor people need to become change agents instead of aid recipients. That's my main take away after all my years in the field. This, I think is the most important change that we currently need in International Development: we need to invest in organizations of poor people and help them find their own solutions to their problems.

LATIN AMERICA'S NEW AND OLD CHALLENGES

INTERVIEW WITH MAURICIO CARDENAS

Former Minister Mauricio Cardenas responded to the questions formulated by LAPI Editor-in-Chief Cesar Pabon on 25 January 2020. What follows is a lightly edited transcript.

Mauricio Cardenas is a recognized Latin American economist with vast academic and policymaking experience. As Colombia's finance minister between 2012 and 2018 he handled the oil shock (which caused a 40% reduction in Colombia's exports), implementing a successful adjustment program that preserved high investment rates and sharp reductions in poverty and inequality. In addition to Finance, has been a minister in four other portfolios: Economic Development (Industry and Housing), Transport, Planning, Mines and Energy, and recently Finance. His academic experience is mostly associated with Fedesarrollo, where he has been twice executive director, and the Brookings Institution, where he has been Senior Fellow and Director of the Latin America Initiative. He holds a Ph.D. in Economics from the University of California, Berkeley. He is also a former president of LACEA.

LAPI: What are your views on the current state of the emerging protests that have spread across most Latin American countries?

The protests exhibit a combination of both shared and unique qualities. I think the commonalities reflect the fact that the region is growing at a much slower pace, which in turn generates frustration. Additionally, the rate at which people are moving from the low-income to the middle class is slowing down, making it much harder for the population to meet their goals and aspirations of advancing and moving up the social ladder.

There are other country-specific aspects responsible for the emergence of these protests. For example, in Bolivia the protests are a response to the presidential election results where Evo Morales, an autocrat, sought to preserve power by all means. In Chile, the protests are against the rigid political system and the absence of protection of fundamental rights in the constitution, all of which has been compounded by the population's demand for more channels for political participation and balance of powers. One aspect in which Chile lags behind other countries in the region is in political and fiscal decentralization. Incidentally, the fact

that Santiago Metro's fare is not a city-level decision is illustrative of a deeper problem in the decision-making process. In Ecuador, the protests are a result of a badly communicated economic adjustment program and the lack of adequate compensation for the lower-income segments of the population. Their response was entirely predictable. In Colombia, there are many potential explanations for the protests, but in my view the government made a serious mistake in trying to reopen the 2016 peace agreement with FARC even though most of the population wanted to put that divisive issue behind. Thus, protests are an expression of the sentiment against the political class that spends too much time debating over the pros and cons of the peace agreement rather than debating what the population needs the most: education, public transportation, and employment opportunities, etc.

Above all, the response to this phenomenon should be one that does not result in violence, as that only makes situations worse and more complicated for the government. Bringing in the military is not the solution, so governments ought to change course, make decisions, and take actions that avoid the use of force.

LAPJ: One of the most common claims behind these protests is that inequality remains rampant in Latin American societies today. Why is it so hard to reduce inequality in Latin American countries?

Inequality has been the perennial problem of Latin America. The remarkable aspect of this issue is its persistence through centuries, even after the democratization of Latin America in the 1980s and earlier. Most countries have tackled inequality directly and there has been some success as shown by a decrease in the GINI coefficient in almost every country despite ideology. But progress has been very moderate, and inequality remains the most salient feature of Latin America, its negative effects compounded by slower economic growth, higher unemployment, and a lack of social mobility. In fact, economic inequality is still unacceptably high and visible along with political inequality and unequal access to public services, property, and land ownership. I think that although this issue might be the hardest to resolve, it's the one that governments should prioritize. Inequality is not only causing street protests, but also sluggish economic growth.

LAPJ: Income inequality is closely associated with informality in the labor market—a problem that plagues more than 130 million workers in Latin America. How should governments tackle this issue?

The question is absolutely right in expressing that these are two interrelated phenomena. Inequality and informality go hand in hand; for example, holding everything else equal, a person who is employed in the formal economy has a higher income than one in the informal sector. Thus, informality is taken as a proxy for inequality. The

good thing is that we know more about how to deal with informality than we know how to resolve the issue of inequality. There is a policy prescription for how to reduce informality that has proved to be effective: the reduction in payroll taxation. Payroll taxes were introduced in our continent in the 1950s as an easy way to raise revenue for the government. Payroll taxes have funded various programs in Latin America, all with some merit: public-sector workers' housing programs in Mexico, early-childhood and labor training in Colombia, subsidized lending in Brazil, etc. In all countries, instituting payroll taxes had some underlying rationale and logic, but the side-effects (such as labor informality) have been disastrous. Therefore, dismantling payroll taxes is the path forward to reduce informality and in turn, reduce inequality.

LAPJ: The outlook for Latin American and the Caribbean underscores an economic stagnation for the coming years. As Colombia's finance minister between 2012 and 2018, you handled the oil shock, implementing a successful adjustment program that maintained high investment rates and led to sharp reductions in poverty and inequality. What do you think are the future drivers of growth in Latin America?

Latin America is the slowest growing region in the world now, and that's probably not going to change in the near future. We need to really think about growth. There is no more pressing issue in the region today. My sense is that some countries, like Brazil, Mexico, Colombia, and post-Maduro Venezuela have too much confidence in the expansion in oil production to recover economic growth. However, I disagree with this strategy. Oil demand is not growing

that fast in the world, and there are other regions of the world that are producing more oil faster. Thus, the growth question cannot simplistically rely on oil as an answer. Our region is rich in renewable energy including solar, wind, and biomass, which is what we need to exploit. We also must build adequate infrastructure, which is a source of growth with a large dividend. The question we need to answer is how to finance massive infrastructure programs aimed at reducing some of the logistical bottlenecks we face. My guess is that while the world economy recovers, which is going to take time, the safest bet for the region's economic growth points in this direction. Some of it must be urban infrastructure like better city transport systems, many of which suffer from considerable traffic and congestion. Therefore, renewable energy and transportation infrastructure are the areas that hold the highest potential for accelerating economic growth.

LAPJ: The Venezuelan migration and refugee crisis (also known as the Bolivarian diaspora) embodies the largest recorded refugee crisis in the continent, with the emigration of millions of Venezuelans from their native country during the presidencies of Hugo Chavez and Nicolas Maduro. Do you think this will be a headwind to economic prospects in the region?

In my opinion, migration is not going to slow growth in countries that are receiving the flow of migrants. Quite the opposite. For example, in Colombia, migration is helping short-term economic growth through higher consumption expenditures. In the medium to long term, given the very low country population growth in recent years, the additional migrant labor force is

also a positive force. Therefore, I don't think migration is a headwind in terms of its effect on economic growth. However, I do think that the economic situation of Venezuela is a headwind for the region due to its considerable contraction over the past years which has consequently reduced trade with the region and resulted in a negative effect on economic growth. This is clearly the case for Colombia where exports to Venezuela at one time in history, a decade ago, accounted for eight billion dollars a year and are now essentially at zero.

LAPJ: You have vast academic and policymaking experience. You have dedicated over 30 years of your life to public service. What advice would you offer to future government leaders in Latin America?

I have worked in three different administrations and have been a cabinet minister for about ten years all together. After serving in several governments and looking at the context of the region, I think this region requires a type of government that can reconcile different interests. In other words, governments that reflect the diversity that exists in our countries, not just culturally and ethnically, but also politically. I firmly believe that extremist left or right-wing populist governments are governments that will make things worse. What we need is a type of government that can generate a dialogue among groups with different visions. That is, governments capable of reconciling various views, needs, and aspirations. My sense is that the future of Latin America relies on governing from the center with wide coalitions. The problems that the region faces are too challenging and demanding for governing visions that exclude. We need inclusive governments.

MEXICAN FEDERAL VIOLENCE-PREVENTION PROGRAM IS DESTINED TO FAIL

THE MEXICAN PRESIDENT'S TWO-BILLION VIOLENCE-PREVENTION PROGRAM IS NOT ADDRESSING WHO IT SHOULD.

DANIEL HERNÁNDEZ ALDACO

Daniel Hernández Aldaco is an MPP'20 at Harvard Kennedy School where he focuses on police reform and racial justice. He previously worked in the National Commission of Security of Mexico as an analyst of security policies as well as an advisor to the Undersecretary of Security. Last summer, Daniel was a policy intern at the Office of the Inspector General for the NYPD. Currently, he is working with the Mexican Federal Government for his dissertation on a proposal of coordination mechanisms between federal and local law enforcement agencies.

AT the beginning of November, the bodies of nine women and children of the US-Mexican Lebaron Family were found burned inside two vans¹ in the northern Mexican state of Chihuahua, which borders Texas. A week later, after a request from the family, President Trump declared that his administration would list drug cartels as terrorist organizations,² which could, in turn, give rise to potential military interventions in Mexico.

The militarization of law enforcement and the U.S. interventions have played a significant role in Latin America. In the mid-twentieth century, the armed forces were the guardians of patriotism and order³ and acted as the strong arm of the authoritative regimes in countries such as Chile, Argentina, and, more recently, Venezuela. In past decades, some countries such as Brazil, Salvador, and Mexico had responded to the public security threats and to the perceived ineffectiveness of the police by militarizing their security strategy.⁴ In this regard, the US increased its operations in Central America, Mexico, and Colombia, promoting the so-called “war against drugs.”

Yet critics argue that militarized law

enforcement has contributed to the sharp increase of violence in the region—the most violent in the world. While only holding about 9 percent of the global population, Latin America accounts for almost 40 percent of the world's homicides.⁵ Scholars claim that militarization has also had detrimental consequences for the quality of democracy in the region by undermining human rights, police reform, and the legal order.⁶

With the “hugs and not bullets”⁷ discourse, President Lopez Obrador has been, at least narratively, trying to differentiate his administration from this military-driven approach of Latin America and his predecessors.

Only days after the Lebaron's tragedy, President Obrador affirmed that his government would not change its security strategy, which—according to him—relies primarily on addressing the root causes of violence and insecurity. “We are sure it's the most efficient and humane strategy . . . we are not going to use violence to confront violence,” said President Obrador during his daily press conference, referring to his plan to address the root causes.⁸



Weeks after he arrived in office, President



Obrador announced the 40 thousand million pesos (2 billion dollars) violence-prevention program “Youth Building Future” (*Jovenes Construyendo Futuro*, JCF). JCF seeks to support at-risk youth with monthly cash transfers conditional on their inclusion within a network of organizations offering internships. The key objective is to provide opportunities for the NiNis population (neither work nor study: *Ni estudio, Ni trabajo*), which is generally the group that is most susceptible to drug cartel recruitment. The hope is to provide these juveniles with internship opportunities, discourage them from antisocial behaviors, and ultimately prevent them from engaging in criminal activities.

Although I was also a skeptic when I first read about the President’s intentions, I thought that it could, at least theoretically, make sense for Mexico. I thought it was a tremendous political, and potentially effective, move. I thought that JCF could work, at least on a midterm frontier.

Violence prevention programs like JCF always face skepticism from policymakers and politicians due to the complexity of observing short-term impacts on reducing violence. Yet there is considerable evidence of a variety of prevention strategies being effective in specific contexts. For example, multiple meta-analyses have documented the efficacy of cognitive-behavioral therapies to reduce juvenile recidivism. In

	Beneficiaries of JCF ¹²	People Incarcerated ¹³
Gender	59.9% are women	94.9% are men
Age	100% are 19-29 years-old	68.8% are 19-39 years-old
Education	60.5% have a College degree	72.1% have up to secondary school
Region (Rate per 100,000 people by state) ¹⁴		

Chicago, the program *Becoming a Man (BAM)* offers weekly youth group sessions, during which cognitive behavioral therapy is used to help them face high-stake situations, which has proved to reduce violent-crime arrests of participants up to 50 percent and boost their high school graduation rates by nearly 20 percent.⁹

Other meta-analyses have documented the effectiveness of particular family programs on reducing juvenile crime incidence. International organizations, such as the Interamerican Development Bank and USAID have championed these strategies in Latin America and the Caribbean, especially cognitive-behavioral therapies.

While all the evidence comes from outside Mexico, it is worth mentioning that the effective evidence-based strategies contain a common key: concentration. In almost any context, violence concentrates around certain people, certain places, and specific behaviors.¹⁰ Take the Pareto law for crime: 20 percent of people concentrate 80 percent of crimes. For example, in 2015 the scholar David Weisburd observed crime rates in both large and small cities and found that there existed a consistent concentration of crime: on average, areas that made up

about 4 percent of the total city accounted for around 50 percent of the crimes committed.¹¹

Theoretically, JCF would have to characterize the groups that are concentrating most violence granularly. In other words, JCF should first find where these individuals are, who they are, and what they do, and only then design tailored programs to address the specific root causes that make them particularly prone to recruitment or victimization.

Unfortunately, the JCF is not designed to effectively reduce national violence in either the short or the long run. A comparative exercise between the 900,000 beneficiaries of JCF in 2019 and the people who were incarcerated during 2018 yields concerning differences between the two populations.

It seems that, on average, a male juvenile from the north of Mexico with a primary school education should be the intended target. However, the average beneficiary is an adult woman from southern Mexico with a college degree.

I believe that JCF is a well-intentioned program with a strong intuition, and that it refreshes the past narrative of confronting crime organizations with the military. More

importantly, it will hopefully help to bridge inequality gaps related to gender, race, and geography. However, I am concerned because this design reflects President Obrador's focus on developing the south of Mexico and reducing inequality, and as critics argue, of constructing a voter base within these states for future elections.

Sadly, in the security realm JCF does not focus on the at-risk youth that commit the violence. Additionally, it is only applying one type of intervention instead of tailored prevention strategies. The "stellar" federal violence-prevention will be ineffective in reducing violence. The president could argue about its economic benefits, but should be very careful on messaging that the program will reduce violence.

Furthermore, the discourse of "hugs and not bullets" has also been illusory. Despite his campaign promises, the President created and deployed the National Guard, a federal police agency composed of agents brought up from the navy, the army, and the federal police. Analysts have observed that the federal government has used its militarized corporation mainly to deter migrants from approaching the United States through the Mexican territory—arguably due to pressure from the Trump administration. The combined result of these and other strategies have been insufficient, as 2019 closed as the most violent year in six decades with 35,588 total homicides.¹⁵

If President Obrador truly wants to face the pervasive violence, he will need to be more astute in how he uses his resources. Again, the evidence and experiences outside of Mexico indicate that the best approach to reduce violence is to combine a preventive policy with a coercive strategy: carrots and sticks where the violence concentrates. Ideally, such a strategy would be better championed by local police agencies and violence-prevention organizations

within Mexican states or cities. However, it could be interesting if the federal government were to at least try to support—when needed—these local interventions with JCF's resources and the National Guard agents.

However, no redesign is being considered right now. On January 24, 2020, the president announced that the JCF would be increasing its funds. Interns will receive 3,768 Mexican pesos (188.4 USD) per month, a 4.6 percent increase.¹⁶ However, tragic events like the Lebaron's family homicides continue to happen on a daily basis. While Mexico—and Latin America—should not apply religiously by-the-book strategies from other countries and should consider other salient needs such as reducing inequality, we must not waste time on doubtful policies. If we do, chances are that we will be subject to many more bullets than hugs for a long time.

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WHO FAILED?

LOOKING AT THE INTERSECTION OF CHILD PROTECTIVE SERVICES AND THE PENAL SYSTEM IN ARGENTINA

MERCEDES SIDDEERS

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IN years past, the debate in Argentina about the youth penal system has mainly focused on the age limit for imputability. However, such a debate conceals the real problem that society needs to address: how can we prevent adolescents from becoming juvenile offenders?

Approximately half of the adolescents incarcerated in Argentina come from fragile families, and prior to incarceration were living in the streets or were in long-term residences in custody of the state. The story of Kevin, a 16-year-old incarcerated in a juvenile detention center in the Buenos Aires province, illustrates the predicament for many young people:

When my parents broke up, we went to live under a bridge, in Parque Patricios [a neighborhood in the city of Buenos Aires], we begged for money in order to eat. Then we occupied some land in the slum and we had to fight to avoid eviction from the police... At 13 I was living alone, then I went to live with my girlfriend...¹

Both the state and the families of these adolescents failed to provide them the

support that every young person needs. Now our society is also failing to demand the type of debate that Argentine children and adolescents deserve.

The link between coming from a fragile family and following a criminal path is also observable in populations of imprisoned adults. Four out of ten incarcerated adults left their homes before turning 15 years old.² Five out of ten adults in jail have been there before. There are also 150,000 children in Argentina who have at least one parent in prison.³ These children suffer dire consequences: their family income is likely to be substantially reduced, and they might have to start working or take care of their siblings. One out of twenty children with an incarcerated parent is left alone with no one to take care of them.

A CALL FOR ACTION

There is a famous saying in Argentina: “Ningún pibe nace chorro” (No child is born as a thief). Economic and family conditions matter, and they are deteriorating faster as a result of the country's macroeconomic crisis. More than half of Argentinian children live in poverty, a number that has

substantially increased over the past two years.⁴

Thus there is a compelling and urgent need for the state to increase the support for at-risk youth and for families impacted by the incarceration of a parent.

The government needs to become more proactive in its role to protect children and adolescents from a downward trajectory by first identifying the at-risk children and then intervening early on through social services. Even though efforts have been made on both fronts, huge challenges remain.

First, the state is usually passive in terms of identifying at-risk children. Social services in the provinces are working beyond their capacity with scarce resources and can only work on the cases brought to them. Usually the people who bring these cases to the government are extended family members, neighbors, teachers, health professionals, or the children themselves. Many times the actions taken only affect one child in the family without considering the situation of their siblings. The state should therefore take a more comprehensive view and a more active role by taking advantage of the increasing availability of information and prediction tools to detect at risk children.

Second, the state needs to have adequate responses to identified cases. Every province has designed and implemented different social services that vary greatly in quality. However, the national government lacks the mechanisms to ensure that social services in all provinces meet minimum standards. Furthermore, the federal government does not have nominal information about the children in the system and the measures being taken by the provincial governments in each case. Advances have been made, as the national government, UNICEF, and Pharos Group have designed

a unique nominal register for that purpose.⁵ However, implementing the system in all provinces and keeping it updated remains a challenge. An important factor preventing the provinces from using the system is the fear of social services being exposed for not adequately following the timelines for legal processes, such as separating a child from their family or completing an infant adoption.

Addressing these problems will require cooperation between the social protection services and the judiciary, as both actors are responsible for deciding on and applying corrective measures. This coordination is very hard in practice. For example, when a judge finally declared that the adoption of a child who had been placed in a long-term residence was imminent, he discovered upon contacting social services that the child had run away from the residence four months before. The coordination could improve if the executive and the judiciary at least shared an information system.

Finally, the public does not understand that context is a factor that can lead to criminal behavior. In fact, the common perception is that the state is not harsh enough with adolescents and should therefore reduce the age limit for full imputability. This approach will not solve the problem.

This article does not intend to deny the role of agency in human actions, and particularly in committing an offense. The intention is to raise awareness about the hardships that incarcerated adolescents and adults have often suffered during childhood that limited their choices. The family, the state, and we as a society are responsible for building better opportunities for our children. As a society, we have to advocate for a debate that puts the rights of children and adolescents at the center and facilitate an environment that will lead them to a better future, not condemn them.

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THE BATTLE FOR ABORTION MUST BE FOUGHT BEYOND THE LEGAL ARENA¹

SOFIA SALAS UNGAR

Sofia Salas is a Colombian economist with complementary training in political science, journalism and design. She has worked in consulting for both the non-profit and public sectors, as well as in the design and implementation of reconciliation projects in Colombia. She worked as a programmatic advisor in the presidential campaign of Humberto De La Calle. At HKS, she was a Topol Research Fellow for Non-violent Solutions to Conflict and the program “From Harvard Square to the Oval Office” at the Women and Public Policy Program. She holds a BA in economics from Universidad de los Andes in Bogotá and is currently pursuing a master’s in public policy at Harvard Kennedy School, with focuses on peacebuilding and reconciliation, and gender equality.

