Challenges to the left in Central America: A Comparative Political Economy analysis based on a Structuralist-Keynesian approach

Manuel Valencia Delgado and Juan José López

HWR-IPE: Demand and Growth Regimes: Expanding The Debate

22-23 October 2024

Research Question & Motivation

- **Main Research Question**: How do different political and economic factors shape growth regimes in Central America?
- **Motivation**: Address gaps in understanding regional growth dynamics using a Structuralist-Keynesian approach.
- **Relevance**: Increasing geopolitical and economic constraints on progressive governments in Central America.

Theoretical Framework

- **Growth Model Analysis (GMA)**: Overview of GMA within post-Keynesian economics.
- **Structuralist-Keynesian Approach**:
  - Emphasis on peripheral capitalism and geopolitical constraints.
  - Role of income distribution and autonomous demand.
- **Key References**: Baccaro & Pontuson (2016), Hein (2023), Stockhammer (2023), Caldentey & Vernengo (2022).

Methodology: The Sraffian Supermultiplier Model (SSM)

- **Model Overview**:
  - Demand-led growth in both short and long-term.
  - Autonomous demand components: public consumption (G), public transfers (Tr), public investment (I_G), exports (X), residential investment (I_H), consumption financed by credit (CC), and remittances (R)..
  - Endogeneity of corporate investment.
- **Equations**:

$$Y_t = \alpha Z_t$$

$$Z_t = I_{H,t} + I_{G,t} + X_t + G_t + Tr_t + CC_t + R_t$$

$$\alpha = \frac{1}{1 - c_t + m_t - h_t}$$

Data & variables

- **Data Sources**: World Bank, CEPAL, National Central Banks, LAKLEMS.
- **Decomposition (Freitas & Dweck 2013)**:

$$\hat{Y}_t = \alpha_t \left(\frac{CC_{t-1}}{Y_{t-1}} \right) \hat{CC}_t + \alpha_t \left(\frac{I_{HH,t-1}}{Y_{t-1}} \right) \hat{I_H} + \alpha_t \left(\frac{I_{G,t-1}}{Y_{t-1}} \right) \hat{I_{G,t}} + \alpha_t \left(\frac{G_{t-1}}{Y_{t-1}} \right) \hat{G}_t$$

$$+\alpha_t \left(\frac{X_{t-1}}{Y_{t-1}} \right) \hat{X}_t + \alpha_t \left(\frac{Tr_{t-1}}{Y_{t-1}} \right) \hat{Tr}_t + \alpha_t \left(\frac{R_{t-1}}{Y_{t-1}} \right) \hat{R}_t$$

$$+\alpha_t \left(\frac{c_{t-1}}{Y_{t-1}} \right) \hat{c}_t + \alpha_t \left(\frac{m_{t-1}}{Y_{t-1}} \right) \hat{m}_t + \alpha_t \left(\frac{h_{t-1}}{Y_{t-1}} \right) \hat{h}_t$$

- **Temporal breakdown**: 2001-2006, 2007-2011, 2012-2017, 2018-2022.

Growth Regime Analysis: Central America (2001-2022)

- **Growth Regimes defined**:
  - Export-led (EL)
  - Debt-led (DL)
  - Government-led (GL)
  - Remittance-led Consumption (CRL)
- **Method**: Decomposition of autonomous and induced demand components using SSM.

Country-level findings

- **Guatemala**: Transition from RL to GL to EL, back to RL.
  - Key drivers: Remittances, exports.

Guatemala	2001-2006	2007-2011	2012-2017	2018-2022
Autonomous Demand				
Public Consumption	-0.6	2.3	0.4	0.7
Public Transfers	0.8	0.2	0.3	0.6
Exports	0.7	1.8	2.0	0.9
Public investment	0.3	0.1	-0.2	0.2
Residential investment	0.0	0.0	0.5	1.1
Consumption financed by credit	0.5	-0.4	0.0	0.9
Remittances	5.2	-0.5	1.8	5.5
Induced Demand				
Household consumption	0.6	0.2	1.1	-0.1
Imports	0.0	1.8	0.4	-1.3
Corporate investment	0.4	-2.8	-2.1	3.4
Growth Regime	**RL**	**GL**	**EL**	**RL**

Country-level findings

- **El Salvador**: Mixed regime with strong CRL influence.
  - Exports of intermediate goods with significant reliance on remittances.

