

## Week 5 Reflection

This week's readings revolved around macroeconomic and financial volatility in Latin America. I think this goes without saying that this topic is probably one of the most important and concerned topics in Latin America. In our modernist society it is a strong a economy and a healthy financial budget that has determined, or rather constitutes, which nations are developed and those who are not. A country rich in wise knowledge, diversity or art has little respect or credit in a world that has become dominated by capitalism under the pretence that a capitalist market will interest and encourage the masses to become part of both domestic and international markets with the chance of improving their way of life.

While unfortunate, this is the present reality. This then begs the question: who decided this reality, one that has evolved into a global one ? I ask this because after reading the articles by Hira and James (2004), Hira and Gilliard (2007), and De la Torre and Schmukler (2006) it seems that the key(s) for the failures of Latin American economies, as well as its cures, have evaded us for quite some time now. In their paper "Capital Market Development: Whither Latin America?" De la Torre and Schmukler (2006) suggested that the reason that capital markets in Latin America are underdeveloped is because reforms to capital market development did not take into account the intrinsic characteristics of emerging economies when creating reforms that were too give way to deep domestic capital markets through international financial integration. So in simple terms, once again those who recommended the reforms did so with little regard for state 'diversity'. This causes me to reflect back to an article by Lindauer and

Pritchett (2002) that insisted that economists must now come to the conclusion after almost 60 years of different economic models in Latin America that there are no more 'big ideas'. The article by Hira and Dean (2004) aimed to understand that brings about dollarization in Latin America and what they found was that dollarization does not come about but rather is embedded in the politics of this region. It is seen as a quick substitute for deeper institutional reforms in order to improve the economy in order to promote international investment and the domestic social instability. The third article was one by Hira and Gaillard (2007) that sought to understand the performance of Latin American economies during financial liberalization under neoliberal and current post-neoliberal economic policies. One concluding comment made by them was that while "financial liberalization enabled Latin American countries to get rid of some long-term plagues, particularly hyper-inflation, it also brought along its own problems, such as increased volatility in capital markets". This statement links back to the paper by De la Torre and Schmukler (2006) who aimed to explain why capital markets are underdeveloped in Latin America. Again, not to overuse a saying which we have heard many times but we have a 'chicken or the egg' scenario here.

Financial liberalization is suppose to give way to healthy capital market, but as our readings suggest there is more to the developmental path of financial liberalization to capital markets. For one thing, it would appear that it is not completely linear.

The lesson, or rather point, that seems to have emerged through these three articles is that impatience and improper reforms have been the Achilles heal of economic growth and development in Latin America. While there are many other important influential factors, such as corruption, on the poor status of the

economies in Latin America, the point here is that because of the pressures of the people living in poor standards for years as they have gone through structuralist, dependency and neoliberal influenced economic growth models governments in their attempts to quell social uprising as well as attempting to remain in power have made decisions that may have quelled the fire but does not put it out. Dollarization is a perfect example of this, as have been particular economic reforms that have conflicted with long term objectives. It then begs the question, how can this be fixed? On one side we have Latin American countries that are ramped with political and financial corruption, with poor social institutions and one of the largest income inequalities in the world; on the other side we have politicians who are attempting to deal with this with long term reforms that will unfortunately not create a better life now for its people, but over the long term it will. While this may seem like a good strategy to those sitting in their desks high up in a citadel, for those who are suffering now there is no tomorrow. If this isn't the 'real war' that human kind has to deal with, then its time we open our eyes.