ABORTION is again in the public agenda in Latin America. Colombia and Argentina are currently on the verge of making big leaps in their abortion laws. If the legal actions succeed, these countries would join Cuba, Guyana, Uruguay, Puerto Rico, and Mexico City’s Federal District in allowing abortion, reaching a new record of 7 out of 49 Latin American and Caribbean territories to do so. We should certainly keep pushing for legal action, but if we continue to perpetuate social barriers and stigmatize women, women’s rights will not be complete.

In 2019, a Colombian anti-abortion lawyer presented legal actions asking the court to eliminate three exceptions that allow women to legally terminate a pregnancy: danger to the mother’s health, malformations that make the fetus unviable, and pregnancy resulting from sexual violence. These exceptions were implemented in a 2006 ruling, and one judge reviewing the new case felt compelled to defend their inclusion. On February 19, 2020, arguing that women still face many barriers and that social, legal, and cultural conditions have advanced in Colombia and the world in the last 14 years, Judge Alejandro Linares

presented a formal proposal to completely legalize abortion in the first 16 weeks of pregnancy and to uphold the three exceptions for the remaining period of pregnancy.

In 2018, a public abortion rights debate in Argentina inspired a movement that transcended its borders. Now, two years after the Senate rejected legalizing abortion by a narrow vote, the country is witnessing a revival of the debate as recently elected President Alberto Fernández prepares to present a bill that would legalize abortion. While details of the proposal are still unknown, the expectation has already sparked the conversation on abortion and has brought thousands of women to a massive demonstration.

While Colombia and Argentina will hopefully join Cuba, Guyana, and Uruguay in setting precedent for the rest of the region in the next few weeks, 15 countries still have highly restrictive abortion laws, eleven allow for some exceptions, and three allow abortion for socio-economic reasons. Thus, Latin American women will only be completely secure in their rights once every woman in the region has the freedom and right to control her life and body.

However, framing the debate solely in



legal terms creates several risks: first, it creates a false feeling that there is rejection; second, it creates a platform for radical voices that want to frame the debate in terms of heroes and villains; and third, it perpetuates the barriers and stigmas faced by women considering abortion.

Although the legal and political context of abortion in the United States is very different from Latin America, the experiences in the US should alarm us. In 2013, the state of Texas strictly restricted abortion, which resulted in an increase of access barriers. Last year, several states passed legislation that sought to limit or prohibit access to abortion. While most of these laws were blocked at the national level, more states have tried to partially or totally ban abortion, with significant consequences. The

anti-abortion movement gained a platform to revive debates about rights that had already been guaranteed, generating rumors about the future of abortion and causing confusion among women unsure of their legal rights. Additionally, this has created space for radical anti-abortion narratives, like those of President Trump in his State of the Union speech.

Finally, the biggest problem is misusing our energy when it should be directed towards eliminating the obstacles and inequalities that thousands of women still face in the region. We should invest that collective energy to reduce the 760,000 cases of women with medical complications from unsafe abortions; we should invest it in developing quality sex education for children in every country; we

should invest it in avoiding the 10 percent of maternal deaths associated with unsafe abortions; we should invest it in eliminating the social and cultural barriers that persist for women needing access to timely procedures; and we should invest it in reducing the vast inequality gaps that make abortion a class privilege.

As a topic that touches the deepest fibers of society, more debate is needed and welcome, as long as it does not perpetuate barriers. The legal fight should continue, but our hardest fight will be for eliminating stigma and abolishing barriers, so that once and for all women have the right and freedom to decide over their lives and their bodies. Let the shout be heard loud and clear from Mexico to Argentina: “Sexual education to decide, birth control to not abort, legal abortion to not die.”

ENDNOTES

- 1 A version of this Op-Ed was published previously in Spanish and focused in Colombia.

WHY DID MACRI LOSE?

IVÁN GOLDMAN

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LAST month, what seemed unavoidable in Argentina was proven correct: Alberto Fernández, member of the kirchnerist Frente de Todos party, won the presidential election with 48 percent of the vote, confirming the landslide victory he had already achieved in the primaries. With these results, conservative president Mauricio Macri, who attained 40 percent of the vote, became the first incumbent president in Argentinian history to not be reelected. On the other hand, Peronism, unified with its kirchnerist version and many other allies from different ideological factions, reclaimed power a mere four years after losing to the opposition.

So why did the incumbent Macri not win reelection, something very unusual in Latin America? How did the huge electoral support he gained in the midterm elections erode when he managed to secure the first victory for a non-Peronist coalition in a legislative election in more than 30 years? And most importantly, will Fernández be a pure revival of the 2003-2015 Kirchnerism, or will he be something new?

The election results can be explained by three main factors: the crumbling economy, the unification of Peronism, and the failure of

Juntos por el Cambio to maintain their main electoral base of support in the middle class.

Bill Clinton famously said, “it’s the economy, stupid”, and Macri should have listened. This became clear during his term in office as inflation, unemployment, poverty, inequality, devaluation, and foreign debt skyrocketed, causing the economy to contract and companies to close. Argentina’s unofficially dollarized economy experienced over 20 percent devaluation in one day right after the defeat at the primaries. This struck a weakened economy and further deepened the crisis. The dollarization of services bills, along with increasing inflation and rising transportation costs, was a hit to the Argentinian people’s pocket. With such a bleak economic outlook combined with Macri’s inability to correctly communicate the severity of the crisis and manage expectations for economic performance indexes (in 2018, the expected inflation rate was 10 percent and the actual inflation rate ended up at 47.6 percent), it is no surprise that the majority of voters turned their backs on Macri.¹ In turn, this created the opportunity for Fernández, the opposition, to oust Macri from the presidential office—even though Fernández was not their favorite candidate.

Another key factor that explains Macri’s

defeat is the unification of Peronism behind Fernandez's candidacy. His ability to unify kirchnerists, traditional Peronist governors and mayors (important for their territorial influence), minor progressive and left-wing allies, and most importantly the Frente Renovador—led by former Chief of Staff Sergio Massa, who withdrew his own presidential candidacy in favor of the Frente de Todos—ended up being crucial in the presidential election. A unified opposition that joined most of the key political leaders proved to be a deathly blow for president Macri and the Juntos por el Cambio coalition; this alliance even won in the Buenos Aires province, the most important district in the country, by a more than 15 percent margin. Additionally, the coalition secured the governorship and defeated Macri's political sidekick, incumbent governor Maria Eugenia Vidal. Once united, the Frente de Todos political apparatus worked heavily across the country, relying on all the main political figures both local and national (with the clear remark for the former president and now vice-president elect Cristina Fernández de Kirchner), to rally support for Fernandez. Such a strong rival was just too much for an already low reelection chance for president Macri.

The third key factor that explains Macri's defeat is his failure to retain support from his main base, the middle class. Notably, the middle class was hit the hardest by the government's economic mishandling. Many small- and medium-sized businesses closed due to the rise in tariffs and the drop in consumption levels, many jobs were lost, and the cost of life increased. In turn, this diminished the high standard of living that the middle class had historically enjoyed in Argentina. These factors led middle class families to opt for Fernandez so he could improve the economy, despite accusations of corruption from many of his coalition partners. Furthermore,

Macri's controversial vice-presidential pick of Peronist senator Pichetto led many government supporters to feel betrayed after seeing Macri dissolve the anti-Peronist rhetoric in front of their eyes. Ultimately, this created the surge of two small coalitions more to the right than Macri, and though they didn't get many votes, the atomization of the anti-kirchnerist front made things even harder for Macri's reelection run.

The political future of Argentina is uncertain. There are widespread concerns about how much influence former president Kirchner will exert in a future government. Additionally, the extent to which Fernandez will achieve cohesion among the different factions in his coalition remains unclear. This is particularly important at a time when a strong government is needed to get the country through its economic crisis and to renegotiate its foreign debt with the IMF to avoid default.

Although a new wave of hope has hit the tired Argentinian people, the situation is a complex one for president-elect Fernández. He will have to rely on his negotiation skills to pull the country out of its current dire situation and create a more prosperous future for its people. At the same time, the battle for the opposition leadership begins now with Macri as one of the main contenders.

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THE UGLY AND NOT – SO – UGLY TRUTH ABOUT SOCIAL PROGRESS IN MEXICO

VALERIA MOY & VALERIA MENDIOLA

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“LA MAÑANERA” – THE PRESIDENT’S MORNING PRESS CONFERENCE

On January 30th, 2020, a few moments after Mexico’s Statistical Agency (INEGI) released its advance estimate of the country’s economic growth, Mexico’s president—Andrés Manuel López Obrador (AMLO)—stood in front of reporters for his daily morning press conference. It had become harder for AMLO to dodge the concerns posed by analysts and journalists about the perception of Mexico’s lack of economic growth. As INEGI announced that the country’s GDP had shrank for the first time since the financial crisis of 2008–2009, perception had become a reality. The fact that the second largest economy in Latin America, which also happens to be the southern neighbor of the largest economy in the world, had shrunk by 0.5% at an annualized rate was worrisome for investors, analysts, credit rating agencies and international organizations.

It would be fair to believe that this

number would make Mexico’s president anxious as well. Especially since it reflected the results of his first year in office after he had vowed during his campaign trial to make the country grow 4% on average per year. The president’s reaction, however, was quite the opposite. AMLO insisted that even though low growth was expected, the parameters to measure welfare were changing. He argued that, according to his own data, welfare had increased: “There may not be growth, but there’s development and well-being”.

To be fair, AMLO has a point, although not necessarily on his confidence that Mexico’s welfare is increasing. This is the story of one of the most powerful indicators in economics, GDP, the false dichotomy that it has been subject to, and what Mexico’s civil society is doing to reconcile the importance of economic growth with social and economic wellbeing.

THE BIRTH OF GDP

Once called by the US Department of

Commerce one of the “great inventions of the twentieth century”, the Gross Domestic Product (GDP) might seem one of many metrics to measure the behavior of an economy. History has proven, however, that this variable has the power to swing financial markets, influence elections, disrupt governments and determine the agenda and political discourse for a long time.

GDP has gained incredible relevance, probably more than what his creator, Simon Kuznets, might have imagined. A metric that was originally intended in 1934 to measure the value of the final production of goods and services of an economy during a specific period of time, seems now to be governing the world’s economic policy. But with such great power, comes great resistance.

Those who argue that we should get rid of GDP might not recall that less than a century ago, in the wake of the Great Economic Depression of the early 1900s, it wasn’t an in-depth analysis of economic indicators what made policymakers realize the seriousness of the situation the world was going through. It was, in fact, barely the collapse of stock market. Economists and policymakers were taking decisions on blurry indicators such as stock prices and incomplete information of industrial production. There was no consensus on how to comprehensively measure a country’s national income. Policy makers acted almost blindly: possibly deciding the economic fate of nations based on incomplete and semi-reliable data, hoping for the best.

This was the case until Kuznets was tasked to evaluate the recovery of the US economy in the aftermath of the Great Recession. In this context, GDP marked a clear before and after; it made it possible to make more informed choices, to allow for international comparisons, and to become a standard tool for sizing up a country’s economy.

GDP eventually became a homogeneous

metric. Policy makers, politicians, economists, businessmen used it as a general indicator of a country’s economic health. Slowly, but surely, the meaning of GDP started to change in people’s mindset. While it was designed to measure production, we started to mistake it for progress, for development, even for well-being. Kuznets had made it very clear that this was not its purpose, he even claimed that “the welfare of a nation can scarcely be inferred from a measure of national income”.

But how can we define welfare? How can we make up our minds on what progress consists of? Can we find a common ground on our understanding of might be more easily understood when applied to a specific country? Maybe Mexico can serve as an example.

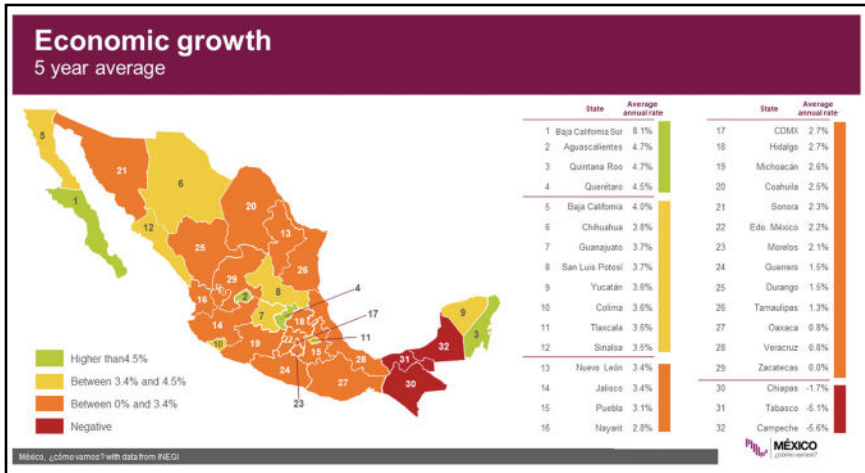
MEXICO AND THE FLAWS OF GDP

Like any metric in social sciences, GDP has advantages and flaws. Its flaws can be put into perspective when analyzed in the case of Mexico. Economic growth – the growth rate of GDP – reflects the change in the production of a country. Considering that Mexico is the world’s 14th largest nation, as measured in square kilometers of land area, national GDP growth falls short of giving an exhaustive outlook on the country’s economic performance. This can be easily depicted by noticing Mexico’s historical regional disparity.

In essence, while the country has grown at an average rate of 2.1% in the past five years, 21 out of 32 states have outperformed this figure. The states of Baja California Sur, where Cabo San Lucas is Located, and Quintana Roo, where Cancun’s tourism industry fuels economic activity, have grown 7.6% and 4.4% respectively on average during the same time period. On the

contrary, the oil-rich states of Campeche and Tabasco, both located in Southern Mexico, have watched their economic activity shrink at an average rate of (-)5.5% and (-)4.9% per year respectively. While some could argue that this measurement issue can be solved by analyzing instead economic growth at the state level, the problem remains due to disparities within states.

states located close to the border with the US found the North American Free Trade Agreement (NAFTA) economically beneficial. The elimination of tariffs, as well as their incorporation to an institutional arrangement in which following the law and enforcing contracts was not optional, marked a difference with the rest of the country. The same logic applies to the Bajío region (Aguascalientes, Guanajuato and

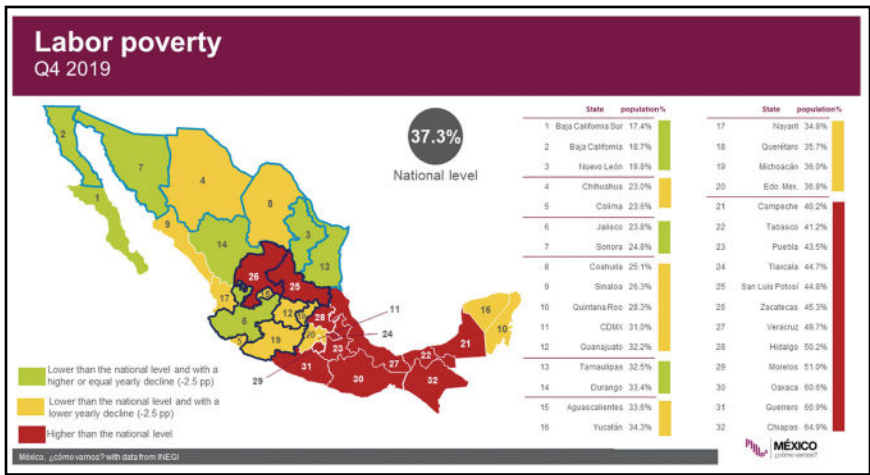


Another hurdle of trying to measure economic welfare through GDP is the lack of guidance it offers. Even if one argued that economic growth is a synonym of wellbeing (which is not), the policy to improve development would then become increasing production for the sake of it. Even though economic growth is a crucial element of development, making it the only target of a development strategy is not enough. GDP fails to distinguish environmentally sustainable economic growth and the one that results from the careless exploitation of natural resources. It also fails to acknowledge how the value of goods changes as a result of technological progress.

For starters, each region faces different challenges and binding constraints for growth. In the case of Mexico, most of the

Querétaro) located in central Mexico, where industrial innovations and high – skilled manufacturing are the main economic activities, and exports play a crucial role. Specifically, these states have been growing at a higher rate than the country as a whole, and labor poverty and informality are lower than the national figures.

A third, and perhaps more obvious flaw of GDP and economic growth is that it does not measure what concerns people the most. In an era in which people have become the central focus of democracies, talking about abstract concepts, such as GDP, might reflect a disconnection from their reality. People are not interested on economic growth itself, but on the chain of social improvements that might evolve from it. The fact that Mexico's economy



shrank by (-) 0.5% at an annualized rate during 2019 is an intangible fact, but the case that 2019 was the year with the least formal jobs created since the 2009 crisis is real and tangible. The progress on other real and tangible indicators, such as maternal mortality, homicide rate, freedom of press, and teenage pregnancy rates, is what the people are interested in improving. Furthermore, GDP fails to measure other priorities that people value, such as the quality of life, the lack of pollution, access to public spaces and many other things that make up people’s daily lives.

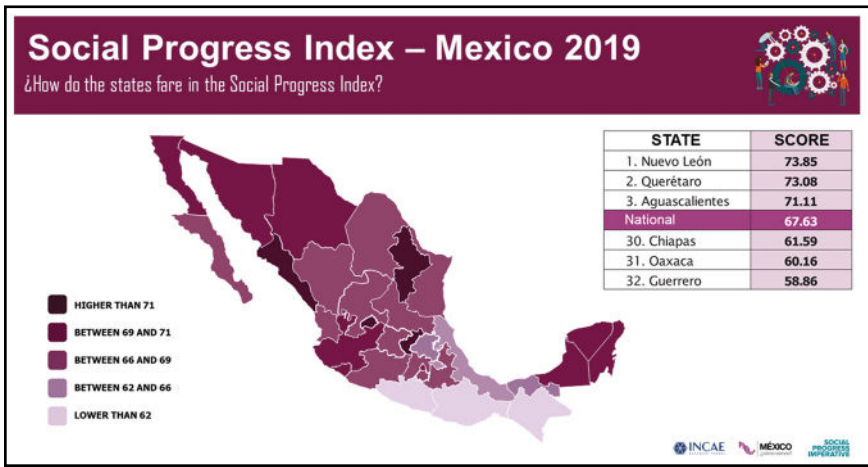
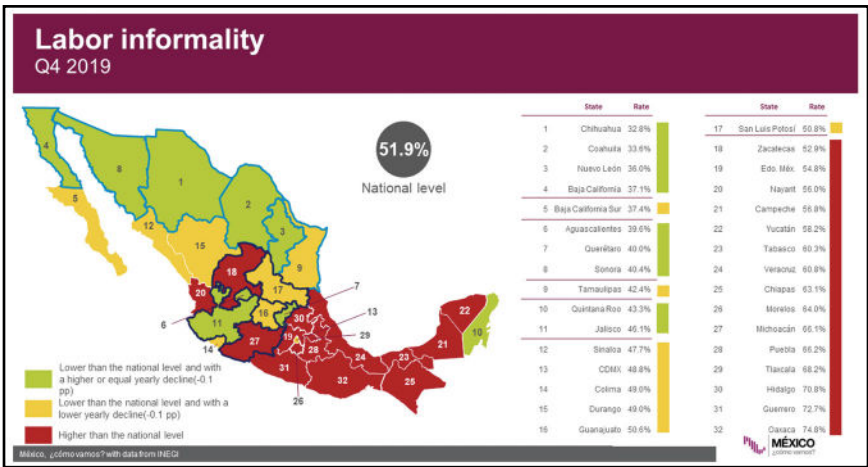
THE MISSING PIECE IN THE DISCUSSION

In this sense, it has been tough for many to understand that GDP and economic growth are simply a metric to measure something different to wellbeing. Many critics have spent more time and energy trying to discredit the importance of GDP instead of building a universal consensus around another metric that can measure development and social progress.