El Salvador	2001-2006	2007-2011	2012-2017	2018-2022
Autonomous Demand				
Public Consumption	0.4	0.3	0.1	-0.1
Public Transfers	0.3	0.5	0.1	0.8
Exports	0.9	1.1	1.1	1.6
Public investment	-0.2	0.1	0.2	-0.1
Residential investment	0.0	-0.2	0.0	-0.1
Consumption financed by credit	0.2	-0.4	0.3	-0.2
Remittances	2.1	-0.7	1.1	1.8
Induced Demand				
Household consumption	-1.7	0.0	-0.9	-0.3
Imports	-1.5	2.4	0.6	-1.0
Corporate investment	0.5	-1.1	0.0	2.2
Growth Regime	**RL**	**EL**	**EL-RL**	**RL**

Country-level findings

- **Honduras**: EL regime shifting to CRL.
  - Dominance of exports, remittance-driven recovery.

Honduras	2001-2006	2007-2011	2012-2017	2018-2022
Autonomous Demand				
Public Consumption	0.4	0.8	-0.1	0.3
Public Transfers	0.5	0.0	0.4	0.3
Exports	4.9	1.0	2.5	0.7
Public investment	-0.1	0.0	0.2	-0.3
Residential investment	-0.1	0.1	0.0	0.0
Consumption financed by credit	0.7	-0.7	-0.2	0.6
Remittances	3.7	-0.9	1.5	3.2
Induced Demand				
Household consumption	-0.2	1.1	0.5	1.7
Imports	-1.5	2.0	0.5	-0.1
Corporate investment	0.4	-1.3	-0.1	-0.3
Growth Regime	**EL**	**EL**	**EL**	**RL**

Country-level findings

- **Nicaragua**: Commodity-based EL transitioning toward CRL.
  - Volatility in external demand, increasing dependence on remittances.

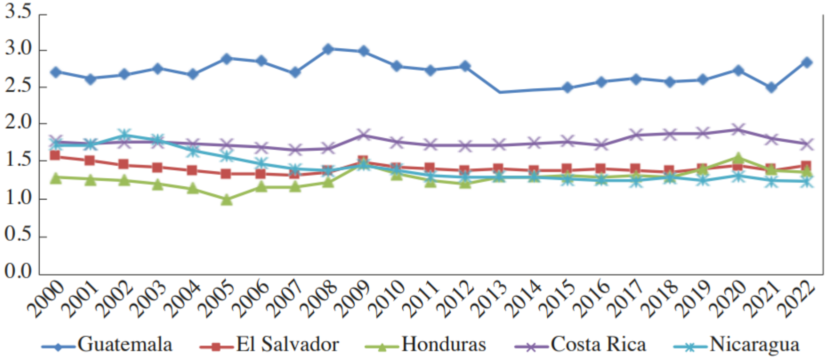
Nicaragua	2001-2006	2007-2011	2012-2017	2018-2022
Autonomous Demand				
Public Consumption	0.8	0.3	0.8	-0.1
Public Transfers	-0.2	0.3	0.2	0.3
Exports	3.6	4.1	3.2	2.4
Public investment	0.1	0.4	0.5	0.2
Residential investment	0.3	0.0	0.0	-0.1
Consumption financed by credit	0.9	-0.4	1.7	-1.0
Remittances	1.6	0.1	0.8	3.0
Induced Demand				
Household consumption	-0.6	0.7	-1.9	1.5
Imports	-0.7	-3.1	-0.1	0.3
Corporate investment	-1.1	0.1	1.1	-1.7
Growth Regime	**EL**	**EL**	**EL**	**RL**

Country-level findings

- **Costa Rica**: A unique case of consistent EL with technological upgrading.
  - Export of capital and intermediate goods.
  - FDI and technological advancement drive sustained growth.

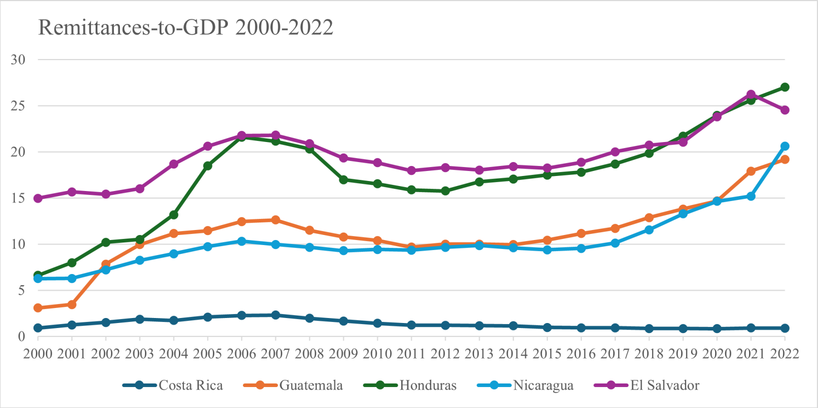
Costa Rica	2001-2006	2007-2011	2012-2017	2018-2022
Autonomous Demand				
Public Consumption	0.5	0.0	0.0	0.7
Public Transfers	0.3	1.2	0.7	-0.1
Exports	3.0	1.7	3.0	2.9
Public investment	0.0	0.8	-0.2	-0.1
Residential investment	0.4	0.1	0.3	0.0
Consumption financed by credit	0.0	0.0	0.2	-0.5
Remittances	0.5	-0.2	0.0	0.0
Induced Demand				
Household consumption	-0.6	1.1	0.8	-0.9
Imports	-0.3	0.0	-0.9	0.9
Corporate investment	0.0	-0.5	1.4	-1,2
Growth Regime	**EL**	**EL**	**EL**	**EL**

