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Latin America Government & Economics Teacher Notes

**Government**

**Citizen Participation**

****World governments, and the roles citizens are permitted to play therein, can be classified as either autocratic systems or democratic systems. In an autocracy, all governing authority rests with a single leader. The citizens in an autocracy are not permitted any say in the decisions of their government. In contrast, democracies vest political power with their citizens. This power is exercised through voting.

Mexico and Brazil are examples of democracies in Latin America. Both nations hold elections at the local and national levels. Brazilians and Mexicans elect legislators to represent their interests and pass equitable laws, and there are many **political parties** to choose from in each nation. Both countries’ citizens also elect an executive leader (i.e., president) to enforce these laws and lead their respective nations. In Mexico, a president may serve one six-year term in office; in Brazil, the president may serve up to two four-year terms. Voting ages vary in each country. Voting is permitted for those 18 years of age and older in Mexico. In Brazil, voting is permitted as early as age 16; however, all Brazilians aged 18-70 are required to vote.

Cuba is an example of a Latin American autocracy.

Cubans aged 16 and older vote for legislators to represent them; however, the vote is essentially meaningless as all legislative representatives must be members of the Cuban Communist Party (PCC.) As such, there is no real diversity of political views or real representation of the people. Additionally, the nation’s president is not directly elected by the Cuban people, but rather appointed by the nation’s Communist party. Once in power, the Cuban president may stand for an unlimited number of terms in office.

The nation’s current president, Raúl Castro, was hand-picked by his brother, the infamous Fidel Castro. A Castro has ruled the island in some way, shape, or form since the 1959 Cuban Revolution.
\*\* Update: On April 19, 2018, Raul Castro stepped down from leadership. His replacement, Miguel Diaz-Canel, assumed office as the leader of the country.

**Parliamentary vs. Presidential Democracy**

Democracies may be classified as either **parliamentary** or **presidential**.

In a parliamentary democracy, the citizens elect members of the nation’s legislature (typically referred to as its **parliament**) to represent their interests and pass laws on their behalf. These legislators are then vested with the authority to elect the nation’s chief executive (typically called a **prime minister**.) This head of government is selected from among the members of the nation’s leading political party (i.e, those who won the most seats in parliament) Cuba’s government exercises a parliamentary system; however,

one would be wholly inaccurate to refer to Cuba as a parliamentary “democracy” since only members of the Communist party are permitted to run for political office.

In a presidential democracy, the citizens elect both the nation’s legislators and its chief executive (typically given the title **president**). Whereas the head of government in a parliamentary democracy is held accountable by his/her own political party, the head of government (and state) in a presidential democracy is directly accountable to the voters who put him/her in power. Mexico and Brazil both have presidential democracies.

**Economics**

**Compare/Contrast Economic Models**

Every country on Earth must be able to answer three basic economic questions: 1) What should the nation produce/provide? 2) How should the nation produce/provide this product/service? 3) For whom should the nation produce/provide this product/service? As such, countries must adopt (and adapt) various **economic systems** to answer these three questions.

There are three basic economic models (or systems):

- The **traditional** model is historically associated with small-scale economies. It is a system in which the decision of what to produce/provide, as well as how to distribute or consume it, is based on custom and habit. Economic roles tend to be static, which is to say inherited or generational (i.e., a family of carpenters will have children who grow up to be carpenters.) This model does not provide for large scale economic growth, and is frequently **subsistent** in nature. (**Bartering** is another feature characteristic of traditional economies.)

- The **command** model is one in which the government of a nation makes all the economic decisions. This includes government ownership of land and resources, as well as government control of major industries (i.e., transportation, energy, et al.) It can also include government assignment of jobs, **wage** controls, and requisite **production quotas**. Command economies tend to stifle **entrepreneurship** and **free enterprise** in an effort to maintain economic stability.

- The **market** (or **capitalist**) model places economic decisions in the hands of the people. The law of supply and demand dictate what goods/services are produced/provided, at what price, etc. This model encourages entrepreneurship, but can be economically unstable in that its success depends upon the capacity of businesses to adapt their products/services to the ever-changing wants/needs of consumers.