There is, however, an opportunity to shift the conversation to find a solution for this

controversy. This year, an economics think tank based in Mexico City, *México, ¿cómo vamos?*, along with INCAE Business School and the Social Progress Imperative, released the first edition of the *Social Progress Index* (SPI) at the state level in Mexico. Hence, Mexico became one of the 40 countries worldwide creating an index that not only measures social progress with 58 social indicators, but can also target specific policy concerns in a more accurate way and with a more customized approach. In a scenario such as the one faced by the Mexican context, where several different Mexicos seem to coexist, the subnational SPI is a gold mine waiting to be exploited. Lessons learned from SPI – Mexico

Unsurprisingly, the three states with the highest social progress are located either right at the border with the US or in the Bajío region, while the ones with the lowest social progress are located in south-east Mexico. Either way, the subnational results depict a strong truth: even though Mexico is among the 15 largest economies in the world as measured by its GDP value, its best-scored states in the SPI are far behind the most developed countries in the world.

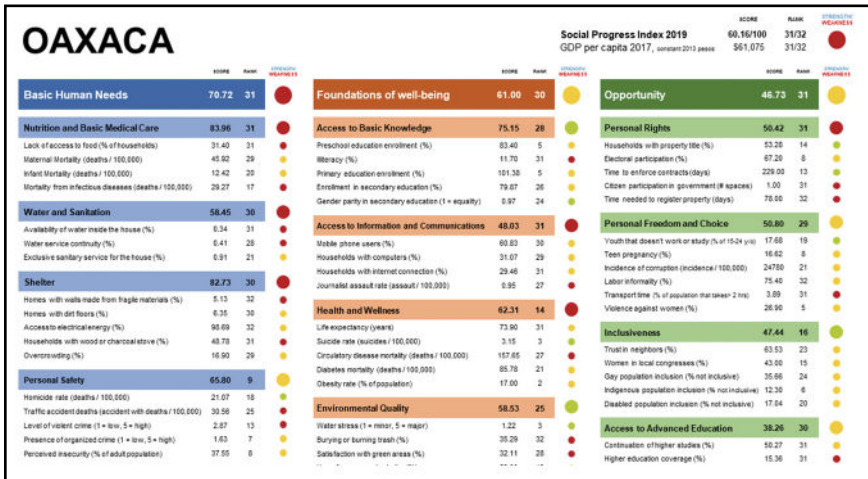


LESSONS LEARNED FROM SPI – MEXICO

Unsurprisingly, the three states with the highest social progress are located either right at the border with the US or in the Bajío region, while the ones with the lowest social progress are located in South East Mexico. Either way, the subnational results depict a strong truth: even though Mexico is among the 15 largest economies in the World as measured by its GDP value, its best-scored states in the SPI are far behind the most developed countries in the world.

In essence, if Nuevo León – one of the wealthiest Mexican states and the one with the highest social progress – were a country, its social progress level would be similar to that of Hungary, which ranks 39 out of the 149 countries evaluated. Furthermore, the lowest – scored Mexican states have a social progress level equivalent to that of the Philippines, which ranks 94 out of 149 at a global level. This disseminates the reality that Mexico is a middle – income country, and that most of the nation’s issues are concentrated in the South.

Even though it has been made clear that



economic growth is different to social progress, the fact that the states with the highest GDP per capita are also the ones with the highest economic development according to the SPI throws some light on the fact that there must be some sort of relationship between the two indicators. This is one of the many reasons why the Mexican government shouldn't underestimate the power of economic growth.

Similarly, the fact that poverty has a strong negative correlation with SPI in each state displays some hints that by successfully targeting specific indicators of the SPI,

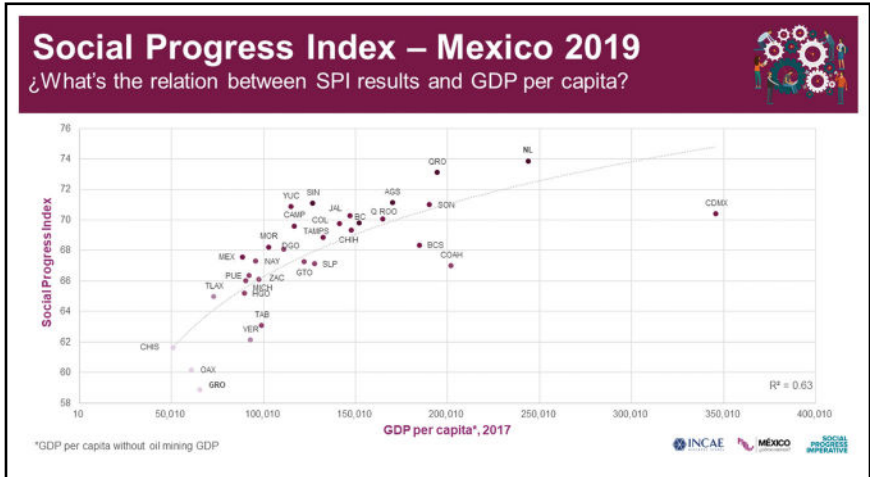
there might be an improvement – without assuming causation – not only on the state's score in the social progress index and well-being, but on the general poverty figures.

In an era in which real and objective data is constantly being under attack, appealing for the belittlement of a metric as relevant and universal as the Gross Domestic Product (GDP), and blaming it for the lack of accuracy in reporting what it is not meant to report, jeopardizes the current international language of economics. Appealing for its belittlement without proposing anything better is even worse.

The Social Progress Index, especially the one adapted to the subnational contexts such as the one recently released in Mexico, makes it possible to acknowledge the limitations of economic growth as an indicator to measure wellbeing, while still accepting its coexistence. Furthermore, the SPI is a dream come true for policymakers: it provides a clear path to achieve change and improvements on economic development.

As this article is being written, the world is in the middle of a public health crisis. COVID-19, along with the economic and social policy responses that have been implemented to face it, has become a

crucial test on the countries' State capacity and health sector. As many nations have their population on quarantine, economic growth projections for this year are already being adjusted downward. In the case of Mexico, there are estimates claiming that the economic contraction might be more abrupt than the one which took place during the 1994 crisis. The current crisis has also become the perfect example of the importance of social progress. While the COVID-19 crisis will be tough on everyone, those with the highest social progress might be more likely to bounce back faster.



THE SOCIAL PROGRESS INDEX

5 LESSONS FOR LATIN AMERICA

SANTIAGO PULIDO-GOMEZ

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2019 was a year of turmoil for Latin America. In Chile, protests burst out when the government tried to increase the price of public transportation. In Ecuador, the situation worsened when the government announced the end of fuel subsidies. Bolivia's institutions were put to a test when President Evo Morales sidestepped constitutional term limits and attempted to re-elect himself for a fourth time. Venezuela's social and political situation has continued to deteriorate, which has led to more than 4.6 million Venezuelans migrating to other countries.

During this past year, social discomfort has spread throughout the region. In a domino effect, thousands of citizens have mobilized in the streets and squares of cities across the subcontinent in pursuit of social equity and an end to corruption. Each country has had different expressions of upheaval; from banging pots and pans to episodes of vandalism and violence.

While there may be multiple causes for the protests rooted in a plethora of demands from different segments of society, the common trend across these countries is that Latin Americans are not perceiving social progress. In the eyes of many

citizens, economic growth has not translated into social advancement.

The case of Chile is particularly exemplary of this disconnect. The country, which has experienced significant economic growth in the last decades, is now the wealthiest in the region. And although multilateral organizations now consider Chile an upper middle income country, income inequality remains high. The region's tipping point was the realization that economic growth did not lead to social equity, so the population of the region is now demanding inclusive economic growth.

How can governments in the region respond to these demands? A good place to start entails redefining the meaning of success. While there are certainly different ways to measure the success of a country, most countries have focused solely on GDP growth, a measure of economic performance rather than social wellbeing. The Latin American country cases provide some evidence that this is not enough because strong economic growth does not guarantee social progress.

In this article, I suggest the Social Progress Index (SPI) as a new and more helpful way of defining success for Latin America. The

SPI was developed by the Social Progress Imperative under the supervision of Michael Porter, from the Harvard Business School, and Scott Stern, from the Massachusetts Institute of Technology. By analyzing SPI levels and changes in Latin American countries, we can draw important lessons that illustrate the current social malaise. In this document I present five important lessons the region can draw from this index.

THE INHERENT PROBLEMS WITH GDP

The goal of the Social Progress Index is to “dream a world in which people come first.” It is a way to assess and measure what citizens really care about and value. However, the Latin American experience shows that in the quest for economic growth, governments have lost their track of social progress.

But why did this happen? How could a focus on GDP lead them to forget the needs of the people? First, it is important to remember that GDP is a measure of economic performance, not social wellbeing, so it was never meant to address social progress.¹ Although there is a slight correlation between GDP and measures of wellbeing, there are certain important dimensions particularly relevant for the Latin American context that GDP fails to address:

- **Advancement in institutional issues** – GDP does not capture social issues such as improvements in security, discrimination, or access to justice. Furthermore, GDP captures military expenses as economic growth, while strides in civil rights and inclusiveness are completely disregarded.
- **Environmental concerns** – Global warming and air pollution are not considered in the GDP. On the contrary, economic growth has primarily created incentives towards environmental

destruction, rather than towards more sustainable conservation.

- **Fight against poverty and inequality** – GDP per capita is a good proxy for the average level of income, yet it does not account for the levels of inequity and poverty that citizens experience. The Social Progress Imperative has shown that although there is a positive correlation between GDP per capita and social progress, this is a concave and not a linear relationship. This implies that countries with similar levels of income per capita can have important variations in their social progress levels.²

Therefore, it seems that a definition of success purely based on GDP paints an incomplete picture of the situation in Latin America. Consequently, social discomfort throughout the region should be interpreted as a call for governments and public leaders to be more receptive of social demands to address the needs of citizens. How can we have a better understanding of social conditions in each country and the region as a whole? The Social Progress Index attempts to answer these questions.

WHAT IS THE SOCIAL PROGRESS INDEX?

The Social Progress Index is a way to measure successful development beyond economic growth. As defined by its creators, the SPI is a “comprehensive measure of real quality of life, independent of economic indicators.” In this way, the SPI aims to capture social progress and well-being for society.

So how does it measure social progress? The index was designed through an iterative and consultative process and is based on four key principles:

1. **Exclusive use of social and**

environmental indicators – No economic indicators or proxies are captured in the index since it is meant to complement the GDP measure rather than replace it.

2. **Holistic and relevant to all countries** – The index tries to be as comprehensive as possible, aiming to capture different aspects of social health.

3. **Outcomes not inputs** – The SPI measures outcomes that matter without using value judgments on the type of policies that achieved them.

4. **Actionable** – It is meant to be useful to practitioners and policy-makers. It is represented by a single number that is easy to understand, analyze, and compare, making it a very useful tool for decision makers. This single number can be compared to specific benchmarks and can be traced over time.

Based on these principles, the Social Progress Imperative is used to define Social Progress through three main dimensions, each comprising four components. These components bring together a total of 51 social and environmental indicators that are comparable across different geographies and that capture a comprehensive image of social wellbeing. The three dimensions are:

1. **Basic Human needs** – Determines whether or not the country provides its people with basic human needs.

2. **Foundations of wellbeing** – Captures the provision of the building block to a better life.

3. **Opportunity** – Looks for evidence of equal opportunity available for everyone to reach full potential

Figure 1 summarizes the entire framework where all three dimensions carry the same weight in the final Index and all four components carry the same weight within each dimension.

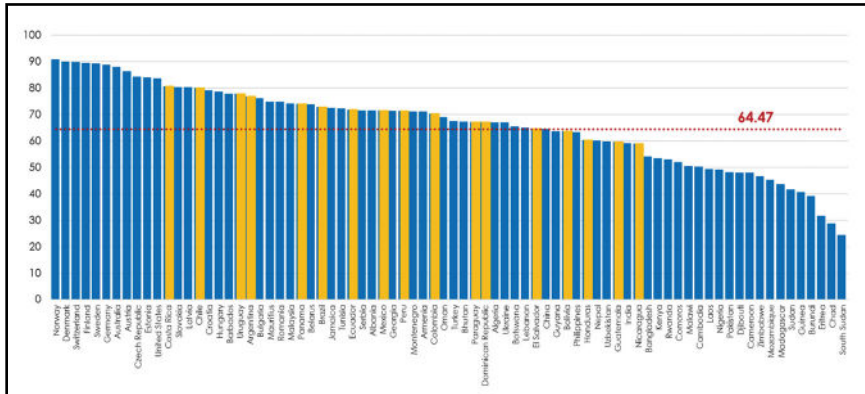
LESSON 1: WE ARE NOT DOING AS BADLY AS WE MIGHT THINK

In 2019, the SPI was released for a total of 149 countries. Norway ranked first as the country with the highest social progress score (90.26), followed by Denmark, Switzerland, and Finland. Last place in the ranking was South Sudan, with a score of 24.44. On average, weighted by the population in each country, the world's social progress stands at a score of 64.47, which is equivalent to the score for a country like El Salvador.

FIGURE 1. SPI FRAMEWORK

Dimensions	Basic Human Needs	Foundations of Wellbeing	Opportunity
Components (Number of indicators)	Nutrition and Basic Medical Care (5 indicators)	Access to Basic Knowledge (5 indicators)	Personal Rights (5 indicators)
	Water and Sanitation (4 indicators)	Access to Information and communications (4 indicators)	Personal Freedom and Choice (4 indicators)
	Shelter (3 indicators)	Health and Wellness (4 indicators)	Inclusiveness (5 indicators)
	Personal Safety (4 indicators)	Environmental Quality (4 indicators)	Access to Advanced Education (4 indicators)

FIGURE 2. SOCIAL PROGRESS INDEX – WORLD RANKING 2019*



Source: Social Progress Index
 *Not all countries shown

In this context, the levels of social progress for Latin American countries are not as low as one might think. Out of the 16 Latin American countries included in the ranking, only four ranked below the world average: Nicaragua, Guatemala, Honduras, and Bolivia. The average SPI for the region, weighed by the population size of each country, has increased in the past 4 years from 70.6 to 71.8. This progress is worth highlighting considering that the drop in commodity prices led to fiscal constraints and limited social investment.

Despite these seemingly positive results, it is important to mention that the index does not include data for Venezuela, as the deteriorated social conditions in this country cannot be captured by the available information. This certainly biases the results for the region, and it is unclear whether its effect on the social indicators for other countries has already been taken into account.

Overall, based on the information available, the region stands 7.33 points above the world average and its score is equivalent to the score of a country like Ecuador. Based purely on score, the region seems

to be doing relatively well. Still, to learn more about the possible causes for social upheaval it is important to dissect the SPI into its components to understand its nuances and the underlying roots of the social discomfort.

LESSON 2: THE FOCUS SHOULD BE ON PROVIDING MORE EQUITABLE OPPORTUNITIES

In terms of the SPI dimensions (Figure 3), the region is strong in guaranteeing Basic Human Needs and the Foundations of Wellbeing which have continued to improve over the last 5 years. The Basic Human Needs dimension saw an increase of 0.55 points from 2014 to 2019, while Foundations of Wellbeing increased by 1.02 points (Figure 4). This is evidence that Latin America as a whole has continued to improve the coverage of the essential needs of its population while focusing more strongly on providing the elements that improve well-being.

Where the region ought to direct its attention is to the Opportunity dimension,

which measures elements of equitable access that allows citizens to reach their full potential. Here it is important to highlight equity and accessibility, specially for historically underprivileged groups. For Latin America, the Opportunity dimension is not

only the weakest, but has also experienced a decline of 0.42 points in the last 5 years (Figure 4). To gain a better understanding of this behavior, it is necessary to dig deeper and explore changes in each country that is part of this sample.

FIGURE 3. SPI FOR LATIN AMERICA BY DIMENSIONS

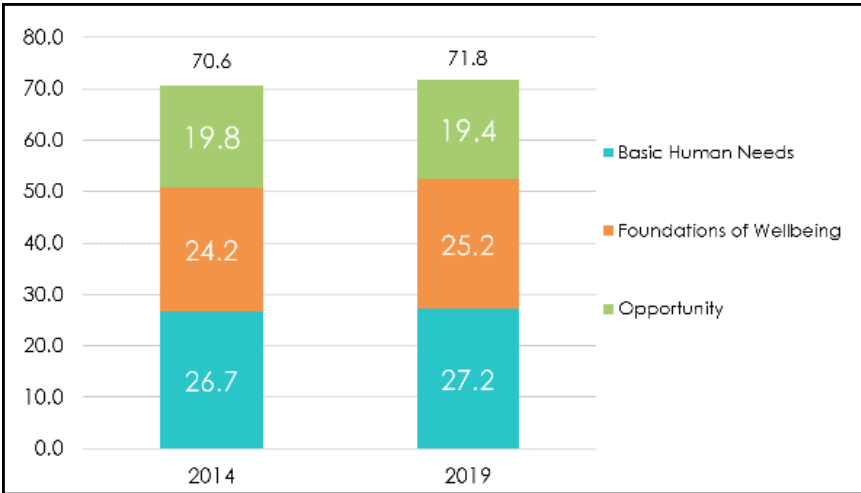
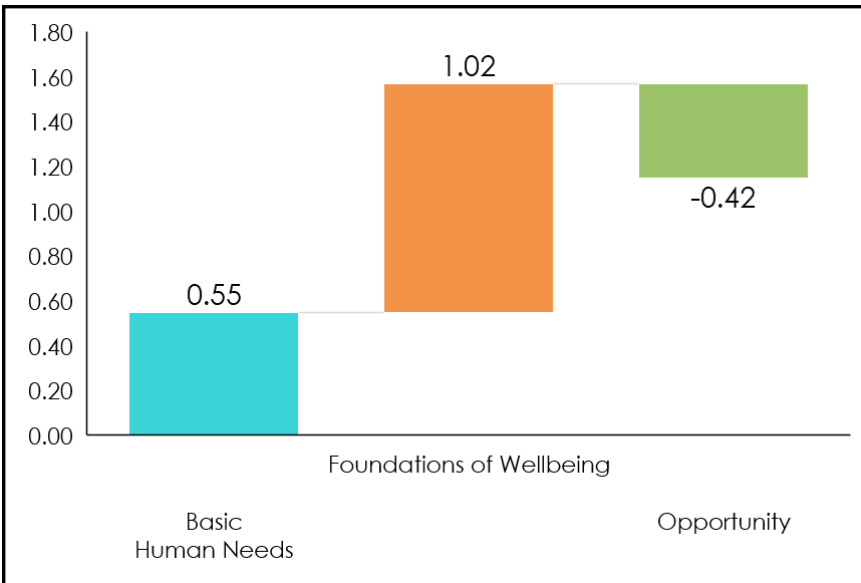


FIGURE 4. CHANGE FOR EACH DIMENSION BETWEEN 2014 - 19



LESSON 3: COSTA RICA, CHILE, URUGUAY, AND ARGENTINA LEAD THE REGION IN SOCIAL PROGRESS

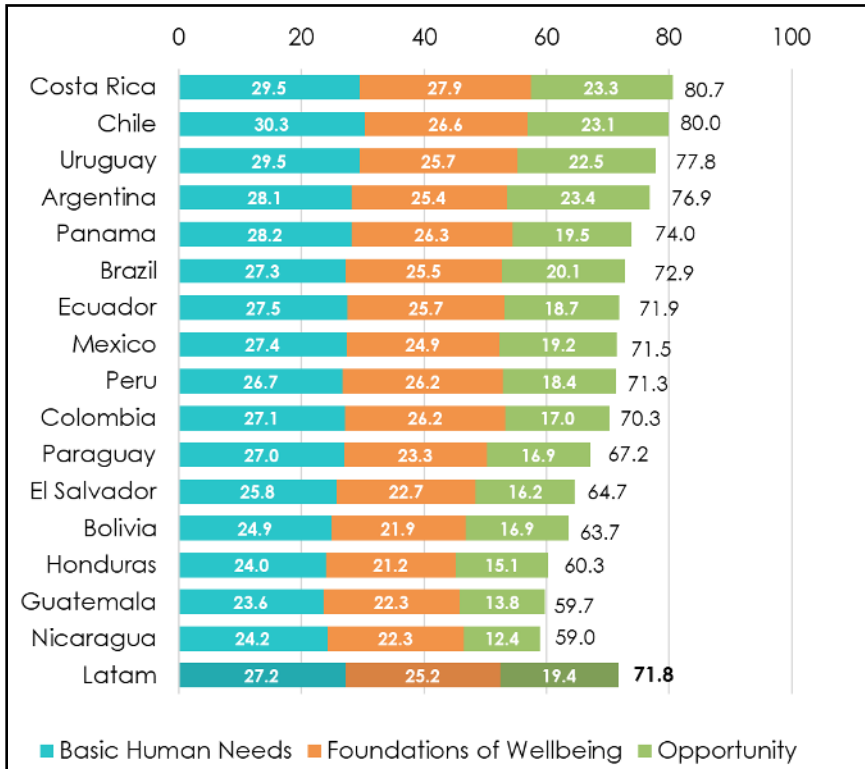
A closer look at the countries in the region shows a 21 point gap between the lowest score, 59 for Nicaragua, and the highest score, 80.7 for Costa Rica (Figure 5). This shows the notable dispersion of results in Latin America. Chile, Uruguay and Argentina, the three countries of the Southern Cone, follow Costa Rica. The high scores in these four cases can be explained by their robust results in the provision of Basic Human Needs and their strong standing in the Foundations of wellbeing. Still, the lowest scoring category for all 4 countries is the Opportunity dimension:

Argentina leads this category with a score of 23.4, surpassing both Costa Rica and Chile, and Chile has the lowest score in Opportunity out of this top tier. It is important to consider that a perfect score in each dimension would be 33.3.