Supermultiplier



Role of Remittances

- Increasing relevance in all countries except in Costa Rica
- Remittances are drivers of household consumption

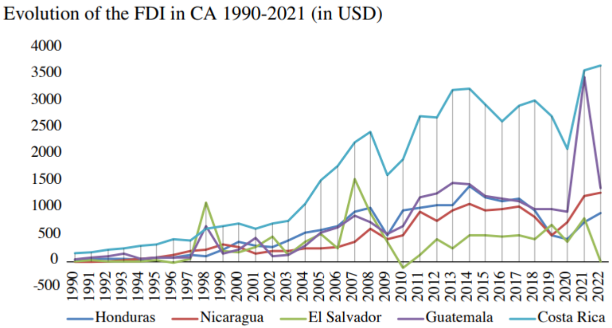


21st Century Trade Evolution

- Shift towards export diversification.
- **Costa Rica**: Leader in capital and intermediate goods (high-value exports).
- **Nicaragua and Honduras**: Continued reliance on raw materials.
- **El Salvador and Guatemala**: Growth in intermediate and consumer goods exports.
- **Regional Trend**: Growth of intraregional trade across all countries.

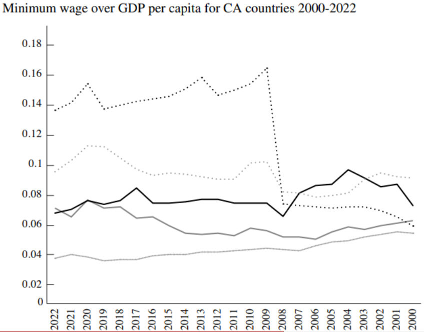
FDI Trends in Central America

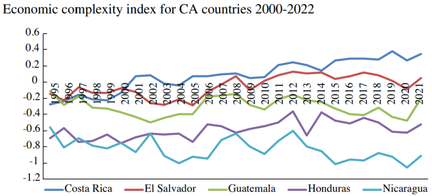
- **Costa Rica**: Attracted FDI in technology and advanced manufacturing.
- **El Salvador and Guatemala**: Erratic FDI flows, focusing on low-wage manufacturing.
- **Honduras and Nicaragua**: FDI concentrated in low-wage sectors and raw materials.



Competitiveness by Country

- **Costa Rica**: High price and non-price competitiveness, improved wage-to-GDP ratio.
- **Honduras**: Declining competitiveness due to rising labor costs.
- **El Salvador and Nicaragua**: Lower competitiveness but compensating with low-wage sectors.
- **Guatemala**: Stable price competitiveness but with modest export diversity.





Summary

Country/ year	Growth regime	Type of Exports	Type of Competitiveness	International Financial Profile	Fiscal	Monetary
Guatemala	CRL-EL	Intermediate & consumer goods	Stable price & non-price competitiveness, with REER appreciation from 1990-2013, and relative stability onwards. Stagnant terms of trade.	Increasing FDI flows, (especially after 2010). Small deficit in the current account, with an average of 40% debt-to-GDP ratio. Increasing foreign exchange reserves.	Lower than average government revenues to GDP (mainly by indirect tax). Stagnant and relatively low gov. expenditure, low and stable public debt. Low public investment.	Decreasing real interest rate until 2008, after 2010 stabilises at a level around 10%. Steady increase of credit-to-GDP but below average, increasing finance development index
El Salvador	CRL-EL	Consumer goods	Price competitiveness (but deteriorating since 2018), with higher-than-average non-price competitiveness. REER stability. Stagnant terms of trade.	Volatile trend of FDI, small but increasing current account deficit, surge of debt-to-GDP ratio after 2002.	Increasing gov. revenues, mainly based on indirect tax. Stable gov expenditure (around 15% of GDP), stable sovereign debt. Very low public investment.	Lower than average real interest rate. Stable trend rate of total credit as % of GDP. Improving financial development index.
Honduras	EL-CRL	Raw & consumer goods	Deteriorating price competitiveness, low non-price competitiveness, REER appreciation, slightly declining but stable terms of trade.	Regional average FDI, higher currency account deficit, improving debt-to-GDP ratio (after 2005). High increase of foreign exchange holdings	Increasing gov. revenues, mainly based on indirect tax. Stable gov expenditure (fluctuates between 10 and 15% of GDP). Marked decreasing public debt-to-GDP until 2007, increases constantly until 2022.	Slightly higher than the average real interest rate. Constant increase in credit-to-GDP, surpassing other countries in 2019. Constantly improving Financial Development Index.

