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FEATURED Q&A

Does Pent-Up Consumer Demand Affect Crime in the Region?

Q In a recent article in *América Economía*, Luis Rubio describes findings by Marcelo Bergman of the Center for Economic Research and Education in Mexico City, that suggest the sharp rise of crime and violence in several Latin American countries has resulted from a confluence of several key factors in the 1990s: the decentralization of political power, the demand for consumer goods from lower middle classes, the emergence of organized crime prepared to meet that demand and the appearance of China as a source of low-priced products. Do you agree that a pent-up demand for consumer goods by emerging middle classes is a key factor in the region's crime rate? How should policymakers that are seeking to expand the middle class in emerging economies interpret this research? If not Bergman's cited factors, what do you see as reasons behind the abhorrent bloodshed making headlines in some countries of Latin America, but not others?

A Maria Velez de Berliner, president of Latin Intelligence Corporation: "Blaming China and consumption by the lower middle class for the violence plaguing some Latin American countries is one more example of their policymakers' proclivity to blame their countries' conditions on exogenous actors. Whether by design, willful neglect or politicking, policymakers failed to open economic, political, social

and legal paths to the entrepreneurial drive, economic, social and political aspirations, risk taking, logistics ability and raw managerial capabilities that gave rise to and facilitated the expansion of the multi-billion dollar global industry created by trafficking entrepreneurs. Lacking legal alternatives, traffickers took the path of illegality and crime. When confronted by a state historically against them, traffickers resort to violence to keep, expand and consolidate their activities. Violence also has its roots in the history of corrupted and cor-

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Obama: Mexican Drug War Doesn't Compare to Colombia

Mexico's drug war does not compare to the height of Colombia's armed conflict, U.S. President Barack Obama said in comments published Thursday, backing away from remarks by secretary of State Hillary Clinton. See story on page 2.

File Photo: White House.

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NEWS BRIEFS

Honduras Deploys Soldiers for Anti-Crime Patrols

Honduras' government has dispatched soldiers to the streets of some violence-plagued cities to carry out anti-crime patrols, the Associated Press reported Thursday. The move comes after 18 people were fatally shot Tuesday at a shoe factory in San Pedro Sula. Police have identified two of the five assailants, but the suspects are in hiding and have not been arrested, Security Minister Oscar Álvarez told the AP.

Peru's Government Prioritizes Cuzco Gas Plant

The Peruvian government issued an emergency decree Thursday authorizing the necessary measures to construct a gas plant in the La Convención province, where the Camisea gas field is located, EFE reported. The Economy and Finance Ministry, the regional government and municipalities in La Convención will finance the \$25 million plant. The executive order comes after the July 27-Aug. 9 general strike, in which protesters demanded the federal government supply the region with gas extracts from Camisea.

Puerto Rico to Build Algae-Based Biofuel Plant

Puerto Rico's Electric Power Authority (AEE) and bio-fuel company **Bio Lípidos** plan to build a plant that will produce a fuel based on micro-algae, the executive director of AEE, Michael Cordero, said in a press conference Thursday, reported EFE. Cordero added that the operation will need a \$10 million investment and aims to produce 1.6 million gallons of vegetable oil during the first year.

Political News**Obama: Mexico's Drug War Doesn't Compare to Colombia**

U.S. President Barack Obama said Thursday that Mexico's fight against its increasingly ruthless drug cartels is not comparable to the height of Colombia's decades-long armed conflict, Reuters reported. "Mexico is a vast and progressive democracy, with a growing economy, and as a result you cannot compare what is happening in Mexico with what happened in Colombia 20 years ago," Obama told *La Opinión*, a Los Angeles-based Spanish-language newspaper. His comments were printed in Spanish. Obama's remarks were published a day after his secretary of state, Hillary Clinton, said that cartels present in Mexico and Central America were starting to look like an "insurgency." Mexico is "looking more and more like Colombia looked 20 years ago, where the narco-traffickers control certain parts of the country," Clinton said Wednesday to an audience at the Council on Foreign Relations in Washington. Mexico's war against cartels has claimed more than 28,000 lives since President Felipe Calderón took office in December 2006.