It is also necessary to explore each country's outcomes over the past 5 years since the SPI was first published in 2014 (Figure 6). Broadly speaking, 3 tiers of countries can be identified:

- 1. High Tier (above 75 points):** Includes Costa Rica, Chile, Uruguay and Argentina. In particular, it is important to reference the significant improvement Argentina has shown over this period of time. On the flip side, Uruguay's SPI has declined since 2014 and Chile's SPI started declining in 2019.

FIGURE 5. SPI - RANKING OF LATIN AMERICAN COUNTRIES 2019



2. Medium Tier (between 65 and 75 points): Includes Brazil, Colombia, Peru, Ecuador, Mexico and Paraguay. In this group, the “purple cow” is Paraguay, which has managed to escape the lower tier and is now closing the gap with Mexico and Ecuador. On the other hand, Brazil—which started closer to Argentina—has experienced a decline since 2017, separating the country from the High Tier.

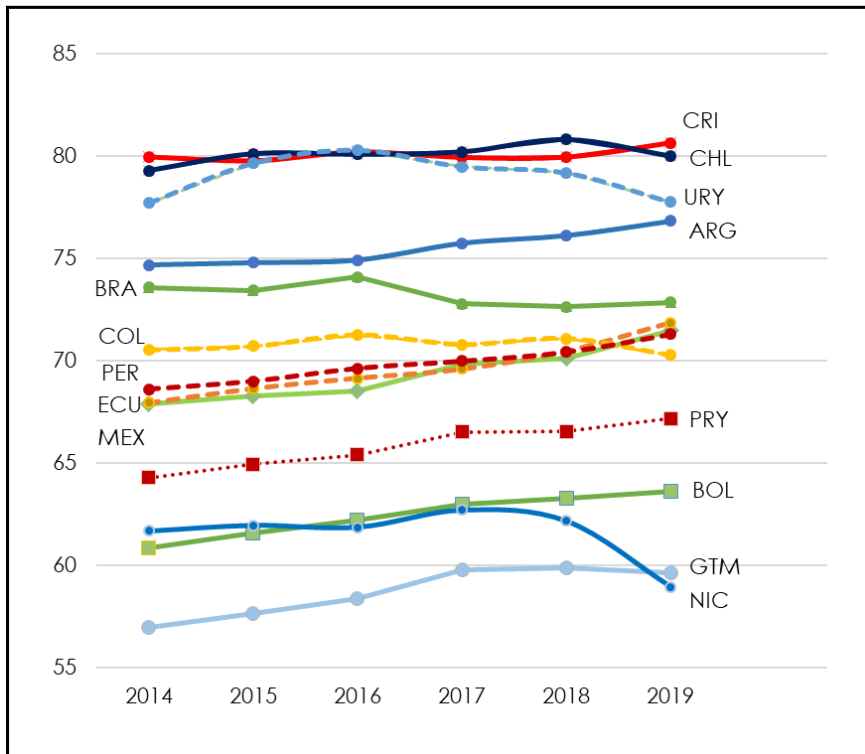
3. Low Tier (below 65 points): Includes Bolivia, Guatemala, and Nicaragua. Given the political unrest in Nicaragua in response to Ortega’s abuse of political power, it is worth noting the decline since 2018. On the contrary, Bolivia and Guatemala have experienced remarkable progress. In

Bolivia, the SPI might not yet capture the effects of the 2019 protests but the categories within the indicator could provide some clues about the underlying tensions that may have contributed to this outcome.

It is worth exploring the scores of the top four countries across different dimensions and specific components. This allows us to identify what each country is doing right and where they are struggling. Figures 7A, 7B, and 7C show the results for each one of the indicator categories.

First of all, in the Basic Human Needs dimension, all four countries show strong outcomes for nutrition, medical care, and water and sanitation. Yet, there are still challenges in the shelter and personal

FIGURE 6. EVOLUTION OF SPI FOR SELECTED LATAM COUNTRIES



safety categories, predominantly in terms of reducing crime and homicides and guaranteeing political freedom.

Regarding the Foundations of Wellbeing dimension, the category for Environmental Quality which refers to air pollution and greenhouse gas emissions shows the least progress for all four countries. On the other hand, access to basic knowledge and access to information and communications has significantly improved, especially in cell-phone subscriptions, an increase in internet users, and access to online government.

Finally, for the Opportunity dimension, it is important to zoom in and dig deeper to understand where these countries are facing the biggest challenges. Despite progress in guaranteeing personal rights—including political rights, freedom of speech, freedom of religion, and access to justice—there are still barriers to inclusiveness and access to advanced education. Inclusiveness refers to equal political power regardless of gender and socioeconomic position. Among these four countries, Chile has the lowest score in the inclusiveness indicator, which may be a sign of the inequity that sparked the 2019 revolts.

FIGURE 7A. BASIC HUMAN NEEDS – TOP 4 COUNTRIES

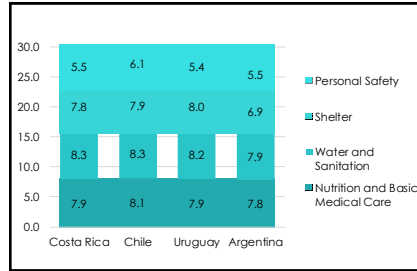


FIGURE 7B. FOUNDATIONS OF WELLBEING – TOP 4 COUNTRIES

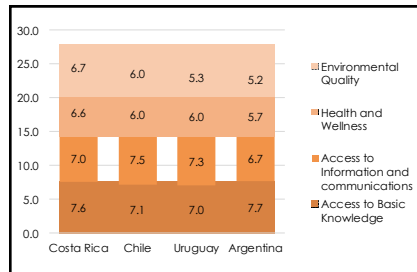
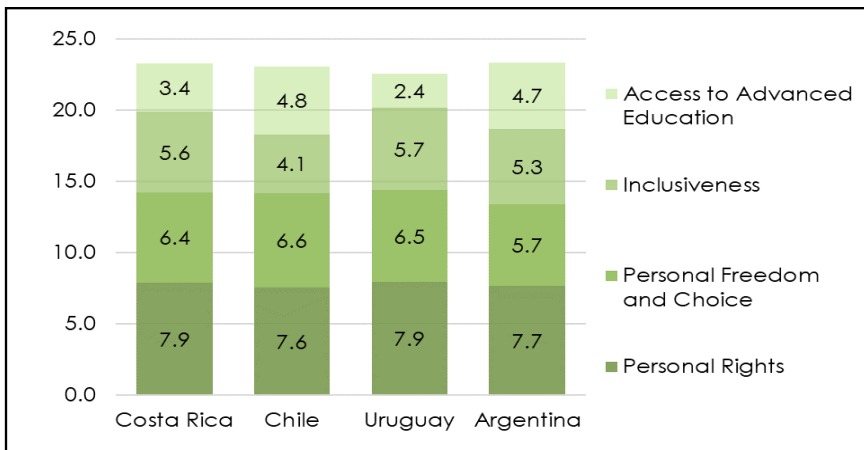


FIGURE 7C. OPPORTUNITY – TOP 4 COUNTRIES



LESSON 4: HOW TO IMPROVE CONSISTENTLY – LESSONS FROM ECUADOR AND MEXICO

Beyond trying to understand the scores of the top ranking Latin American countries, it is also necessary to highlight the countries with the biggest score improvements over the past five years. While not all countries started from the same position, some countries like Ecuador, Mexico, Paraguay and Bolivia (Figure 8) have made tremendous amount of progress despite their starting point. In particular, Ecuador and Mexico increased their SPI by more than three points. Although this is mostly explained by their performance in the Foundations of Wellbeing dimension, they have made progress in all dimensions including the provision of equal Opportunities which shows that it is possible and necessary to continue improving across all three fronts.

On the other hand, the SPI of Nicaragua, Brazil, Colombia, and Uruguay has declined over the past five years. Although in 2015

these countries had very different starting points across the categories mentioned in the last section, the only dimension that explains their decline is provision of Opportunity. These countries continued to improve the provision of basic human needs and foundations of wellbeing, but their inability to provide equal opportunity worked against their own social progress.

Going further, Figures 9 and 10 show the decomposition of the changes by category for different countries. I have included the top two and bottom two countries as defined by the delta they experienced in the past five-year period. It is interesting to note that in Ecuador and Mexico, the biggest improvement was access to information and communication which is not surprising given the penetration of the internet and mobile phones. Furthermore, Ecuador experienced an important improvement in personal security while Mexico's social progress is also mostly driven by water and sanitation and access to advanced education.

FIGURE 8. CHANGES IN SPI FROM 2015 – 2019 BY COUNTRY AND DIMENSION

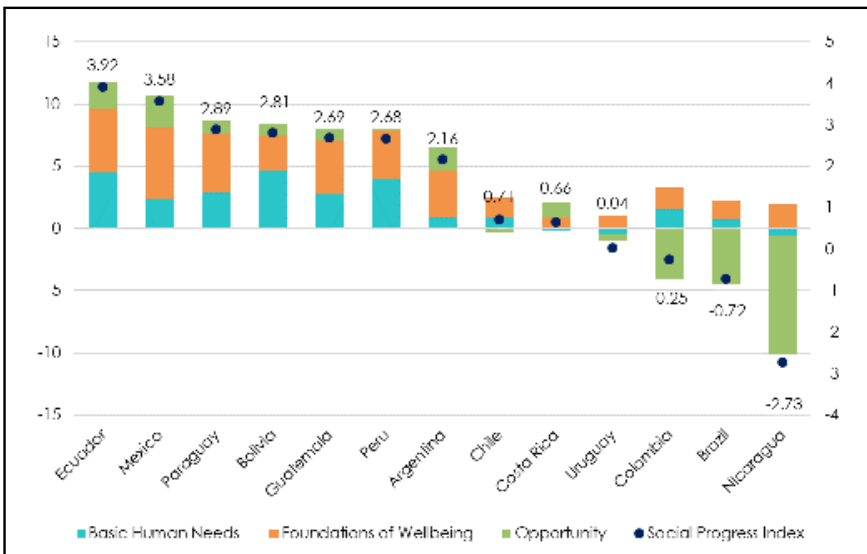


FIGURE 9A. ECUADOR – SPI CHANGE BETWEEN 2015 - 19

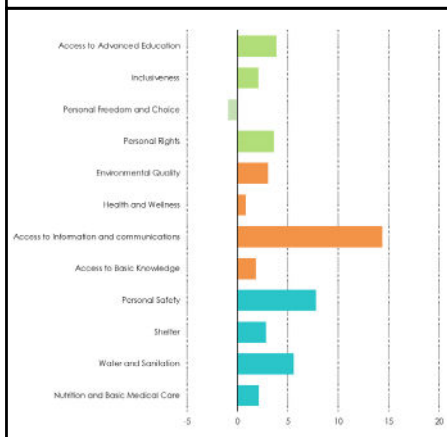


FIGURE 9B. MEXICO – SPI CHANGE BETWEEN 2015 - 19

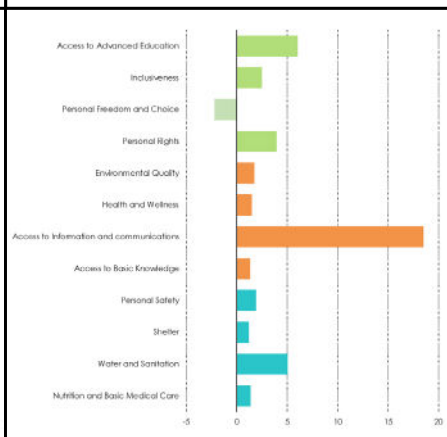


FIGURE 10A. NICARAGUA – SPI CHANGE BETWEEN 2015 - 19

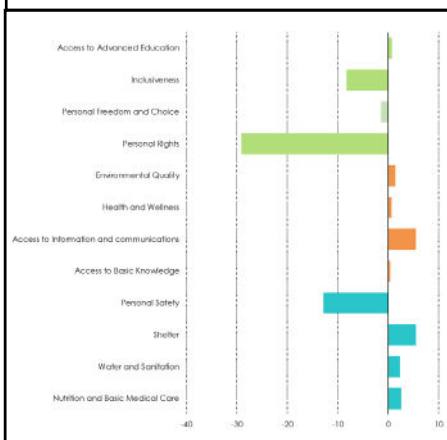
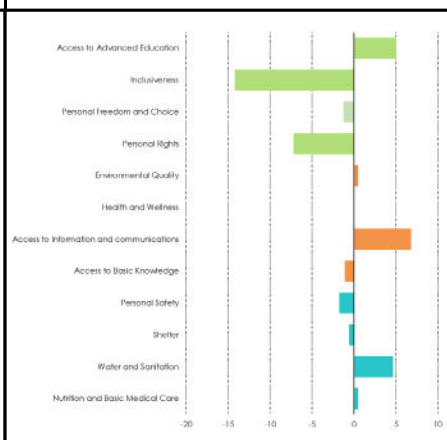


FIGURE 10B. BRAZIL – SPI CHANGE BETWEEN 2015 - 19



Finally, it is particularly telling that Nicaragua’s SPI decline is explained by a dramatic drop in the personal rights, personal safety, and inclusiveness indicators. For Brazil, the biggest drop in the inclusiveness and personal rights indicators show once again their importance in the Latin American context.

LESSON 5: THE QUEST FOR INCLUSIVE GROWTH

In sum, the SPI is another tool. Yet, by construction it brings into perspective some of the issues that GDP overlooks. The regional analysis and the specific country cases is a way to define social progress allowing for

categories that the definition for economic growth does not account for.

As the analysis suggests, the region needs to start thinking more thoroughly about providing better access to equal opportunities particularly for historically marginalized groups. As revealed by the SPI, the region's low level of inclusiveness and further declines in inclusiveness for some countries is pulling down the region's entire social progress. Thus, the recent regional social turmoil is just surfacing this underlying problem.

The SPI is also an action oriented tool which allows governments and regional leaders (activists, nonprofits, and the public sector) to take action voicing their concerns and building more inclusive spaces. The acceptance of the LGBTQ community, fighting against violence towards minority groups, and demanding more equal political representation, are just some of the indicators that lead to ideas to change this reality.

Finally, it is important to mention that the quest for inclusiveness and inclusive growth should not be done at the expense of economic growth. It is not only about redistributing the pie, but also aiming to make the pie bigger and bigger. Therefore, the conversation should not be about whether to use GDP or SPI, but rather on how these measures complement each other in the pursuit of inclusive economic growth. Latin America is a great example that aiming for one while neglecting the other is not enough. Navigating the current political scenario of the region will require paying attention to social concerns by continuing to make social progress and taking into account what really matters to people.

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ENDNOTES

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PRIVATE DEBT, PUBLIC PROBLEM?

NON-FINANCIAL CORPORATE DEBT IN CHILE¹

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1. THE CONTEXT AND THE POLICY PROBLEM

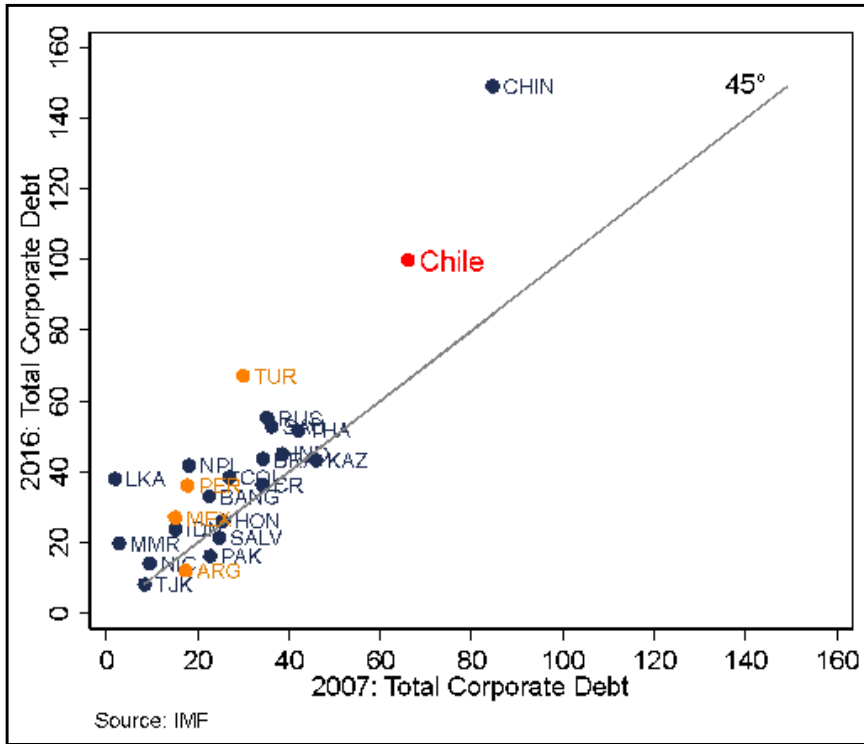
Corporate debt of Chilean non-financial firms increased 51 percent between 2006 and 2016 to levels over 100 percent of GDP, one of the highest in emerging market economies (Fig. 1). Although this rise can be a result of particular incentives for firms to increase their debt, such as the corporate tax regime or low interest rates due to favorable international credit conditions after the global financial crisis, it creates concerns, since episodes of increases in private debt are regularly followed by macroeconomic crises across the developed and developing world (Reinhart, 2010). In the event of a crisis, corporate failure to repay their debt could have systemic effects over aggregate production, becoming a contingent liability to the government and forcing it to intervene. Thus, private liabilities would be socialized to the public in the form of public debt, leaving the government with less fiscal space for other required economic and social policies.

In an increasingly uncertain world, it is not completely clear whether the risks associated with this increase are mitigated,

as mentioned in a recent IMF report (IMF, 2018c). Despite historically lower bond yields, CDS spreads with respect to its peers, and debt growth stabilization after 2016 (IMF, 2018c), Chile has been referred to as “risky” in a number of economic research reports of financial firms, mainly because of its high levels of corporate debt. This increases the possibility of the occurrence of a self-fulfilling crisis with the above-mentioned consequences.

In addition, the current social, political, and economic context of Chile has added additional challenges to economic policy management. The Chilean peso depreciated almost 18 percent between the end of October and the end of November of 2019, which could put pressures to highly leveraged firms' balance sheets. Growth projections for 2020 have been revised downwards while the country might have its highest fiscal deficit in 30 years, implying even less fiscal space.² Added to a potential slowdown of China's FDI inflows to Latin America, which will also affect Chilean economic growth, and a financial tightening, an exhaustive analysis of the Chilean external debt composition as well as of the drivers of this leverage can help to shed light on potential threats.

**FIGURE 1 – EMERGING MARKETS:
INCREASE IN CORPORATE DEBT, 2007-2016 (% OF GDP)**



This document has the objective of understanding the real size and depth of Chilean non-financial corporate external debt by exploring potential risks, and to propose policy alternatives to reduce the probability of these becoming a systemic event.