**Mixed Economy**

No world economy is purely market or command in nature. As such, it is more accurate to characterize an economy as market-leaning or command-leaning on the **economic continuum**. All modern world economies can be described as **mixed economies** in that they mix market and command (as well as traditional elements) principles in various ratios to suit their national interests.



The economy of Mexico may be described as moderately market-leaning. Mexico’s government owns the nation’s oil and gas reserves, which is the lifeblood of its energy sector. Failure to privatize these industries has limited economic growth in what might otherwise be a very lucrative sector of the Mexican economy. Investment in Mexico’s automobile sector is increasing, and its banking sector is stable. Ongoing struggles with organized crime and government corruption, however, continue to plague the nation’s economic development.

Brazil’s economy is slightly more command-leaning than Mexico’s; however, it should be noted that Brazil has been implementing market-oriented reforms over the last decade. Like Mexico, government control of Brazil’s energy sector has led to price inflation in recent years. Growing public debt, high taxes, and insufficient **infrastructural** upgrades have hindered the pace of Brazil’s economic

development, as has the lengthy process to obtain permits to create new businesses in the nation. Foreign investment in Brazil’s agricultural sector is very limited, and government corruption and **graft** remain problematic. Brazil does, however, have the region’s largest financial services market.

The economy of Cuba, meanwhile, is decidedly command-leaning. Government ownership of most all major industries is a dominant feature of Cuba’s communist dictatorship, although limited private ownership of small farms and businesses is permitted. Government-set wages are insufficient for the Cuban people’s survival, however, as are the food **rations** the government allocates its citizens. Although the American travel ban to Cuba was recently lifted, the nation’s tourism industry is haphazard at best given the government’s proclivity toward jailing political **dissidents**, journalists, etc. The nation is also heavily dependent on agricultural trade and oil **subsidies** from the likes of Venezuela (which is itself in economic decline.)

**Trade & Specialization**

Trade between nations is only viable when it is **voluntary** (i.e., not coerced through military threats or economic sanctions) and mutually beneficial. When nations look for trading partners, strategic/military alliances are taken into account. Acquiring trading partners who can meet the product/service demands which one’s own country cannot meet is a far greater consideration however.

Although some nations are rich in natural resources and highly developed in terms of technologies, infrastructure, et al, it is not always in a country’s best interest financially to produce everything it is capable of. Often times nations choose to market only those products/services which they are capable of providing fastest, cheapest, and in great abundance. This phenomenon is known as economic **specialization**, and it is what sustains voluntary trade partnerships worldwide.

Specialization across Latin America varies tremendously. Some examples include:

- In North America, Mexican petroleum extraction and refining.

- In Central America, Costa Rican ecotourism.

- In South America, Argentine beef and leather processing.

- In the Caribbean, Cuban sugar refining.

**Trade Barriers**

Voluntary trade between nations may be inhibited by **trade barriers**. Such barriers exist to protect **domestic** markets from foreign competition; others are intended to block the importation of dangerous products. Trade barriers may also be employed to **sanction** an enemy nation.

There are three major barriers to trade which students should be aware of in the context of Latin America:

- **Tariffs** place a tax on imported good. This is done to artificially inflate the price of a cheaper

foreign product so as to make the price of domestic products more competitive.

- **Quotas** place a limit on imported goods. This is done so that cheaper imports do not flood

domestic markets and put domestic producers out of business.

- **Embargoes** block all trade with another nation. An embargo may be employed for safety reasons,

but is more frequently used to punish rogue states (e.g., Cuba was, until 2016, under a U.S. trade

embargo due to its alliance with the Soviet Union.)

- A **boycott** of a specific product or of a specific country’s or company’s product(s) may

be exercised by citizens within a country even when there is no official embargo in place

at the national level.

**Exchanging Currencies**



In order for countries in Latin America to trade, a system of **currency exchange** must exist. This is due to the fact that most nations in the region each have their own unique **currency**. (e.g., Mexico uses the peso. Brazil uses the real. Panama uses both the U.S. dollar and the balboa.) Without a method to convert monetary values between disparate currencies, international

trade would be impossible.