Clinton
File Photo: U.S. State Department.

Economic News**Insurers Have Paid \$640 Million in Chile Earthquake Claims**

As of Aug. 31, insurance companies have paid \$640 million in claims related to Chile's massive Feb. 27 earthquake, regulators said Thursday, EFE reported. Through the end of last month, insurers have received 190,199 claims related to homes damaged in the quake, according to Chile's Securities and Insurance Commission, or SVS. Insurers have reviewed about 98 percent of the claims

and paid 82 percent of them. "The SVS is especially focused on ensuring that the insured are informed of the status of their claims and on corresponding payments being made," said the commission's head, Fernando Coloma. The 8.8-magnitude earthquake killed approximately 500 people and displaced or injured 2 million

Insurers have received more than 190,000 claims as of the end of August.

people. It caused at least \$30 billion in damage. On Thursday, a 6.1-magnitude earthquake struck the same part of Chile that was rocked by the February earthquake, but there were no reports of injuries or damage. Thursday's temblor happened at 3:28 a.m. local time and was centered about 20 miles southwest of Concepción in the Biobío region, according to the U.S. Geological Survey.

Brazilian Central Bank Aims to Keep Interest Rates Steady

Interest rates in Brazil are at an appropriate level in order to keep inflation rates on target, according to the country's central bank, Bloomberg News reported. Policymakers at the bank said that the "more pessimistic" view about how high interest rates should be in order to keep a lid on inflation contradicts the economy's "fundamentals," said minutes of the bank's policy meeting last week. Annual inflation in Brazil, Latin America's largest economy, declined to an eight-month low of 4.49 percent in August, according to the government's statistics agency. In the minutes of the policy meeting, the bank said it expects inflation of about 4.5 percent—their target rate—for next year. Brazil's efforts to fight inflation are at an "advanced stage" after inflation remained in the targeted range of 2.5 percent and 6.5 percent during the last six years at the same time that interest rates fell, policymakers said in the minutes of last week's meeting. "Improvements in the structure of financial markets, a reduction in infla-

tion and exchange-rate risk premiums, among other factors, seem to have significantly reduced the neutral interest rate," said the minutes.

Consumer Prices in Mexico Increase Less Than Expected

Mexico's consumer prices increased less than economists expected in August as airline fares, beans and sugar saw price declines, Bloomberg News reported Thursday. Prices increased 0.28 percent last month as compared to July and 3.26 percent year-on-year in August, the cen-

tral bank announced. In a recent Bloomberg news survey, the median forecast of economists for the monthly increase was 0.31 percent and 3.70 percent for the annual increase. The increased rate of inflation in August followed four consecutive months of slowing inflation. In the second half of this year, the country's central bank is expecting an annual rate of inflation of between 4.75 and 5.25 percent. The bank expects inflation to slow to between 4.5 percent and 5 percent in the first quarter of next year. It expects a 2.75 percent rate of inflation by the end of next year.

Featured Q&A

Continued from page 1

ruptible officials and institutions that collude with traffickers under the averted eye of the middle and upper classes, which benefit from the traffickers' repatriated capital. The upper classes are not against trafficking per se. They are against the traffickers' violence when it threatens them directly. The time has come for policymakers to stop blaming others and accept responsibility for not delivering the basic goods and services the lower class needs: education relevant to the demands of globalized markets, dependable formal employment opportunities, venues for legal upward mobility, housing, healthcare and communal security, particularly for at-risk youth—the recruiting pool of the traffickers. Otherwise, trafficking organizations will continue to grow and violence will continue to erode what civil society exists in those countries."

A Nora Lustig, professor of Latin American economics at Tulane University and nonresident fellow at the Center for Global Development and the Inter-American Dialogue: "I don't find convincing the argument that pent-up demand for consumer goods by emerging middle classes is a key factor in the region's crime rate. Greater access to consumer durables in the 1990s by the lower middle classes was neither a cause nor a consequence of the rise in crime.