2. DIAGNOSTIC AND CHARACTERIZATION OF EXTERNAL NON-FINANCIAL CORPORATE DEBT IN CHILE

To assess the risks associated with a high level of non-financial corporate debt, we evaluate the following components for the Chilean case: i) its maturity, ii) the currency in which it is issued, and iii) the characteristics of the lenders.

i) Debt Maturity – The Ghost of the Asian Financial Crisis

As documented by Rodrik & Velasco (1999), a country or institution with high levels of short-term debt is more vulnerable to shocks and to more severe crisis in the case of a sudden stop, either due to their incapacity to fulfill their payments or renegotiate its terms (Rodrik & Velasco, 1999). As it is relatively cheap for firms to get short-term debt, an information problem prevents them from realizing that their borrowing behavior can cause downgrades in a country’s risk profile, increasing the probability of a bank run. Thus, distorted incentives to borrow in excess can be socially costly. Crises associated with the maturity of corporate debt are not new. During the

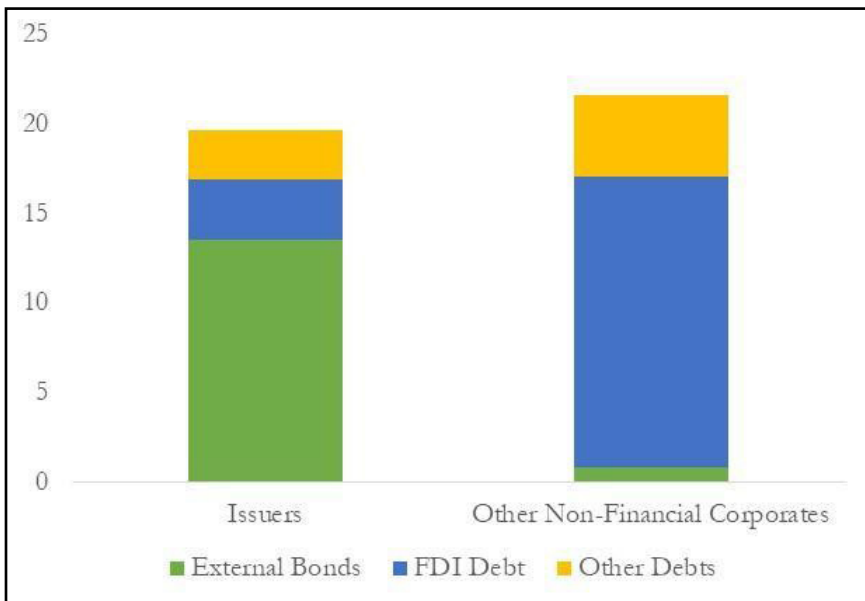
Asian financial crisis in 1997, this issue played a vital role as a cause of financial turmoil, increased vulnerability, and capital flows reversal (see Rodrik & Velasco, 1999).

In the case of Chile, decomposing the 45.1 percent of GDP of foreign debt of non-financial companies by the different sources of financing, we see that 21.0 pp. of the debt is classified as FDI and 24.1 pp. to bonds and loans—separated between long and short-term obligations. Using data collected by the Financial Market Commission and the Central Bank of Chile, we see that issuer companies' debt (those that have issued shares or bonds in public markets) is mainly composed of external bonds, while for the rest of the companies—other non-financial corporates, with external debt that do not periodically report to the Financial Market Commission and thus have less information available—about half of their external debt is associated with FDI (Fig.2).

For the issuing companies, of the twenty

percentage points of GDP that public issuers have in foreign debt, around six of them correspond to state-owned enterprises (SOE's), six points to private firms that report in dollars, and four points to private firms that report their financial statements in Chilean pesos—the rest correspond to others.” Fernandez & Vasquez (2018) observe that regardless of the functional currency and agent of the companies, the common denominator between the issuers is that the maturity structure is concentrated in the long term; in fact, the rise in long-term debt substantially explains the total increase of indebtedness, where long-term debt accounts for almost 90 percent of the total and the amount of short-term debt in 2018 is close to what it was a decade ago.³ This is mainly explained by corporations who took advantage of favorable international conditions and by the fact that the Chilean market couldn't absorb the financial demands of large companies, which

FIGURE 2 - CHILE: EXTERNAL DEBT BY AGENT, 2017 (% OF GDP)



Source: Taken from Fernandez, J. & Vasquez, F. (2018). Central Bank of Chile based on information from the Financial Markets Committee.

are those that concentrate bond issuances. Thus, the current Chilean case is different from situations like the one experienced by Indonesia prior to the Asian Crisis, where most of the liabilities by corporations were short-term debt (see Rodrik & Velasco, 1999; Corsetti, G. et al. 1998).

ii) Currency Mismatch – Corporate Original Sin?

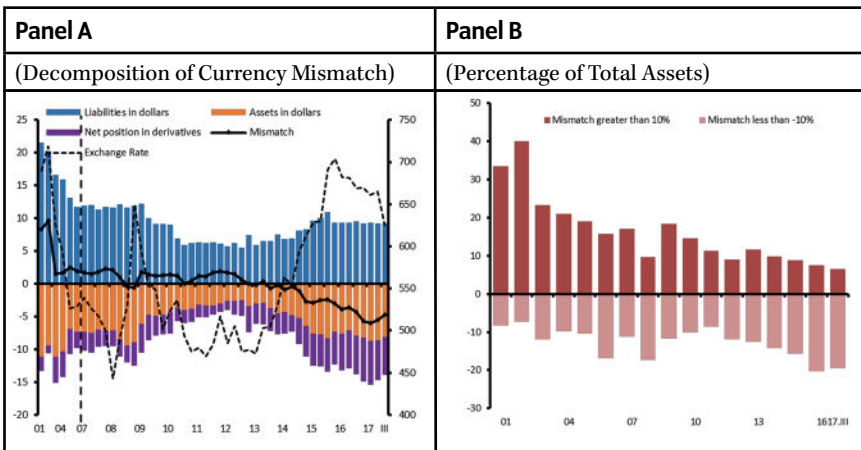
Understanding the relation between the exchange rate, firms, and financial fragility is key to understanding the situation in Chile.⁴ Unintended consequences might arise in the event of a sudden depreciation, potentially affecting the liquidity or the solvency of an institution due to increased levels of debt outstanding or debt services.

Eichengreen & Hausmann (1999) developed the “original sin” hypothesis, explaining that when a country or a firm is unable to borrow the long-term in its own domestic currency, it must necessarily do it in foreign currency or in the short-term to invest. Thus, the effect of a sudden devaluation

becomes evident when incomes are not generated in the same currency in which the debt is denominated. For this reason, firms or governments will naturally operate with a currency mismatch, increasing their default risk. The 1982 sudden stop on Chile provides a historical example of crises associated with a currency mismatch: after Chilean banks and corporations increased their foreign debt in foreign currency, a consistent fall in copper prices and the FED’s interest hike triggered a sudden capital flow reversal and put pressures on the exchange rate, which depreciated by about 60 percent in 3 months after the Central Bank decided to abandon its fixed exchange. GDP collapsed in 1982, falling by about 16 percent in real terms, while several non-financial corporations and banks went into bankruptcy (Ffrench-Davis, 2002; Barandiaran & Hernandez, 1999).

Firms using the Chilean peso as their functional currency and which could be affected by a depreciation of the exchange rate represent 4.3 points of GDP of foreign

FIGURE 3 - CHILE: CURRENCY MISMATCH*



(*) Sample of companies that report their balance sheets in pesos. The mismatch corresponds to liabilities in dollars less assets in dollars, less net position in derivatives, as a percentage of total assets. It does not consider state-owned companies or those classified in the Financial Services and Mining sectors.

Source: Taken from the Monetary Policy Report, September 2018. Central Bank of Chile based on information from the Financial Markets Committee. Own translation.

debt and correspond almost exclusively to companies of non-financial sectors (Fernandez & Vasquez, 2018). To analyze the mismatch of these companies, Fernandez & Vasquez (2018) take a sample of companies that report their balance sheets in pesos and discard state companies and those classified in the Financial Services and Mining sectors.

Starting in 2003, the average currency mismatch was significantly reduced, mainly explained by the lower use of liabilities in dollars and greater use of derivatives and from mid-2012 to date, the mismatch indicator has even presented negative values (Fig. 3 - liabilities in dollars lower than the sum of assets in dollars and foreign exchange derivatives). In addition, less than 10 percent of the assets of the corporate sector correspond to companies with exchange rate mismatches greater than 10 percent, a situation which contrasts with the situation at the beginning of the century. Overall, it seems that after 2002 companies responded actively to manage their obligations in foreign currency. These results facilitate the explanation of the reasons why, since the adoption of exchange rate flexibility in 1999, the Chilean economy has experienced several periods of significant depreciation of the peso, as in 2008, 2013, and 2015, without any significant problems in the corporate sector with debt denominated in dollars as occurred in the 1982 crisis.

iii) Sources of Funds – Can Parents save me?

Finally, as described the rise in foreign currency external debt is almost evenly distributed between increases of the issuances of external bonds and debt in the form of FDI, which corresponds to debt from subsidiaries to their external parent companies.

From a balance of payments perspective and according to Avdjiev (2014), debt

or lending between affiliated companies is considered Foreign Direct Investment and is treated as a debt instrument in the Financial Account, representing a capital inflow to the economy (Avdjiev, 2014). From an operative point of view, the parent company needs to have 10 percent or greater ownership on a subsidiary to be considered FDI (Avdjiev et al., 2018).

It is plausible to believe that risks associated with debt within the same corporate structure are less evident than with external debt holders due to their nature; thus, the contagion to the financial system is less clear. First, it is less likely that, in the event of an idiosyncratic shock to a subsidiary, the parent will claim the debt in the same way as other financial institutions or investors. Loans from banks are often framed under a contract with an agreed payment plan subject to legal claims, in the same way as when the company issues external bonds. As the nature of the capital structure allocation implies a decision which will maximize returns for the firm, the FDI to the subsidiary from the parent company is ontologically closer to being treated as equity rather than debt (IMF, 2018c). Second, the nature of a sudden reversal of capital flows is different from the one in the financial system. FDI investment in companies is usually transformed in CAPEX, which implies a long-term asset for the subsidiary. Thus, in order to withdraw its assets, a liquidation would be needed, which has a different temporality. Finally, financial corporations have different balance sheet structures than non-financial firms; being more leveraged due to particular characteristics of the industry, their debt-to-equity ratios are higher. Still, although the risks are different by the nature of non-financial firms, there is evidence that vulnerabilities are still present. Avdjiev et al. (2018) studied the relation of gross capital flows with a cross-country data set and

found that an increase in global market risk (VIX) is associated with a decrease in capital inflows in the corporate sector, using the mentioned FDI classification. This implies that a global shock which increases volatility, such as rises in interest rates or metal prices, can indeed affect inflows from parents to subsidiaries, that at the same time can affect subsidiary firms and the rest of the economy. Examples of crises where parent companies have systematically withdrawn capital from their subsidiaries are harder to find, as this is a relatively new phenomenon, although the Mexican 1982 debt crisis might provide an example for the banking sector (see Alvarez, 2015).

Again, 21.0 percentage points of foreign debt of Chilean non-financial companies correspond to FDI (parent-subsidiary liabilities). We also see about 5.4 points of the GDP which does not correspond to either classification, raising uncertainty about its nature; thus, the information available to analyze the level of exposure of this part of the debt is not complete. (Fernandez & Vasquez, 2018). Using data from InvestChile, we see that 42 percent of the FDI debt is associated with subsidiaries in the mining sector. As their revenues are mostly in dollars, any external debt in this currency does not increase the country's vulnerability to exchange rate shocks as it would if it were associated with sectors whose income is in pesos. It is also not concentrated in a single country; three-quarters of the FDI is concentrated in the USA, Canada, Japan, Italy, and Spain. Therefore, the counterparty risk is well diversified.

Since the parent-subsidiary relationship is concentrated in non-financial corporations, the Chilean case has several advantages which can mitigate potential risks. First, a large part of FDI was used to buy physical assets. Yet again, if the parent company decides to withdraw part of

the invested capital, the liquidation of the assets will take time due to its long-term nature, being less prone to sudden changes in investor sentiment. Second, mining companies operate with lower levels of leverage than banks, making them relatively more solvent. Finally, FDI is diversified by country, which reduces the risk of systemic failures by idiosyncratic shocks.

According to the IMF (2018c), the surge in FDI-related debt in Chile is in part explained by loan transfers from foreign-based parent companies, which is partly due to a tax advantage of foreign investment, via debt rather than equity. This explains why non-financial corporates have used more this type of loans from parent companies to finance investments. The fact that this debt is associated with large parent companies allows the subsidiaries to have the financial support that can eventually help them in temporary episodes of illiquidity.

However, additional information to determine precisely the risks of the debt incurred by non-issuers is needed to do a comprehensive risk assessment. FDI associated with the mining sector also generates challenges. Parent companies could eventually withstand temporary copper price drops, but a permanent shock of commodity prices to both parent and subsidiary can have significant consequences in their ability to repay their debt obligations.

3. POLICY ALTERNATIVES

As described, risks seem to be moderately controlled in terms of debt maturity and currency mismatch. Still, risks related to debt from subsidiaries to parent companies cannot be ruled out; information available is limited, while an important part of the debt is concentrated in the mining sector. Even though these companies operate

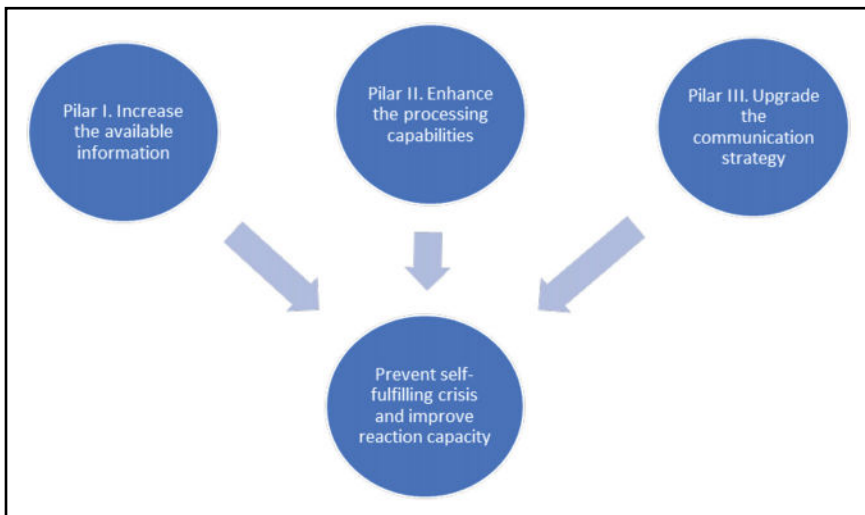
mostly in sectors where the business reference currency is the dollar, this debt could be considered potentially exposed to sudden fluctuations in commodity prices. In addition, part of the required data to analyze this issue is of limited availability, while there is uncertainty of what is included in the roughly 5.4 percentage points of GDP in foreign debt other than FDI from the “other companies” classification.

Most financial crises are unanticipated, where government authorities are biased towards thinking that “this time is different” with respect to previous systemic events (Reinhart, 2010). Bernanke (2018) discusses the bias economists and policy-makers had during the last global financial crisis, not only failing to anticipate it, but also underestimated its impact, which had important consequences in the subsequent policymaking.

We see several topics that might be of concern from the current institutional framework to respond to a financial crisis, which includes as main actors the Central Bank of Chile, the Financial Markets Commission, and the Financial Stability Council. First,

the availability of information might not be enough to fully understand this issue. As described, there is a significant part of the external debt where there is limited data to analyze the degree of exposure to sudden shocks. In particular, this refers to non-issuer corporations. This component increases the contingent liability likelihood of the non-financial corporate debt. FDI debt comes mainly from the mining sector, which is more vulnerable to real shocks and which affects both parents and subsidiary companies (InvestChile, 2019). Second, most of the consensus reached among public institutions comes from the analysis made by the Central Bank. Recognizing its technical capacity and overall credibility, there is no check-and-balance of their opinion, which might be a problem when assessing such complex matters (Bernanke, 2018). Finally, we see there is a communication gap between what government authorities and financial market experts view as the amount of risk this situation brings to the country. These three topics are interrelated and increase the chances that, even in the case the risks of high levels of non-financial

FIGURE 4 – POLICY PROPOSAL



corporate debt are mitigated, it ends up being a self-fulfilling crisis. Thus, the following proposal will mainly focus on improving the response mechanism to prevent a potential crisis, reducing the risks in the case of a systemic event, and not on decreasing the levels of non-financial corporate debt.

A holistic reform package is proposed which aims to i) increase the understanding of the existing external debt, ii) enhance the information processing capabilities of the state, and iii) improve the communication of the current situation with the different national and international stakeholders, all to be implemented in different government institutions. We divided the package of reforms into three pillars:

i) Pillar 1: Gather more and better information

In order to have information that allows a better understanding of the external corporate debt, an alternative is to standardize the financial information required by the Financial Markets Commissions to the subsidiaries of the mining sector, which are the primary recipients of FDI. In this case, it could be possible to leverage from the attributions that the Mining Law already gave to the Commission. Although most mining companies do not issue bonds or shares in the local market and therefore do not report to them, the Mining law (Law 20,026 and Law 20,469) already requires mining companies to publish audited financial states once a year and not audited, every month. The problem is that there is no required format to present this information, which results in it not being standardized, and therefore not being used. Standardizing this information would allow for a better understanding of an essential part of the Chilean external debt, a part which until now has had little information.

ii) Pillar 2: Enhance the processing capabilities

Second, the Financial Market Commission is an integral part of the country's financial institutions and one of the participants of the Financial Stability Commission. With the aim of improving the monitoring of corporate debt and the ability to respond to adverse scenarios, strengthening its Research Department would be required. In particular, the proposal is to create a division that will be responsible for i) the development of research activities related to the industries under supervision, ii) the diagnosis and proposal of conceptual solutions concerning the financial information reported by their audits, and iii) function as an inter-institutional and international contact for the CMF. Taking advantage of the merge of the SBIF as part of the CMF, strengthening the division of studies will provide the regulator with better capabilities. It will give the CMF greater capacity to process the information it generates, be better prepared for its participation in the CEF—and higher capacities in the event of having to cooperate to avoid episodes of financial market tension.

iii) Pillar 3: Upgrade the communication strategy

Finally, although it is essential to have the appropriate information and to increase the capabilities to monitor the external debt, it is just as important to communicate the results of the analysis in a timely manner. To achieve this, the Ministry of Finance, which leads the CEF, could develop a communication strategy regarding external indebtedness and financial stability. In particular, it is proposed that the presence of permanent staff in the Ministry be implemented, whose function would comprise of maintaining relations with credit rating agencies, economic consulting firms, and

the research department of major banks. This staff would function as a point of contact with international institutions and would help solve existing doubts regarding the increase in external debt and clarify the situation of financial stability. In short, we are proposing a more active and constant role of the Ministry regarding the communication and relationship with international institutions.

4. CONCLUSIONS AND RECOMMENDATIONS

As Kenneth Rogoff wrote in a recent article, “Crisis management cannot be run on autopilot . . . The good news is that key central banks still, by and large, have excellent staff and leadership. The bad news is that crisis management involves the entire government, not just the monetary authority.”⁵ After analyzing the Chilean case, we believe that this does not only apply to crisis management, but also to its prevention.

Regulating the financial system is difficult, particularly in an uncertain global and national environment. More stringent regulations may also hurt economic activity and usually entail costs, while their benefits may only be evident when a crisis is near. Therefore, it is not easy to design a financial structure which prevents all types of crises. In this policy paper, though we know these measures do not completely eliminate the risks associated with corporate indebtedness, we have argued why they move Chile in the right direction. In fact, since it’s difficult to be fully prepared for unanticipated shocks until they happen, it is important to continuously monitor and evaluate if the existing preventing measures are adequate.

ENDNOTES

- 1 This is a summary of the work: Tudela & Valente. 2019. Private debt, public problem? non-financial corporate debt in Chile. Second Year Policy Analysis. Harvard Kennedy School.⁵ <https://www.theguardian.com/business/2019/feb/05/financial-crisis-us-uk-crash>
- 2 Marcela Gómez, “Chile will have the largest fiscal deficit in the last 30 years in 2020,” Pauta, 2 December 2019, <https://www.pauta.cl/economia/en-2020-chile-tendra-el-mayor-deficit-fiscal-de-los-ultimos-30-anos>
- 3 According to the IMF (2018c), most of these bonds have a fixed exchange rate, with an average maturity of five years.
- 4 It is necessary to consider several aspects to make an adequate evaluation of firm’s exchange rate exposition, such as its operating currency. Data is available for several them which issue debt in public markets, allowing us to evaluate the exposure degree to sudden currency shocks.