**Exchange rates** are used to determine how much one nation’s currency is worth in terms of another’s. (e.g. 1.00 U.S. dollar ≈ 3.17 Brazilian reals)

**NAFTA**

The North American Free Trade Agreement (NAFTA), signed in 1994 by the government of Canada, the United States, and Mexico, established one of the world’s largest free-trade zone. The goal of this was to increase multinational trade and economic cooperation across North America, as well as raise the collective **standard of living.**

Among the many positive outcomes associated with NAFTA are:

- the elimination of import tariffs, which increased the level of trade

among the three nations;

- a reduction in the overall price of consumer goods;

- an increase in oil exports from Mexico to the United States, thereby

decreasing American dependence on Mideast oil imports (a topic which will be discussed in

detail in 7th grade Social Studies);

- an increase in foreign investment among and within the three nations.

There were some unforeseen consequences to NAFTA however. These include:

- the **outsourcing** of numerous manufacturing jobs from the United States to Mexico, particularly

in the electrical appliance and textile industries;

- the loss of numerous farm-related jobs (and locally-owned farms in general) in Mexico due to

cheaper agricultural products coming into the country from the U.S.;

- damage done the Mexican environment by Canadian mining companies looking to extract **shale**

**oil**.

On the whole, NAFTA’s successes have outweighed its failures. Nevertheless, the trade deal remains a contentious issue.

**Literacy Rate & the Standard of Living**



In order for a region to sustain high-quality, well-paying, in-demand jobs, its labor force must be **literate**. The **literacy rates** across Latin America vary tremendously, however, thus limiting economic development in many places.

Low literacy rates typically correlate to lower standards of living; however, high literacy rates do not always translate to higher standards of living in Latin America. Brazil, Cuba, and Mexico all have literacy rates in the 90th percentile, but in the case of Brazil and Mexico there are numerous pockets of poverty and regional underdevelopment in both countries. In the case of Cuba, although the literacy rate is one of the highest in the world, standards of living on the island remain poor due to economic mismanagement

on the part of Cuba’s communist government.

**Human Capital & Gross Domestic Product**



The economic strength of a nation is determined by measuring its **gross domestic product**, or GDP. GDP is the estimated total value of all the final goods and services produced in a nation in a year’s time. In other words, GDP represents what a nation is worth. Nations who wish to compete economically must maintain a competitive GDP relative to other nations’ in their region and among their trading partners.

One way to ensure a healthy and growing GDP is to invest in **human capital**, which is to say the relative health, education, and training of a nation’s labor force. Unhealthy, poorly educated, and/or untrained workers cannot be expected to support a strong national economy, let alone obtain high-quality, well-paying, in demand jobs. Thus a nation’s GDP directly correlates to its level of human capital investment.



Countries who do invest in human capital tend to see a rise in **GDP per capita** incomes. GDP per capita measures the average annual income of citizens in a given nation. (This measure can be misleading, however, when one factors in the gap separating the impoverished, middle class, and wealthy.)

Latin America has some of the lowest human capital investment according to a World Economic Forum report. Of the 130 nations analyzed for 2016, Cuba ranked 36th, Mexico ranked 56th, and Brazil ranked 83rd.

**Capital Goods & Gross Domestic Product**

Another factor which can greatly impact a nation’s GDP is its level of investment in **capital goods** (also called physical capital.) Capital goods are the factories, machinery, technology, etc. that are necessary to sustain a service or industry. Older, less efficient factories, antiquated machinery, and obsolete or out of date technology slow production and hamper the growth of national GDP.

Mexico and Brazil have both made capital goods investment in their petroleum extraction and refining technologies. Cuba, meanwhile, has made only minimal investment in its sugar processing facilities.

**Natural Resources**

A third factor which can affect a nation’s GDP is the prevalence, diversity, and management of **natural resources**. In the case of Brazil, the lumber extracted from the Amazon rainforest is an example of a natural resource. Cuba, meanwhile, has a wealth of minerals, including cobalt, nickel, iron ore, and copper. Mexico also has rich mineral deposits, but petroleum is its chief natural resource.