The 1990s were characterized by sweeping trade liberalization throughout Latin America. Lowering trade barriers meant that a wide range of consumer goods which were either not available before or were prohibitively expensive became

“Greater access to consumer durables in the 1990s by the lower middle classes was neither a cause nor a consequence of the rise in crime.”

—Nora Lustig

accessible to socioeconomic groups who previously could not afford them. It is primarily the expansion of legal trade that improved the access of Latin America's middle class to more sophisticated consumer goods, not contraband or theft. While trade liberalization in many countries caused labor displacements and unemployment, studies find that the welfare effect for the typical Latin American consumer (even for the poor) was positive and significant. Perhaps an interesting question to explore is whether trade liberalization facilitated not only legal trading networks but illegal ones, too."

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Company News

Calderón's Budget Falls Short of Pemex's Request

In the budget he sent to Mexico's Congress Wednesday, President Felipe Calderón proposed a record level of investment for state oil company Pemex, but the amount falls short of what Pemex has said it needs, Bloomberg news reported Thursday. Calderón's budget proposes 286 billion pesos (\$21.9 billion) in investments for Pemex, which is 8.7 percent more than the government allocated this year. However, Carlos Trevino, the company's chief financial officer, said in July that Pemex expected 300 billion



Calderón
File Photo: Mexican Government.

pesos for investments next year as it seeks to reverse slumping output. Calderón's budget estimates a decline in daily oil exports, from 1.29 million barrels this year to 1.15 million next year. Mexico's Finance Ministry has said it expects a decline in total oil output from this year's goal of 2.58 million barrels per day this year to 2.55 million barrels per day next year. "The ministry didn't change our request a great deal," Pemex board member Héctor Moreira told Bloomberg News in an interview. Pemex also wants to lower the amount of taxes it must pay and "all of that is up to Congress now," he said. Calderón's budget proposal calls for 420 billion pesos in total funding for Pemex, an increase from 376 billion this year. The figure includes operating and administrative costs. The lower house of Mexico's Congress is expected to vote on the measure by Nov. 15. The budget proposal assumes an average oil price of \$63 a barrel for next year, \$4 more than the budgeted price for this year. Overall, Calderón's budget calls for 3.35 trillion pesos in spending for next year, a 2.3 percent increase from this year, according to the Finance Ministry.

Featured Q&A*Continued from page 3*

A **Diana Villiers Negroponte, Nonresident Senior Fellow at the Brookings Institution:** "Bergman's provocative thesis may be appropriate to explain the rise in car thefts or the stealing of intellectual property and consumer goods in the 1990s in Brazil, Argentina, Guatemala and Mexico, but it fails to explain the rise in homicides, extortion and kidnapping today. Bergman does not dispute the relevance of causal factors, such as income inequality, dysfunctional families, proportion of youth, inadequate education and job skills, and easy access to illicit drugs and weapons. However, he seeks a broader explanation. Bergman examined a cluster of factors that coincided with high criminal behavior. He found the emergence of an incipient middle class which sought low cost clothing and electronics, many of which were made in China. Few of us disagree upon the emergence of a dynamic middle class in the 1990s. However, legitimate desire for consumer goods only leads to stealing if the state is unable to contain rapacious, illegal behavior. Bergman's second factor is the decentralization of power to state and local levels without the necessary

police training and judicial capacity to meet public security challenges. Democratization and decentralization was not accompanied by the strengthening of institutions necessary to ensure the rule of law. Instead, fear existed that strong law enforcement would lead to abusive behavior. It is the weakness of the state rather than greedy consumerism that lies at the core of our problems today. Middle class shop keepers and bus owners are increasingly subject to extortion. Criminal complaints are dismissed for lack of evidence. Police fail to pursue thorough investigations and preserve evidence. Prosecutors can no longer rely upon confessions, nor should they. Judges are threatened into making decisions that favor the powerful. The inability of the state to protect its citizens lies at the core of our problems. Bergman's thesis contains valid elements, but it is an insufficient explanation of violent crime today."

The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.

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