MUNICIPAL INSTITUTIONAL CAPACITY ASSESSMENT (MICA)

A DIAGNOSTIC TOOLKIT TO ENABLE SUSTAINABLE DEVELOPMENT
AT THE MUNICIPAL LEVEL INFORMS PROJECT PREPARATION

ANA AGUILERA, JESSICA GRISANTI & NANCY LOZANO

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REDUCING the gap between citizens and the level of government responsible for service provision will lead to greater efficiency in the use of resources.¹ Yet cities around the world are facing increasing and more complex demands and are often ill equipped to respond to them. As cities rapidly grow and local governments take on a more protag- onistic role, it is essential to define their competencies and strengthen their insti- tutional capacities to balance scope with capacity. A first step in this direction is to understand where the institutional gaps are and to chart a way forward.

The World Bank has been working together with countries in Latin America in the designing, piloting, and scaling

up of a Municipal Institutional Capacity Assessment (MICA) toolkit. This toolkit allows municipalities and national govern- ments to identify capacity gaps, design tai- lor-made capacity building programs, and strengthen institutional capacity.

The goal of MICA is to gather informa- tion that can help build systems and incen- tives to encourage local governments to improve their administrations for the bene- fit of citizens, rewarding municipalities that are implementing good practices in various areas such as results-oriented planning, financial management, coordination with other agents and levels of government, and citizen attention, among others.

	Module	Why?
	Human Capital: questions related to the organization structure of the Municipality, and administrative and operational capacity.	A well administrative and operational structure allows municipality to function and avoid duplicity of roles. Also, continuing training motivates municipal staff and promotes skill development. ²
	Planning: questions related to the ability of the Municipality to develop, update and implement municipal Plans such as Local Economic Development, Disaster Risk Management and Investment Plans.	Strategic planning supports local government and realizes its long-term vision by setting up goals and objectives in a systematic, incremental manner. ³
	Municipal Finances and public investment: question related to the ability of the Municipality to keep up to date their municipal finances including detailed information on revenues and debt.	It is essential that municipalities have up to date and clean finances. Municipalities need to gain a better understanding of their financial position and identify the key bottlenecks in their financial systems in order to ensure delivery of basic services and to provide infrastructure and wellbeing to its citizens. ⁴
	Public services provision: question related to the provision of public services such as water, electricity, and solid waste management.	If the municipality does not act alone within its territory, it is essential to identify who is responsible for what at the city level. This understanding will help (1) assess to what extent the municipality is prepared to provide public services and (2) identify existing needs and gaps in the current structure. ⁵
	Governance: questions related to municipal participatory mechanism, citizens engagement tools and publication of information and feedback.	Strong governance contributes to enhanced transparency, participation, and accountability in the decision-making process over what and how priorities should be financed, shedding light on the use of public funds in the municipal space. ⁶

WHAT IS CAPACITY AND HOW WE ASSESS IT?

Capacity is broadly defined as the ability

of an organization to fulfill its goals, and more specifically as an understanding of the variables that impact organizational performance (Honadle 1981; Eisinger 2002;

Ingraham, Joyce et al. 2003; Christensen and Gazley 2008). For this purpose, we define local capacity as “the ability to fulfill all responsibilities as a local entity.” This definition allows the assessment of the different dimensions of municipal responsibilities that are often displayed in the municipal code or law, but also includes other responsibilities that local governments are performing but are not bound to do so.

In order to assess local capacity, the team designed a questionnaire that draws best practices in the region, including work in Argentina, Colombia, Guatemala, El Salvador, and Paraguay, and was recently strengthened by using the World Bank’s Competitive Cities Framework. Currently, the institutional questionnaire has the following modules:

WHAT’S IN THE TOOLKIT?

The MICA toolkit includes examples of questionnaire designs, data collection methodologies and approaches, terms of reference examples, and Excel sample templates and results that are comparable to

other countries for international benchmarking. Case studies of MICA applications in the region are described below. The tool has been used to provide technical assistance, strengthening the knowledge base on municipal performance, and informing project preparation.

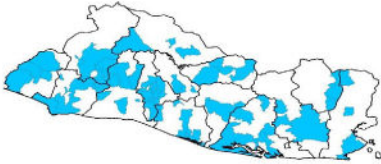
By using a systematic, comparable methodology to measure institutional capacity at the municipal level, this toolkit can help inform national programs and financial operations, as well as advance research and analytical work to implement municipal resilience more effectively in data-constrained developing countries.

EXAMPLES OF MICA IN THE REGION

MICA El Salvador

Supported by the Japan-World Bank Program for Mainstreaming DRM in Developing Countries, this tool recently allowed World Bank teams in El Salvador to rigorously measure local institutional capacity on four areas: disaster risk management

MICA in El Salvador: A local capacity baseline to inform project preparation

Pilot of 3 municipalities and a representative sample of 61 municipalities.	
	<p>Municipalities in the sample have on average 200 municipal staff; the largest municipality is Santa Ana with 1246 employers, and the smallest is Lislique municipality with only 13 employers. In 3 large municipalities, including San Salvador, the number of employers is unknown.</p> <p>9 Municipalities of the sample, mostly low capacity, did not have available their data and breakdown of municipal income data for 2018</p>
<p>66.7% of high capacity municipalities does not have a Participatory Strategic Plan (PEP)</p>	<p>More than half of the head of management units are men</p>
<p>Only 1 in 3 municipalities has a DRM plan</p>	



Out of the 77% that does not have their municipal finance up to date, more than 50% of these municipalities are low capacity

Top 5 challenges in Municipal Finances	% at the national level
% of municipalities that don't have a timeline/scheduled for the elaboration and approval of the budget	92%
% of municipalities that don't have their municipal finances up to date	77%
% of municipalities that don't have an external audit	67%
% of municipalities that don't have annual auditing of their financial balances	61%
% of municipalities that don't have any agreement with the bank system for the tax collection payment	58%



There is diversity in the citizen participation mechanism used by Municipalities in El Salvador.

Neighborhood and sector consultation are the preferred methods for large municipalities and local development committees are the mechanism used in small municipalities.

73% of municipalities do not have mechanisms for receiving complaints or demands of citizens.

42% of municipalities do not keep track of the agreements reached and the next steps in those citizen participation mechanisms.

(DRM), municipal finances, investment management, and citizen engagement. Using a statistically representative sample of municipalities and a census of all municipal associations, this instrument provided new evidence that helped inform the design of an infrastructure investment project in the country. The assessment of local capacities helped define the annual and incremental goals to be achieved by each municipality (calibrated by their institutional capacity level) to receive rewards funded by the El Salvador Local Economic Resilience lending project, the first results-based municipal program in the country. The results also informed the prioritization of technical assistance activities in areas of critical weaknesses. For instance, the

assessment showed that only 1 in 3 municipalities use a DRM Plan and that only 56 percent have a designated staff in charge of DRM. Technical assistance efforts will be focused on addressing these gaps during implementation. The interactive tool MICA in El Salvador has been well received by the Ministry of Finance, the Ministry of Local Development, the former technical secretariat of the presidency, and mayors across the country.

MICA Argentina

In partnership with the Ministry of Interior, the team design structured the institutional questionnaire in five modules: 1) budget and financial management, 2) planning and municipal management,

3) human resources, 4) economic development, and 5) public services provision. The questions in each module were designed to have qualitative and, in some cases, quantitative data around the four pillars of the Competitive Cities Framework: innovations and regulations; infrastructure and land; skills and innovation; and enterprise support and finance. The implementation of the questionnaire was administered to all municipalities in the province of Salta in partnership with the Municipality of Salta and the Provincial University of Public Administration of Salta. As a result of this work, the Ministry decided to expand this effort to the rest of the country, focusing on municipalities with over 20,000 individuals. Read more on this in the team's blog (Spanish).

MICA Paraguay

In partnership with the National Technical Secretariat of the Presidency for Social and Economic Development (STP), World Bank teams conducted an institutional capacity assessment of municipalities in the country. This work helped inform the preparation of the Improved Services and Territorial Development Report and the national territorial development strategy.

MICA Guatemala

Supported by GFDRR, World Bank's urban and DRM teams worked together to assess institutional capacities to manage disaster risk management and land-use planning at the municipal level. The assessment was conducted through digital surveys in collaboration with the National Technical Secretariat of Planning (SEGEPLAN) and the Municipal Development Institute (INFOM) as a complement to their Municipal Ranking.

ENDNOTES

- 1 Catherine Farvacque-Vitkovic and Mihaly Kopanyi, *Better Cities, Better World: A Handbook on Local Governments Self-Assessments* (Washington, DC: World Bank, 2019). doi:10.1596/978-1-4648-1336-8.
- 2 Ibid.
- 3 Augustin Maria et al., eds, *Central America Urbanization Review: Making Cities Work for Central America* (Washington, DC: World Bank, 2017). doi:10.1596/978-1-4648-0985-9.
- 4 Catherine Farvacque-Vitkovic and Mihaly Kopanyi, *Better Cities, Better World: A Handbook on Local Governments Self-Assessments* (Washington, DC: World Bank, 2019). doi:10.1596/978-1-4648-1336-8.
- 5 "Competitive Cities for Jobs and Growth: What, Who, and How," World Bank Group, 2015, <https://openknowledge.worldbank.org/handle/10986/23227>
- 6 Catherine Farvacque-Vitkovic and Mihaly Kopanyi, *Better Cities, Better World: A Handbook on Local Governments Self-Assessments* (Washington, DC: World Bank, 2019). doi:10.1596/978-1-4648-1336-8.

AN ATTEMPT TO UNDERSTAND ARGENTINA'S GROWTH PARADOX

LUCAS BERTINATTO, ARMANDO FLORES,
URIEL KEJSEFMAN & MARIANO SOSA

ABSTRACT

After an impressive start at the beginning of the twentieth century, Argentina experienced a reversal. In the last few decades, the country experienced three major crises, spent 40 percent of its time in recession, and had its status changed from developed to developing. Three key factors help to explain this poor performance: taxation, labor regulation, and macroeconomic volatility. Argentina's crises have had an exorbitant human cost that led the country to a culture of high social demands. These high social demands help to explain the prevalence of these key factors; in particular, the systematic fiscal deficit, the increase in taxation to finance it, and the increase in labor regulations to mitigate the effects of the crises. It also helps to explain the polarization in the country and the strengthening of unions.

INTRODUCTION

Much of Argentina's achievements can seem like remnants of a glorious past. Argentina had an impressive growth performance in its early history; at its peak in

1918, it was the fourth wealthiest country in the world in income per capita, above most of Europe, richer than France and Germany, and almost twice as prosperous as Spain. Indeed, the French phrase "*riche comme un Argentin*" ("rich as an Argentine") was coined at the time to describe the incredible wealth of the country. Since then, and despite its enormous wealth both in human and natural resources, the country has become the only case study of a country that managed to devolve from developed status in the early twentieth century to its current level of developing (according to IMF and UN classification)—a phenomenon known as the "Argentine paradox." In the last half century, the country experienced three major crises, spent 40 percent of that time in recession, and had its status changed from developed to developing.

GROWTH DIAGNOSTIC ANALYSIS

Hausmann, Rodrik, and Velasco (2008)* published a unified framework for analyzing and formulating growth strategies, named Growth Diagnostic. The framework pretends to be both operational and

based on economic reasoning. The key step of the framework is to develop a better understanding of how some key factors that limit economic activity—called binding constraints—differ from setting to setting. Different factors were studied for Argentina including education, human capital, physical capital, taxation, labor regulation, public goods, access to finance, and poor macroeconomic performance. Among them, three were identified as key factors in explaining Argentina's low economic performance: taxation, labor regulation, and macroeconomic volatility. All of these factors are directly or indirectly related to government failures. At the very least, they raise an important flag that also gives some promise to the idea that these constraints can not only be understood, but addressed collectively.

We identify at the core of the macroeconomic malaise a persistent vicious cycle. Each cycle and crisis reinforce some structural features of the economy and make the country predisposed to facing new crises in the future. The country consistently spends beyond its means: for almost every year of the last 150 years, Argentina has had a fiscal deficit. Given the country's low private savings rate and original sin—a term that refers to a situation wherein a country is unable to borrow abroad in their domestic currency—the country only managed to finance the deficit with foreign debt or seigniorage. The chronic fiscal deficits have cornered the monetary authority in a difficult place regarding the exchange rate. If deficits were financed through external debt, large inflows of dollars would introduce nominal appreciation tensions. If deficits were monetized, then the pressure would go to inflation, which would also be accompanied by a real appreciation. This real appreciation was followed each time in the last 30 years by a sudden stop, which is a

shock characterized by a sudden slowdown in private capital inflows, and a corresponding sharp reversal in current account deficits into smaller deficits or small surpluses. The sudden stops could be sparked by an understanding that the debt had become unsustainable or a negative shock, in a country where the financial account cannot be used to finance the cycle given its procyclical behavior (capital leaves the country after a negative shock). These sudden stops would lead to defaults (as in 2001 and 2019) or hyperinflation (1989), both feeding into the initial original sin as the country finds it harder and harder to borrow abroad in their domestic currency. The dynamics of the real exchange rate expected in this kind of cycle help to explain the poor performance of the country's exports, in particular the drastic reduction in the number of exporting firms and a general reduction in firms' export orientation across most sectors, measured by the ratio between exports and the total value of production.

Taxation is another key factor that explains the poor economic performance. It is the constraint most fervently signaled by firms. When asked directly, firms point to the country's taxation as the chief obstacle to growth, a rate three times the region's average according to the last World Bank Enterprise surveys. This claim is supported by the data: Argentina has too many taxes, many of which are highly distortionary given the incentives they generate (such as *ingresos brutos* or export taxes) and some the highest level of profit capture in the region. There is also evidence that Argentina loses excessive amounts of revenue from tax base erosion, profit shifting, and evasion, all of which undermine the country's fiscal standing.

Finally, tight labor regulations are also constraining growth. Argentine firms point to labor regulations as the second

key obstacle to growth; larger firms, often the most productive, especially report this problem. Indeed, not only are labor tax contributions, minimum salaries, and redundancy costs remarkably high in Argentina, the labor market is also highly inflexible. This tightness has clear effects on growth and employment: the country has the second lowest participation and employment rates in the region and high levels of informality, especially at the minimum wage level.

SYNDROME

Argentina's crises have experienced an exorbitant human cost. During the crisis of 2001 (also called Argentina's Great Depression), the economy shrank by 28 percent, moving half the population below the poverty line and a quarter to extreme poverty; social unrest followed, which included riots, the fall of the government (technically four governments with four presidents which were overturned in quick succession), and a 300 percent devaluation of currency, which wiped out people's income and savings. The famous chant of those years "*que se vayan todos*" (may all the politicians go away) reflects the degree of disappointment and exhaustion. This crisis, while deeper than others, was in no way radically different. The 80s ended with hyperinflation; at present poverty is around 35 percent and inflation is above 50 percent. The point is simply to illustrate just how dire the day to day life of average Argentines is during these crises, far more analogous to the Great Depression of the 1930s than the Great Recession of 2008. And indeed these high human costs, we suggest, may have had a far more dramatic cultural effect that helps explain the historical and economic trajectory of Argentina.

These crises have cemented a

psychological, political, and policy equilibrium of high social demands. By this we mean that the public has expected the government to provide services in a manner consistent with a concern for future crises and income volatility. This includes the securing of entitlements such as free education up to university, free health services, expansive unemployment insurances, and rigid labor protections. Crises and a history of high inflation may have also led Argentines to mistrust the peso, choose to spend most of their money, and save in foreign currency and abroad. Overall, we suggest that the psychological and political consequences of macroeconomic instability may be behind the Argentine growth trajectory.

The high political cost of crises and its unequal social burden may have exacerbated social polarization and through it the collapse of labor-capital cooperation. When crises arise, there is a natural political incentive to assign blame, especially as empirically these have always affected the most socioeconomically vulnerable with much more intensity. Crises' recurrence in Argentina has led to exacerbated social polarization. The politics of us-vs.-them, especially in terms of class struggles, has been a consistent feature of the country's politics for half a century. This may be relevant to the cycle in many ways. First, it is possible that it may lead to the belief that a few at the top are exploiting a majority at the bottom and thus are the ones "to pay," i.e., get highly taxed. There is evidence that Argentines are the least likely to consider themselves "upper class" in Latin America, despite possessing some of the highest average incomes in the region, which supports the idea that Argentines may carry negative cultural associations with income and wealth. Now, if these preferences actualized in political mandates,

one could begin to understand a source for high taxation. Second, it may lead to zero-sum politics where capital and labor think of themselves as fighting for a fixed pie; labor unions would be less likely to compromise for competitive salaries, rising labor costs and rigidities, disincentivizing private investment and employment, and ultimately leading to lower participation and employment rates (i.e, the labor market constraints). All of these trends are indeed observed in Argentina.

CONCLUSION

Overcoming Argentina's growth paradox would require a compromise from different social actors and from different actors of the political arena. To overcome the constraints associated with taxation, labor regulation and the macroeconomic volatility, not only the government would need to collectively address the different issues already mentioned, but the opposition and social actors like unions, the citizenship and firms would need to support the government in this crusade.

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MEXICO: THE COSTS OF VIOLENCE

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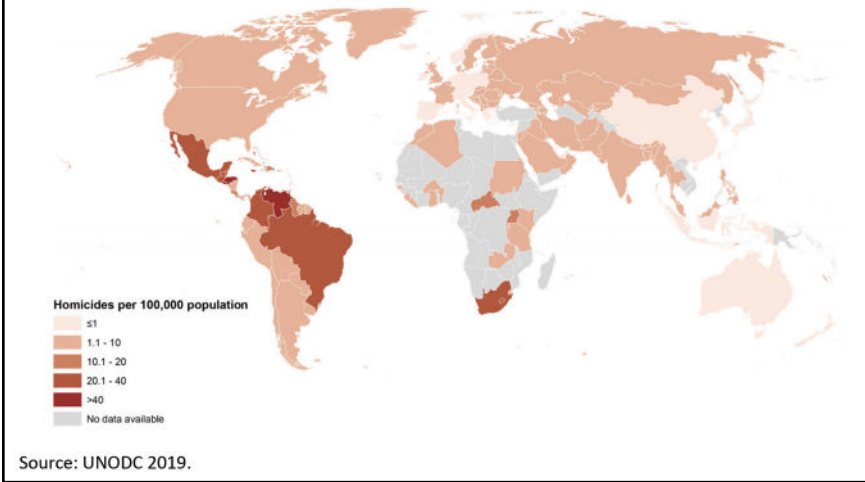


FIGURES, official numbers, new data released. Even before statistics are published, we know violence feels soaring, closer. Yet we measure, and then publish an amendment to past figures because we fell short. Even individual governmental agencies differ on their count. Are we ever going to be able to tell what is the real extent of violence in our countries? As an economist I feel some comfort from being able to measure a problem I want to address, understand, and hopefully solve. Many people are working hard to actually make this happen, and while our current measures are insufficient,

we will keep trying to improve precision.

There are some other questions that are even less straightforward to answer. For instance, how does violence affect people's lives? From a comprehensive perspective, what are the costs of violence? Violence causes not only physical and emotional damage, but also creates a social and economic burden on communities. There is no final consensus on how to measure its costs, but most estimates consider the direct economic effects of violence, such as productivity loss and changes in consumption. Beyond these standard measures, however,

Figure 1. Homicide rate, by country or area (2017 or latest available between 2013 and 2016)



communities and societies feel the effects of violence through loss of social cohesion and education outcomes.

WHERE ARE WE?