**Entrepreneurship**

In Brazil “The state’s interference in the economy has been heavy. The efficiency and overall quality of government services remain poor despite high government spending. Implementation of any reform program has proven difficult. Barriers to entrepreneurial activity include burdensome taxes, inefficient regulation, poor access to long-term financing, and a rigid labor market. The judicial system remains vulnerable to corruption.” <http://www.heritage.org/index/country/brazil>

In Cuba, “…potential entrepreneurs have long been shackled by tight government control and institutional shortcomings. No courts are free of political interference, and private property is strictly regulated. Excessive bureaucracy and lack of regulatory transparency continue to limit trade and investment.” <http://www.heritage.org/index/country/cuba>

In any given country, **public sector** (i.e., government-owned) industries will maintain a nation’s GDP, but they will not typically grow it. It is in the **private sector** (i.e., businesses owned and operated by private citizens) that the most GDP growth occurs. A solid investment in human capital will foster the entrepreneurship necessary to generate private sector growth.

**Entrepreneurs** are private citizens who invest their own capital resources toward the creation of a new business or industry, frequently at some financial risk. Those whose business ideas succeed will **profit**; those whose do not will fail. This is the very essence of the free market / capitalist system.

**Glossary**

1. autocratic – a government where political authority rests with a single leader
2. democratic – a government where political authority rests with a nation’s citizens
3. political party – an organization which represents a specific political agenda and socioeconomic positions within a given nation
4. parliament – common name given to the legislature in a parliamentary democracy
5. president – title often given to the head of government (and state) in a presidential democracy
6. prime minister – title often given to the head of government in a parliamentary democracy
7. bartering – a system of exchange whereby one good/service is given in return for another; bartering does not require monetary exchange
8. command economy – an economic model wherein government planners make all business and financial decisions
9. economic system – an economic model used by governments to determine what should be produced/provided in terms of goods and services, how, and for whom
10. entrepreneurship – the capacity of private citizens to create new businesses independent of government direction or intervention
11. free enterprise – the creation, maintenance, and expansion of businesses outside the control or influence of the government.
12. market (or capitalist) economy – an economic model which the laws of supply and demand (not government oversight) determine what is produced/consumed and at what cost
13. production quota – the required amount of a specific good that must be produced in a given timeframe
14. subsistence – producing only what is necessary for personal use/survival
15. traditional economy – an economic model governed by custom, habit, and history
16. wage – term for one’s financial earnings
17. dissident – a person who opposes the authority of an established government
18. graft – financial gain through illegal means, typically through kickbacks and bribes
19. infrastructure – a nation’s buildings, roads, bridges, power grids, etc.
20. privatize – to transfer a business, industry, or service for public (government) to private control
21. rations – a fixed amount of a product or service allowed during times of shortage
22. subsidies – money granted by the government to assist a business or industry in lowering the cost of its product/service
23. specialization – focusing on a narrow range of products/services that can be produced most efficiently and cost-effectively
24. voluntary trade– trade in which both partners freely agree to and benefit from the exchange of goods/services
25. boycott – refusal to purchase a good/service from a specific company or country
26. domestic – term which refers to the products of services originating in one’s own country; it is the antonym of foreign
27. embargo – a trade barrier which blocks all trade with another nation
28. quota – a trade barrier which places a limit on imported goods
29. sanction – the act of economically punishing another nation
30. tariff – a trade barrier which places a tax on imported goods
31. trade barrier – any activity which slows or outright blocks the free exchange of goods and services between nations
32. currency – a nation’s money
33. currency exchange – converting one nation’s money into an equivalent value/quantity of another’s
34. exchange rate – the approximate value of one nation’s currency in terms of another’s
35. outsourcing – the transfer of work/production from one country to another where the cost of labor/manufacturing is cheaper
36. shale oil – an alternative fossil fuel derived from fossilized organic material found in sedimentary rock
37. standard of living – the level of wealth and material comfort available to a people
38. literate – able to read and write in one’s native language
39. literacy rate – the percent of a nation’s population over the age of 15 who are able to read and write
40. GDP per capita – the average annual income of a nation’s citizens; per capita is Latin for “by each head”
41. gross domestic product (GDP) – the estimated total value of all the final goods and services produced in a nation in a year’s time.
42. human capital – the knowledge, skills, and relative health of a nation’s labor force
43. capital goods – the factories, machinery, technology, etc. that are necessary to sustain a service or industry
44. natural resource – a material on or in the earth that has economic value
45. entrepreneur – those who risk their own money and resources to create a new business or service
46. private sector – the part of the economy owned and operated by private citizens
47. profit – as a verb, to gain financially; as a noun, the economic gains of a business
48. public sector – the part of the economy owned and operated by the national government