

Supplement to Literature Review: Theoretical considerations related to Latin America, COVID-19 and Informal Markets¹

In this supplement, I go more in-depth on several more theoretical considerations related to the institutional aspects of the economic history of Latin America. Furthermore, I shortly discuss the dominant political theory, neoliberalism, which is of profound importance for the implementation of our proposed solutions and ideas in all tracks. In this context, I also give recommendations to have a higher chance of implementation of your solutions (i.e. focus economical value) and alternative measures to consider when determining the main issues of a country (i.e. Sustainable Development Goals, available for each country). Because of time-considerations on the users of this file, I only refer you to titles and to videos of the authors since the works are often long (i.e. books), theoretical and extensive.

A good starting-point into this discussion is the book “Why Nations Fail” by Acemoglu and Robinson (2012).² The main argument is that in countries that if countries colonized by Europeans were wealthy (e.g. mineral wealth and large population) in the 1500s, these Europeans implemented *extractive institutions*; think of unequal distribution of power, low to non-existent property rights, corrupt judicial system, etc. Latin America’s Inca- and Aztec-empires are prominent examples used by Acemoglu and Robinson (2012). If colonized countries were relatively poor (e.g. no mineral wealth or large population), then colonizers established *inclusive institutions*; think of voting-rights, good property rights and judicial system, etc. Prominent examples are Australia and Canada. Since the elite – both political and economic - aims to maintain its power, these institutions tend to remain in place over the centuries. Revolutions - and to a smaller extent disruptions, such as the current riots in the United States - could influence the future historical institutions.

The extent to which industrial systems – and thus growth – were after the Industrial Revolution adopted by a country was depended on the extent to which these countries had inclusive or exclusive institutions. Unfortunately, Latin America is thus a prime example of a country with more exclusive institutions, which helps to explain the prevalent issues with the public’s perception of distrust and corruption in Latin American government. This partly

¹ For further and more detailed information, please contact me at koen@rethinkingeconomics.nl.

² Because of time-considerations, I will only cite here a link to a video in which the author himself summarizes the book here in 5 minutes: <https://www.youtube.com/watch?v=2z5RAZlv2UQ>

explains why a portion of the population distrusts the information on the virus provided by the government and might be an useful consideration for Track H, “*Surfacing and Communicating the COVID-19 Truth*”.

Another important aspect of this decrease in governmental trust on a worldwide-level is the rise to dominance of the political ideology of neoliberalism in the 1980s. As Larner (2000) explains, neo-liberalism “denotes new forms of political-economic governance premised on the extension of market relationships” (Larner, 2000, p. 5). In other words, it means privatization (i.e. selling off of governmental assets from the public to the private sector) of assets. Foucault extends this definition in his influential lecture-series on “The Birth of Biopolitics” (Foucault, 2008). As Foucault explains, an important aspect of neoliberalism is the introduction of economic and market-concepts, and thus economic analyses, into governmental rational. In other words, it means that each governmental programme is assessed in terms of its benefits in the dominant economic models.

Factors that are less emphasized in the currently dominant economic models³ and thus less valued as governmental practices. The emphasis on self-interested behaviour has led to further erosion of social cohesion and both societal and political trust, which were already critically low in Latin America. An important aspect of this is how the abolishment of labour-market institutions (e.g. minimum-wages, unemployment-protection, regulation) has led to the erosion of social trust and cohesion. In a neoliberal perspective, these institutions disrupt the automatic functioning of the market and therefore should be abolished. However, as exemplified by the riots in the United States which have spread across the world, these institutions curb inequality and are therefore required for the smooth functioning of the market. This abolishment, in combination with technological change and globalization⁴, had

³ (Slightly technical discussion) Economic models must make assumptions for reality is too complex to assess directly. In the dominant school of economic thought, that of neoclassicism, it is assumed that people are perfectly rational (i.e. able to assess the full consequences of their actions and predict mathematically what these consequences will be) and markets are perfectly competitive (i.e. no seller has any kind of monopolistic power). This perspective is implicitly intertwined with neoliberalism and is used to assess governmental action - see for instance how it is used by powerful conservative (e.g. Heritage Foundation) and libertairan (e.g. Cato Institute) think-tanks in the United States. The reason for this is that it favours non-intervention - letting the markets do its work. Furthermore, these models have had a saddingly low level of accuracy for reasons of extrapolation from earlier data, use of normal distributions instead of more complex statistical math and models and a range of other biases (see also books of Silver, 2012; Taleb, 2007).

⁴ Contary to conventional wishdom, empirical research has demonstrated that technological change (in the form of the skill-wage premium) is the predominant driver of increased inequality, not globalization (see e.g. <https://www.imf.org/external/pubs/ft/sdn/2015/sdn1513.pdf>).

led to understandable anger amongst especially the low-income demography. However, the practical impossibility of stopping the factors which are increasing inequality worldwide (i.e. technological change and globalization) has meant that a political narrative has emerged which blames this rise in inequality on excessive government-spending, immigrations (esp. of minorities and decision-making at federal (i.e. top instead of local) level.

Two recommendations⁵ related to your proposed solution emerge from this. Firstly, since currently dominant economic models are focused on total economic growth (GDP) instead of factors as sustainability, inequality and gender-issues, consider using indexes as the Sustainable Development Goals (SDGs) of the United Nations (UN) to attain a detailed breakdown of the main structural issues related to your topic. Secondly, consider how the political narrative of neoclassical economics affects the practical implementation of your results; decreasing discrimination, gender-gaps, etc. are seen as less valid issues than ensuring a return to pre-COVID-19 growth-levels. Therefore, emphasizing economic value of your proposal increases chance of practical implementation. This may furthermore explain why governments choose to implement certain sets of solutions relative to others.

⁵ This concluding section is based on own observations and research and therefore harder to back-up using sources.