Crime rates have decreased globally in the last thirty years. However, the story has been different at the regional level: in Africa, Latin America, and the Caribbean (LAC), violence has increased. LAC remains the most violent region on the globe such that the World Health Organization (WHO) has considered that crime and violence in the region are at epidemic levels.¹ With a homicide rate reaching 17 homicides per 100,000 inhabitants in 2017, LAC accounts for 37 percent of the world's homicides, despite being home to only 9 percent of the world's population.² Figure 1 shows Mexico among the 20-40 annual killings per 100,000 population tier in 2017, in line with national statistics³ which registered 30 homicides in 2017, 33 homicides in 2018, and an increasing trend for 2019.⁴

HOW DID WE GET HERE?

In Mexico, drug trafficking has played a

preponderant role in the upward trend of violence levels. During the period 2006-2017, homicides attributed to organized crime confrontations accounted for 20-50 percent of the total homicides.^{5,6}

Conflicts related to drug trafficking remained relatively contained during the 1980s, began to increase in the 1990s, and have grown even more in the new century. The relative stability during the eighties is attributed in part to the political conditions of that time: the Institutional Revolutionary Party (PRI) had dominated the electoral arena since 1930 and the absence of political competition facilitated the consolidation of clientele relations between traffickers, police, and local rulers. In essence, these agreements allowed cartels to operate in certain regions with relative impunity.⁷

The entry of political competitors in the local elections of 1993 altered the balance,⁸ encouraging territorial expansion and conflict between cartels.⁹ In the first decade of 2000 there were two inflection points that increased national violence figures. The first occurred in 2001 when "El Chapo" Guzmán, the leader of the Sinaloa cartel escaped from prison and tried to appropriate new

routes of passage for illegal activities. The second event was the military campaign of President Felipe Calderón in the 2006 War on Drugs, leading to an estimated 50,000 homicides related to organized crime occurring during the period 2006-2011.¹⁰

More recent assessments show that violence continues to escalate. The two administrations after Calderón tried different strategies against organized crime violence without clear success. The current policy is focused in four areas described by president Obrador as “attention to young people; using intelligence rather than force; strengthening the National Guard, and not allowing corruption in security corporations.”¹¹

All of the above serve to emphasize that Mexico suffers among the highest levels of violence related to drug trafficking.

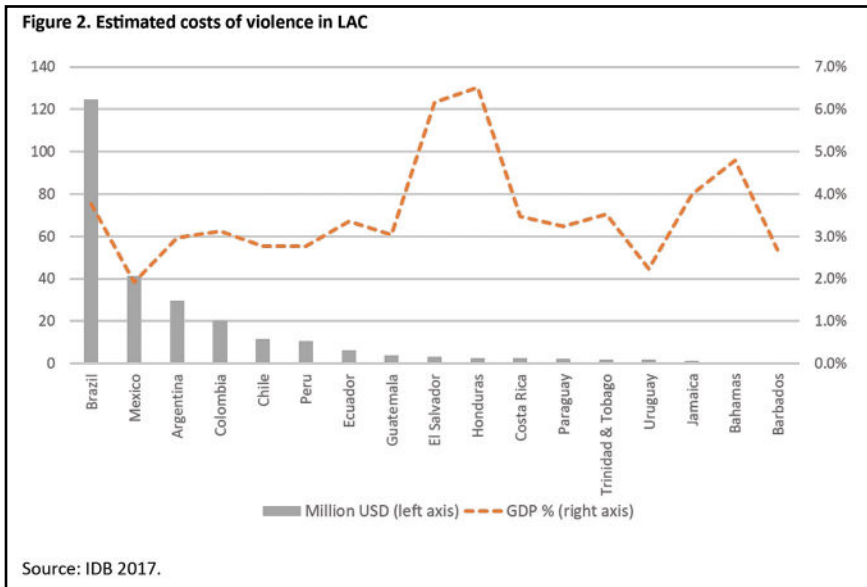
HOW BAD DO THE COSTS OF VIOLENCE HIT MEXICO?

The costs of these high crime rates are significant: people change their behavior for safety reasons, households spend resources

to protect themselves from crime, firms reduce their investments and incur productivity losses, and governments shift the allocation of resources. The threat to the economic activity and the quality of life of individuals who have seen their personal security and certainty in the possession of property deteriorate are just some examples of barriers to development that follow the increase in crime.¹²

The accounting strategy—or method of losses and expenses—is the most common estimate of the costs of crime on welfare. It intends to compare the scenario with crime vs the scenario without crime. The specific dimensions considered in each study using the aforementioned method vary widely. Yet, the most recent Inter-American Development Bank (IDB) reports¹³ include three categories:

- Social costs: include the costs of victims in terms of loss of quality of life by homicides and other violent crimes; it also includes losses accounted for the non-generated income of the prison population.





- Private costs: includes the costs of security services, incurred by both firms and households in crime prevention.
- Government costs: includes public spending in the judicial system, the provision of police services, and the administration of prisons.

After analyzing 17 LAC countries, IDB found that Mexico had the second highest nominal cost among its peers in 2014 at 41.3 million USD, which represented 1.9 percent of the Mexican GDP in the same year. In contrast, Honduras had the most significant incidence in terms of GDP, while in real terms it became tenth. As shown in Figure 2, the impact varies between LAC countries, yet reflects the reality of the region.

The Institute of Economics and Peace used a different methodology that also accounts for private and government costs, but breaks down into direct costs, indirect costs, and a multiplier effect. According to such methodology, the economic impact of violence in Mexico in 2017 rose to 21 percent of the national GDP, equivalent to 249 billion USD.¹⁴

These estimates represent only two examples of multiple possible impact measures. Both had been used by their respective sources to monitor Mexico's performance over time with internal consistency. In my opinion, their biggest contribution is exactly the systematic measurement of the issue at hand, for comparability purposes among countries or time.

In sum, the economic impact of violence is such that it causes significant losses as a result of property damage, changes in investment and consumption, and the diversion of resources to protective measures. Yet the technical approaches to estimate its incidence are contested and will continue to be in need of improvement. Mexico and other LAC countries face a

major challenge to fight the disruptive forces that cause violence and impose high costs to society as a whole.

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NOCTURNAL HERITAGE

AWAKENING THE HISTORIC QUARTER OF VALPARAÍSO

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INTRODUCTION

Due to their special features—history, density, centrality, culture—historic centers are urban areas with great economic and social potential. In the past, historic centers were not only the places where economic, social, political, religious, and cultural activities took place, but also the residence of the majority of the population. Victims of urban expansion, these urban areas have gradually lost their residents and become run down or underutilized.

Out of 142 world heritage sites in Latin America, one third are historic quarters and urban centers.¹ Since the 1980s, the deterioration of these areas has sparked processes of intervention and calls for innovations in local management and governance.² Drawing from the results of a qualitative study conducted in 2019, the following article will illustrate the advantages of a new approach to managing historic urban areas. The article will focus on the current situation and historic quarter of Valparaíso, a city whose legacy as the first and most important merchant port of the Pacific coast of South America earned it a designation as a world heritage site, but whose

decline over the past decade has made its struggle to stay relevant.

NOCTURNAL HERITAGE: PROTECTING A CITY'S NOCTURNAL VALUE

In the words of former mayor of Bogotá Antanas Mockus, a city is not only made of *hardware*, or infrastructure, but also of *software*, or culture. Part of the success of the consecutive administrations of Enrique Peñalosa (1998-2001) and Antanas Mockus (2001-2003) was the complementary proposals: while Peñalosa prioritized the hardware—such as through the expansion of its bus rapid transit system (TransMilenio) and the construction of miles of bicycle lanes throughout the city—Mockus spearheaded a series of citizen culture campaigns to improve mobility, tolerance, safety, and quality of life. Today, this terminology of *hardware* and *software* has become part of the jargon of urbanists in the region when referring to the components of an urban development strategy. A third component refers to the group of actors responsible for planning, financing, and managing urban areas: the system of *urban governance*.

The notion of urban software refers not only to a city's cultural traditions, but also to local attitudes and practices that are based on memory. Citizens form clear mental maps of the city they live in, and negative memories—such as a fight in the street or a story about a theft—are enough to deter them from returning to a particular area.³ At night, urban heritage acquires all kinds of meanings and interpretations, and new actors become involved in the way it is managed and used. A city's nighttime establishments, such as bars, restaurants, and clubs, form an important part of its cultural history and constitute its “nocturnal heritage.”

When we think about heritage, probably the last thing that comes to mind is a red-light district. Cities like Amsterdam, Antwerp, Shanghai, and Hong Kong have special neighborhoods that cluster prostitution and sex-oriented business such as strip clubs, sex shops, and adult theaters. While these cities were prominent trade centers back in the fourteenth and fifteenth centuries, brothels and dancing halls flourished in these districts as sites of leisure and entertainment for sailors. Today, these areas have evolved into more sanitized entertainment districts that preserve the history of their maritime past. For instance, Amsterdam's red-light district (RLD)—known locally as “De Wallen”—is the oldest part of the city, one with a legacy as one of the largest harbors in the world. In the 1960s, Amsterdam's harbor was moved to the western part of the city, and De Wallen entered a period of decline. However, a set of policies that included city marketing, tourism, branding, and public-private partnerships have spurred the transformation and revitalization of the area over the past two decades. Today, De Wallen has become an emblem of Amsterdam as a “left-wing city” in relation to drug use, prostitution, and

LGBTQ+ rights.⁴ Due to the area's unique atmosphere and concentration of amenities, it is perceived as an international “free zone”⁵ and has become an important part of Amsterdam's nocturnal heritage.

The urban night has traditionally been a highly regulated space where restrictive policies such as curfews and drinking bans are enforced to “strike the right balance” between a flourishing and diverse nighttime economy and growing residential populations. Strict regulations and controls often give way to the emergence of homogeneous nightlife districts that combine shops, restaurants, and bars where locals and tourists can interact amid a safe, but sterile, nocturnal landscape. High rents and restrictive nightlife policies, among other factors, are linked to the disappearance of traditional venues such as pubs or public houses in London. A recent survey revealed that 54 percent of those who visit London go to a pub during their stay, highlighting the great value of these spaces and their tight connection to local culture.⁶ Public houses are traditional meeting spaces where people of all ages and socioeconomic backgrounds gather to share celebrations, sports, and historic events.⁷ However, between 2001 and 2016, the city lost 25 percent of these establishments, a huge toll on its nocturnal heritage.

Aside from their cultural value, nightlife venues make important tangible contributions to cities. For instance, New York estimates that its 25,000 night-time establishments generate almost 300,000 jobs a year and contribute \$697 million in local tax revenue.⁸ A concept that has encouraged cities to quantify the value of their nocturnal heritage is that of the “nighttime economy,” which refers to “the assemblage of bars, clubs, cinemas, theaters and cultural festivals and events which are, in a context of urban entrepreneurialism, supposed to

contribute to urban regeneration and economic growth.⁹ In practical terms, most cities define their nighttime economy as everything that occurs between 6:00 p.m. and 6:00 a.m. This concept has its origins in the 1990s, when a group of European scholars adopted a temporal approach to urban planning and realized that urban centers present a series of features—high density, walkability, mixed uses, and good access to public transport networks—that facilitate life at night.

However, as urban density increases so too does sensitivity to the impacts of entertainment, particularly after dark. In a recent book titled “Soft City,” Gehl Architects partner and creative director David Sim explains that there are two seemingly contradictory sides of humanity: the need for individuality, and the need for sociability.¹⁰ The traditional strategy that urban planners have used to minimize nuisance and urban conflict is the separation of uses and activities; for instance, separating residential uses from business and entertainment. Under this premise, many cities have chosen to create specialized nightlife districts or to locate entertainment services inside of shopping malls. This separation is not only problematic from a transportation point of view—forcing revelers and night shift workers to rely on the car to reach these destinations—but also encourages largely homogenous and artificial nightlife areas that are disconnected from the city’s cultural identity. In line with Sim’s thesis, potentially conflicting activities such as working, partying, and sleeping can be brought together, rather than segregated, in urban areas. Furthermore, greater proximity between these activities reduces commuting times and costs—both economic and environmental—and results in better quality of life.

THE DECLINE OF THE JEWEL OF THE PACIFIC

Situated only 120 kilometers (75 miles) from Santiago, Valparaíso was a major merchant port on the Pacific coast of South America in the 1800s and a popular stop for travelers on their way to the California Gold Rush. But the golden years of Valparaíso came to an end with the opening of the Panama Canal in 1914, an event that marked the beginning of a slowdown in the city’s development and its transition from a port city to a smaller tourist destination.

Two events made 2003 an important year for Valparaíso. In May, the Chilean Senate officially recognized the city as the country’s Cultural Capital,¹¹ and a few months later, UNESCO designated its historic district as a World Heritage Site. Once known as the “Jewel of the Pacific,” Valparaíso was considered a testimony to early phases of globalization and an “excellent example of late 19th-century urban and architectural development in Latin America.”¹² With a natural amphitheater setting that inspired many artists and poets like Pablo Neruda, the city’s early industrial infrastructures and monumental architecture wonderfully inhabits its challenging topography of steep hills accessible through stairways and its distinctive funicular elevators.

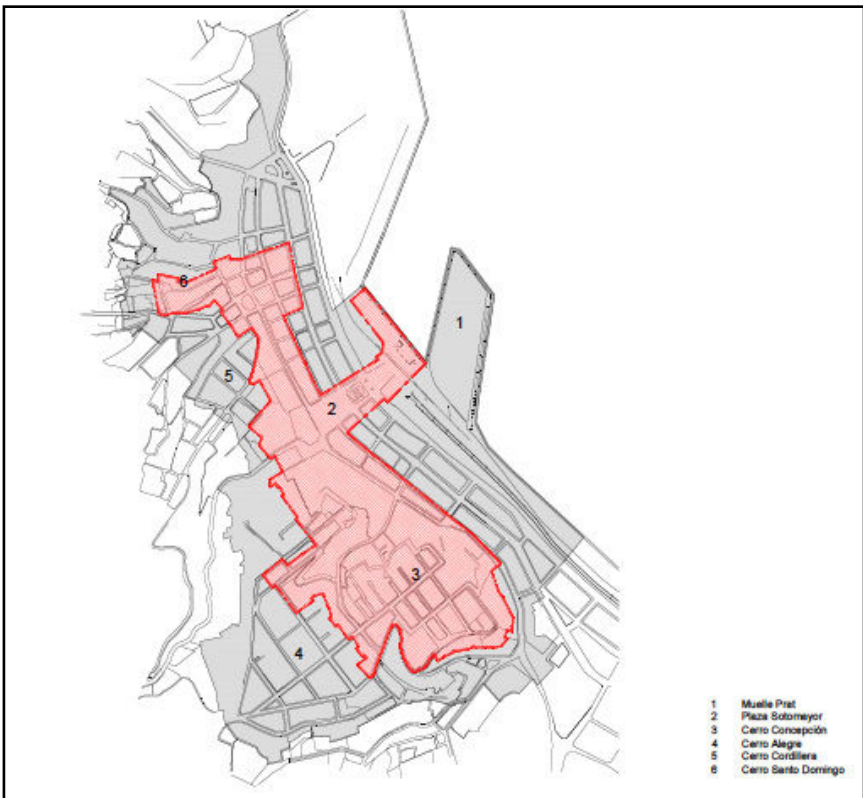
This designation was initially seen as an opportunity to develop the city and to strengthen its image as a cultural and tourism destination around the world. Representatives of Valparaíso’s hospitality industry affirm that UNESCO’s recognition brought along a temporary boost to the local economy. However, it could not stop the slowdown and decline that was already underway due to the expansion of air travel, the automation of the port, and the rise of other tourist destinations such

as neighboring Viña del Mar. Today, both Valparaíso's streets and many of its monuments are covered in graffiti, while informal vendors and stray dogs occupy sidewalks and public spaces throughout the day. One of the areas most affected by this decline was the city's seaport district or Barrio Puerto, which has lost most of its residents and becomes a ghost town after dark.

In June 2019 I embarked on a qualitative study and characterization of the city's night scene as part of a technical cooperation between a multi-agency group of local and regional representatives led by the

Municipality of Valparaíso and the Inter-American Development Bank (IDB). The study consisted of a series of focus groups and interviews with public officials, members of local organizations, residents, and representatives of the nightlife and hospitality sectors in order to identify the challenges of reactivating Valparaíso's historic quarter at night. Based on this information and through the use of GIS mapping software, this study produced recommendations and identified opportunities to transform this area into a platform to build a renewed urban identity based not only on

LIMITS OF THE HISTORIC QUARTER OF VALPARAÍSO, DESIGNATED AS A WORLD HERITAGE SITE IN 2003



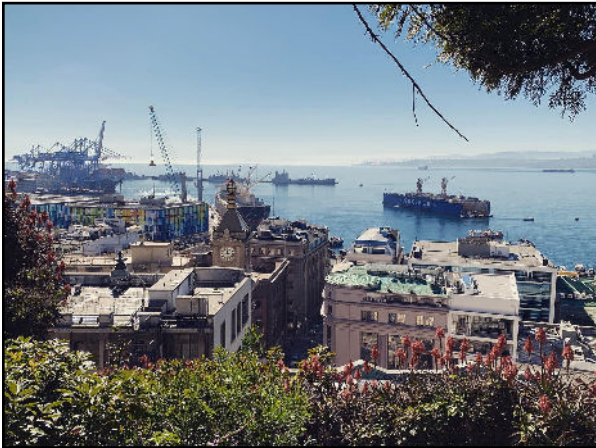
Source: UNESCO

local tradition, but also on current needs. The following section will outline some of the insights gained from this study.

MAPPING VALPARAÍSO'S HISTORIC QUARTER AT NIGHT

Valparaíso's historic quarter was the center of its economic and political activity in the nineteenth century. While UNESCO's designation recognizes the city's legacy as a port, Valparaíso has developed other identities over the years. The first of these identities is being a tourist city, with award-winning boutique hotels, urban art tours, and a

rich gastronomy that attract visitors from all over the world. The second is being the home of more than 40 higher education institutions and 60 thousand students from all over the country. Based on its vast musical tradition and its legacy as the birthplace of jazz and rock in Chile, Valparaíso's third and most recent identity is as a Creative City of Music, designated by UNESCO in October 2019. These three identities—tourism, higher education, and music—add to its long history as a port, but often contradict one another from a spatial perspective. An example of this contradiction lies in the city's weak connection to the water: the



Valparaíso during the day (top).



Valparaíso at night (bottom).

Photos: Andreina Seijas, 2019



**Nighttime gathering in one of the city's stairways (above).
Valparaíso's waterfront (below).**



Photos: Andreina Seijas, 2019

port occupies most of its seaboard, a major missed opportunity to develop a waterfront where tourism and cultural activities can flourish.

Another contradiction becomes evident at night. Due to the city's position as a tourist destination, most of its nightlife activities are fairly expensive for locals, particularly for students. As a result, young people gather in stairways and plazas to drink and socialize at night, making noise, urinating in public spaces, and disturbing neighbors wishing to sleep. This situation is also motivated by a low sense of belonging. Many young students who live in Valparaíso only stay in the city for a few years while completing their studies, which furthers social disconnection and a lack of interest in preserving public spaces. While young people are often unaware of Valparaíso's heritage, they are more likely to be familiar with the city's music culture. In this sense, its recent designation as a Creative City of Music is an opportunity to build a stronger connection with younger generations.

In line with this recent designation, a key area of opportunity for Valparaíso to reactivate its historic district lies in its vast nocturnal heritage. Like Amsterdam, Valparaíso once had a prominent red-light district that covered a large sector of the city and its current Barrio Puerto. A few bars and taverns from that era still exist today: Bar Liberty, established in 1897; Bar La Playa, established in 1908; and Bar Cinzano, established in 1896. On Thursday nights, locals meet to sing and dance cueca at Bar Liberty, one of the few places in Valparaíso where this traditional style of music is still present. A strategy to revitalize the area must preserve the legacy and cultural relevance of these establishments as a reminder of the city's golden era and a tribute to its nocturnal tradition.

One of the most promising projects in

the district is the city's Mercado Puerto. Almost ten years after closing its doors, the city's public market is expected to reopen and provide 50 stalls for local vendors and producers. If reopened, the market could be a catalyst to transform this area, not only by creating new jobs and attracting private investment, but also as a new tourist destination at the heart of the historic district. However, affordable housing options, along with improvements in safety and lighting, are necessary to bring this once bustling area back to life. By using georeferenced data, I was able to identify that while the city center feels like a ghost town, other sectors of the city have a saturation of nighttime activity or a high concentration of liquor licenses—some of them illegal—which creates many mobility, sound, and access issues. Therefore, a strategy to reactivate the city center at night could help redistribute nightlife in the city while preserving an area with an already high concentration of nocturnal heritage assets.

Heritage designations must be participatory and include residents, young and old, and from different income levels. A strategy for the regeneration of a city center as a culturally vibrant and open space must take into account citizens' changing needs and desires.¹³ Among other projects, the Municipality of Valparaíso is overseeing the restoration of a building located one block from the market to create affordable housing for the residents of the Barrio Puerto. These improvements in the area's hardware are essential to ensure that its revitalization adds value not only to the city's tourists, but also to its current residents—particularly the youngest ones.

CONCLUSION

Almost two decades after Valparaíso was recognized as a world heritage site, its

designation could be in danger. Already in decline, the city has been gravely affected by the wave of countrywide protests that began in October 2019. Along with Santiago and Concepción, Valparaíso is one of the three cities most affected by the demonstrations. Protesters have vandalized many of the stores in the city center and set several buildings on fire, including the headquarters of *El Mercurio*, the country's oldest newspaper. This situation has also taken a toll on the city's tourism industry and the engine of its local economy. For Chilean architect and heritage expert Paz Undurraga, "tourism can no longer be seen as an economic transaction but as a process of cultural exchange."¹⁴ As we explored in this article, the reasons that led to the city's designation by UNESCO are largely disconnected from its current reality and the needs of its citizens, and this gap becomes even more evident after dark.

In 2017, following the lead of Amsterdam and more than 40 other cities around the world that have appointed "night mayors" and nocturnal governance structures,¹⁵ mayor Jorge Sharp designated a "nocturnal delegate" responsible for promoting collaboration among residents and the nightlife industry, and reactivating the city's night scene in a safe and productive way. Though the nocturnal delegate role no longer exists in Valparaíso, it finally placed the night in its agenda, recognizing its rich nightlife history and the need to reactivate its historic quarter after dark.

The night has long been an overlooked part of the day, particularly in urban studies. By gathering new data and analyzing the situation of the city under a new light, this study hopes to provide an innovative platform that could help bridge Valparaíso's many identities and encourage the city to develop a more robust governance approach that speaks to the current reality

of the "Jewel of the Pacific." Though a nocturnal approach to heritage preservation will not be able to solve all the issues and needs—both in hardware and software—that the city is currently facing, it could provide a new model of socialization and collaboration between public and private actors that leads to a more inclusive vision for Valparaíso not only during the night, but also during the day.

This article is part of a study and upcoming chapter in a publication on World Heritage Sites in Latin America produced as part of a collaboration with the Inter-American Development Bank.

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AN UNEXPLORED NEXUS

THE CENTRAL AMERICAN MIGRATION CRISIS, CLIMATE CHANGE, AND GREEN THEORY

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WHEN reading literature on the migration crisis at the United States-Mexico border, most scholars seek to explain the migration patterns they see by identifying economic, political, or social disturbances as root causes. While these factors do exist, these scholars fail to also investigate the effects of climate change on migration. With expected rises in both migration and climate change, this paper offers Green Theory as a necessary tool to deciphering the nexus between migration and climate change and argues the importance of including the environment in policy-making considerations.

In recent days, United States media has been populated with news surrounding the US-Mexico border crisis. As a result, it has become common knowledge that Central American refugee families have been seeking asylum in the United States for fear of persecution and violence in their home countries, among other causes. Refugees often leave a tumultuous home in the hope of a better tomorrow, one in which they can support themselves and keep their families safe. While there is an abundance of literature identifying these factors as causes of migration and displacement, it can be argued that other factors are still

missing. What most migration scholars fail to include is the impact of climate change on the realm of their study. Scholars of realism or liberalism do not explore climate change's role in the US-Mexico border refugee crisis between Central America and the United States. With the acceleration of climate change and lack of widespread solutions to subdue its effects, it is more important than ever to consider "the environment" as a high-priority factor. While I agree that social, political, and economic events can heavily influence one's decision to migrate, I argue that Green Theory offers a richer explanation of this migration crisis than other International Relations theories. Rather than ignoring different elements, Green Theory recognizes, adds to, and builds upon understanding the social, economic, and political culture of a society. As we look towards the future, Green Theory also offers insight into what will become the largest issue our generation will face. Arguably, this theory will become one of the most significant—if not the most—in understanding migratory patterns, how climate change impacts these patterns, and how it exacerbates social and political upheaval as other root causes of migration.

According to the US Global Change

Research Program, climate change is defined as “the changes in average weather conditions that persist over multiple decades or longer.”¹ These changes include the increase and decrease in temperature, shifts in precipitation, and the changing severity of weather events such as tornadoes, hurricanes, and other factors embedded into the climate system. Potential causes of these changes in the environment include, but are not limited to, the increased use of fossil fuels and expulsion of carbon dioxide, black carbon, methane, etc. While it is hopeful to believe that these shifts cause minimal damage, the thought is foolish. There is a large and growing body of literature on the effects of climate change on the environment. Rising sea levels could drown island and smaller nation territories.² Significant changes in temperature could harm wildlife.³ What is not often discussed in the literature, however, is climate change’s impact on migration. What about agricultural-based populations like Central America that depend on constant temperatures to provide food and money? If they can’t produce crops because of impacts of climate change, where will Central American families turn to for help, refuge, and resources?

Before moving forward with this essay, it is important to define terminology, since within the literature certain terms are often used incorrectly. According to the United Nations High Commissioner for Refugees (UNHCR), a refugee is “someone who has been forced to flee [their] country because of persecution, war or violence,”⁴ Unfortunately, this definition does not include the effects of climate change as reason that could cause someone to flee their country. What is also unfortunate is that currently those who leave their homes because of the impacts of climate change are not recognized in the international sphere as refugees. For obvious reasons,

this has caused and could continue to cause problems along international borders like the US-Mexico border. To ease this uncertainty, should these families be classified as “climate refugees?” Advocates for this term Lea Merone and Peter Tait write that “It is difficult to argue that these people should remain in their country of origin if the land is no longer life-sustaining.”⁵ They encourage literature to stop referring to these fleeing individuals as migrants because that suggests they left voluntarily and can return home. For those displaced by the effects of climate change, return is not likely because environmental damage is typically permanent. Therefore, they argue that these displaced individuals should be referred to as “climate refugees.” For these reasons, persons displaced by climate change will now be referred to as climate refugees throughout the rest of this paper.

Literature on the intersection of migration and climate change is relatively new and highly contested. It is therefore important to identify, discuss, and make known the limitations of attempting to craft a relationship between these two concepts. In “Exploring the Climate, Change, Migration and Conflict Nexus,” Kate Burrows and Patrick L. Kinney write that exploring the link between climate change and migration can be challenging for two reasons. First, predicting climate variability can be difficult because of the nature of climate change.⁶ Climate change is long-term. Therefore such long-term changes cannot be documented or tracked. Nonetheless, because of the growing need to create and implement solutions today, scholars use short-term data on climate variability and climate change to make assumptions and links about climate change and its effect on migration and migratory patterns. Second, it is hard to create a proven pathway between climate change and migration because it is also difficult to accurately



project information about overall population growth and movements.⁷ Due to these two challenges, it can be difficult to predict climate change's full impact on an entire population and their movements. Nonetheless, literature pushes back against these limitations and argues that it is still important to highlight the nexus between climate change and migration because, if the issue is ignored, humans may lose the chance to reverse effects. Burrows and Kinney claim that "By 2020, 50 million to 1 billion people may be displaced by climate change" and that there will be approximately 50 million people at risk of 1m sea level rise.⁸ These statistics point to the reality that climate change will have some

sort of impact that will cause migration. Therefore, even if a pathway has not been fully proven yet between climate change and migration, the issue certainly deserves attention. If ignored, we run the risk of disregarding those who will potentially be displaced by the effects of climate change and the potential side-effects of this migration.

At its most basic, Green Theory argues for the inclusion of ecological thinking in all International Relations proceedings, combating the risks associated with ignoring the effects of climate change. According to a report written by the Center for American Progress entitled "Climate Change, Migration and Conflict in the Amazon and the Andes," rural populations in Latin

America are “overwhelmingly dependent on small-hold, rain-fed agriculture—some 90 percent of Latin America’s agriculture is reliant on precipitation.”⁹ Fellow climate change and migration scholars Patrice K. Nicholas and Suellen Breakey report that agriculture is a large area of employment and sustainability for Central American families.¹⁰ With sporadic shifts in temperatures and levels of precipitation, it can become hard for workers to produce crops. *Wisconsin NPR* journalist Jonathan Blitzer traveled to the western highlands of Guatemala in Climentoro to document these shifts. He reported late rains, an increase in humidity which lead to growth of new pests that destroy crops, and spikes and drops in temperatures.¹¹ Unfortunately, all of these irregularities caused economic loss. It is important to note that these crops were not just grown to be sold but were also means of subsistence. Families live off of their crops. Therefore, if they cannot grow these crops, they are forced to migrate to an area where they can. Blitzer argues that at this ecological point, whether or not to migrate is becoming less of a choice. When asked whether they would migrate, Central Americans responded saying they had already made the decision to and were now exploring methods.¹² These impacts of climate change, coupled alongside economic loss, forced families to leave home, providing further argument that Green Theory offers the best explanation of the current climate refugee crisis from Central America to the U.S.

Speaking towards social loss, social capital is a great indicator of social productivity. In *Disasters and Social Capital: Exploring the Impact of Hurricane Katrina on Gulf Coast Counties*, Wang et al. write that roughly 1,833 individuals lost their lives and approximately 1 million were displaced because of Hurricane Katrina.¹³ While Wang et al. start

their article by offering an epidemiological profile of Hurricane Katrina, their main goal is to discuss Katrina’s impact on an implicit aspect of life: social capital. Social capital refers to the structural components that encourage the creation of informal (e.g., family and friends) and formal (e.g., non-profit organizations) networks that support collaboration between groups.¹⁴ Results showed that social capital did decline after Katrina and that its annual growth increments also decreased after the hurricane in 182 counties in Alabama, Louisiana and Mississippi.¹⁵ Before the hurricane, social capital increased by 6.65 units per year.¹⁶ After the hurricane, the average social capital declined by 3.03 units and then increased by only 2.4 units per year, much slower than the average annual growth rate before Katrina.¹⁷ After the hurricane, this decline in social capital stumped county growth, affected the sense of community, and led to the displacement of people. In regions like Central America, where communities rely on informal and formal networks to carry out agriculture, a loss of those same networks could lend itself to a loss of agriculture production and migration. If people cannot find social capital within the areas they live, they will be forced to leave and rebuild in areas like the US. Considering that climate change can affect the severity of natural disaster events like hurricanes and tornadoes, one can expect either the same effects or worse on social capital in places like Central America today which could lead to an increase in migration. The impact of climate change coupled with the loss of social capital forced families to leave during Katrina and could do the same for Central American climate refugees traveling to the US. Once again, this provides further argument that Green Theory best describes the current climate refugee crisis.

Green Theory argues for the inclusion

of ecological thinking in all International Relations policies and future political proceedings. What is special about the theory is that its scholars write about how they see its incorporation in the real world. Green Theory scholar Garrett Hardin is a perfect example of that. In his article entitled “The Global Commons and Global Governance,” Hardin argues that society should remove the notion of the “invisible hand” from existing vocabulary. Popularized by Adam Smith’s *The Wealth of Nations*, the invisible hand was “the idea that an individual who ‘intends only his own gain,’ is, as it were, ‘led by an invisible hand to promote . . . the public interest.’”¹⁸ Hardin argues that it was this “invisible hand” that led to our current state of ecological decay. He offers numerous examples of times when people pursuing individual interests led to public harm. These moments, known as “tragedies of commons”, include overpopulation and pollution. While literature suggests that it can be hard to track the effects of climate change, Hardin’s application of the theory offers tangible examples that could be linked to reasons why people migrate to another country. With this, Green Theory offers an alternative yet crucial diagnosis on the migration crisis at the US-Mexico border.

Near the end of his article, Hardin also argues that individuals need to begin taking more responsibility for their impact on the environment, arguing for a reevaluation of personal interests and freedoms. If Hardin were to examine the current migration crisis from Central America to the U.S. Southern border, he would label it as a “tragedy of commons” and then argue that the crisis began because individuals did not take responsibility for their actions. Fundamentally, climate change and its continued growth are direct results of people’s apathy. Examples of such apathy include

the burning of fossil fuels for gas in cars or for the generation of electricity in homes. In *Climate Change, No-Harm Principle, and Moral Responsibility of Individual Emitters*, scholar Simo Kyllönen writes, “emitters whose emissions increase climate change and cause serious harm related to this, have a *pro tanto* duty to . . . repair or compensate for the harm inflicted.”¹⁹ He argues that individual actions such as burning fossil fuels do not advance the common interests of society. Rather, these actions harm society and reinforce the “tragedy of commons”. He argues that people must be aware of their actions and help to fix the mistakes of their individualistic actions. Alongside Hardin, Kyllönen would argue that this crisis exists because individuals refused to take control of their own actions leading to the effects of climate change we see today. Recognizing this, both scholars would then suggest that now, more than ever, is the time for individuals to take responsibility for their past actions and help repair our broken world. While other theories might offer tangible steps forward, Green Theory works to point out exactly who the burden of change should fall on: the individual. With this added value to our analysis, it becomes clear that Green Theory offers a richer explanation of the US-Mexico border crisis than any other theory could.

Another prominent Green Theory scholar, David G. Victor, wrote a paper entitled “The Climate Threat We Can Beat” alongside Charles F. Kennel and Veerabhadran Ramanathan. Victor et al. argue that we have been incorrectly approaching climate change by solely targeting carbon dioxide. While carbon dioxide is the largest contributor to global warming, there are less visible gases that can and should be targeted such as black carbon, methane, and lower atmosphere ozone. Whereas carbon dioxide can exist and remain in an

atmosphere for centuries, these other pollutants “have life spans of just a few weeks to a decade,” making it much easier to eliminate these gases in the hopes of reducing global warming.²⁰ Incorporating a more ecological lens, the authors were able to identify alternative ways to examine and reduce global warming. Similarly, we have been able to identify climate change, previously unexplored, as an alternative cause of the current migration crisis thanks to Green Theory. First introduced as an alternative analytical tool, Green Theory helped fill a void in a world that failed to properly address issues through an ecological lens. Up until Green Theory’s inception, other major theories such as realism and liberalism ignored the ecological impact of their decisions. Observing the climate refugee crisis between Central America and the US through a Green Theory lens allowed for the best examination of this issue. Without this lens, it would have been nearly impossible to justify climate change as a factor that causes migration.

Although I argue that Green Theory offers the best insight into the current migration crisis from Central America to the U.S. Southern border, it would be remiss of me to not mention the aspects of livelihood the theory fails to address. Humanists are oftentimes Green Theory’s biggest critics. Humanists argue that “human beings are at their core, creative; they can initiate purposes, plans and projects.”²¹ They argue that it is humans who have the power to create and that their power and selfhood should be and are at the center of life and theory. This is not the same for Green Theory where the environment is the center. As a result, humanists scrutinize Green Theory for being too absorbed in the environment. However, Green Theory always responds by arguing that if the environment isn’t taken care of, there will be no room for humans

to survive, thereby calling into action once again the inclusion of the environment within policy.

Another critique of Green Theory stems from a common complaint that the theory is elitist. If an individual has three jobs and is making minimum wage, arguably they won’t care much about the effects of long-term climate change. To them, that future is too distant. What is most pressing to them is not how to save the environment, but rather where their next meal will come from. Arguably, those with a much larger income have the time and resources to work on addressing how their individual actions contribute to climate change and how to change these behaviors. Tailoring this critique to the US-Mexico border crisis, Hardin would argue that the collective should have done a better job at minding their actions. While true, this argument remains elitist. It ignores those who do not have the time or resources to worry about issues outside of themselves because of the immediate need to survive.

The Green Theory offers the best explanation for the climate refugee crisis between the US-Mexico border crisis. At its base, the theory encourages the implementation of more ecological thinking within International Relations. But beyond that, Green Theory also discusses the importance of a collective that should care about individual action and offers examinations of issues through a different lens. Of course, the theory has some faults, but it still offers a richer explanation of the climate refugee crisis than any other theory. Where older theories have repeatedly offered the same explanations and solutions on the migration crisis, Green Theory does the opposite. By examining the effects of climate change—shifts in temperature, drought, etc.—on agriculture production for families in Central America, the theory offers

new explanations for the migration crisis. It also offers clearer solutions for the crisis by emphasizing who the burden of change should fall on: the individual. With such benefits to using Green Theory, it is hard to argue that any other theory does a better job at explaining the climate refugee crisis. Moving forward, the need for continued research on the nexus of climate change and migration is imperative. With richer explanations and solutions provided by Green Theory, it becomes much easier to make a push for terms like “climate refugees” and policies that place the environment and those who depend on it—like the climate refugees in Central America—at the center.

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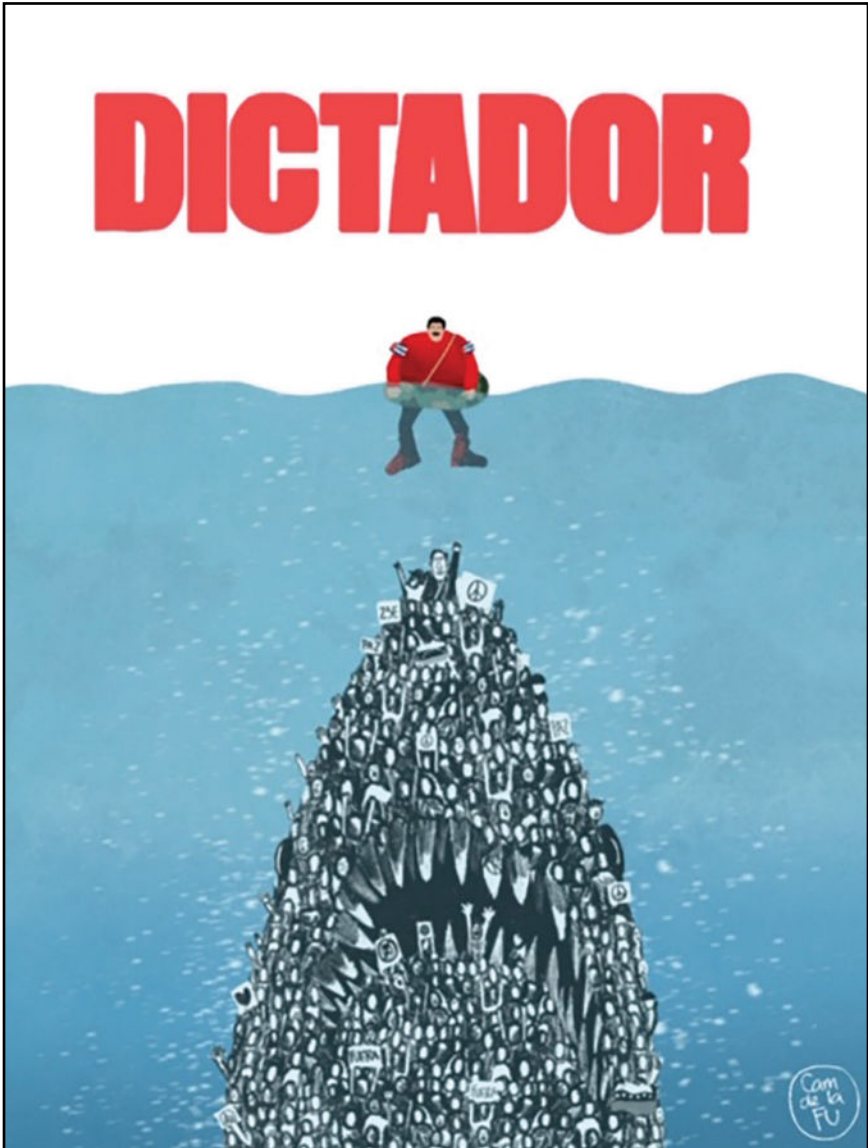
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