Summary

Country/ year	Growth regime	Type of Exports	Type of Competitiveness	International Financial Profile	Fiscal	Monetary
Nicaragua	EL-CRL	Raw & consumer goods	Low price and non-price competitiveness, and depreciation of REER thru all the periods. Volatile, declining until 2010, then improving terms of trade.	Significant reduction in debt-to-GDP ratio since 1990's, but still the highest rate. High increase in foreign exchange reserves, especially after 2010. Constant reduction in current account deficit, but still higher than other countries. Steady growth of FDI.	Sharp increase in gov. revenues-to-GDP after 2003. More balanced between direct, indirect, and social contributions. Reduction of gov. expenditure-to-GDP, similar level as other countries. Sharp reduction in public debt. Marked upward trend in public investment after 2011.	Generally lower than other countries' real interest rates. Increase in credits-to-GDP, but lower than other countries. Slightly improving financial development index, but less than other countries.
Costa Rica	EL	Capital, raw & intermediate goods	Highest price and non-price competitiveness than others. Decreasing terms of trade until 2008, increasing after it. REER stability until 2010, volatile behaviour after 2010, first appreciating and then depreciating after 2017.	Very stable current account balance, reducing debt-to-GDP ratio until 2011, when it starts increasing from 30 to 50% of GDP. Very high inflow of FDI after 2002. Comparatively lower foreign exchange holding reserves.	Comparatively higher than other countries, and balanced sources of revenues-to-GDP. Sharp reduction of gov-expenditures-to-GDP, until 2009, then still decline but steadily, convergence with other countries. Reduction of public investment since 2008.	Similar trend behaviour in real interest rate, and higher than other countries. Clear increasing credit-to-GDP rate. Higher than others Financial Development Index.

Comparative Political Analysis

- **Neoliberal Influence & Structural Adjustment**:
  - CA shaped by neoliberalism and Structural Adjustment Programs since the 1980s.
  - Most governments focused on social policies without major economic transformation.
- **Guatemala (Álvaro Colom, 2008-2012)**:
  - Challenges from the Global Financial Crisis (GFC), eurozone crisis, and natural disasters.
  - Social-democratic policies: free public health, education, and increased social spending.
  - Boost in public sector participation; dependence on remittances and exports remained.
- **El Salvador (FMLN Governments, 2009-2019)**:
  - Key social reforms in education, production support, and transparency under Mauricio Funes.
  - Infrastructure investments: roads, energy, airport expansion.
  - Public policies improved living conditions but did not change the production structure.

Continued Comparative Political Analysis

- **Honduras (Manuel Zelaya, 2006-2009)**:
  - Shift from right to left due to energy crisis.
  - Joined Petrocaribe and ALBA; increased minimum wage, anti-corruption, and public participation.
  - Addressed the energy crisis but maintained an export-led economic structure.
- **Nicaragua (Daniel Ortega, 2007-present)**:
  - Aligned with ALBA; prioritized public health, education, and productive credit.
  - Export-led growth with major exports like meat, coffee, gold; 5.3
  - Focused on deepening the export-led regime rather than restructuring the economy.
- **Costa Rica (Guillermo Solís, 2014-2018)**:
  - Infrastructure investments in roads, energy, water, schools, and hospitals.
  - Economic performance driven by low interest rates, low inflation, and rural development.
  - Policies aimed at maintaining the existing export-led regime, especially capital goods exports.

Conclusions (Part 1)

- **Ineffectiveness of progressive governments:**
  - Struggled to alter the growth regime through domestic policy initiatives.
  - Structural dependence on external factors and conservative macroeconomic frameworks limited impact.
- **Limitations of social policies:**
  - Emphasized social policies but overlooked redistribution and demand-boosting measures.
  - This neglect hindered substantial economic transformation.
- **Introduction of the CRL Regime:**
  - Introduced the Consumption-Remittance-Led (CRL) regime for understanding growth dynamics.
  - Families heavily reliant on remittances face vulnerability to economic shocks.
- **International economic insertion and constraints:**
  - Characterized by focus on commodities and low-value-added goods; limited diversification.
  - Negative impact of imports on the Supermultiplier constrains growth potential.

Conclusions (Part 2)

- **Fiscal and monetary policies:**
  - Most countries adhere to conservative policies prioritizing inflation stability.
  - Austerity measures lead to fiscal deficits and rising public debt, limiting capacity for change.
- **Vulnerability to external shocks:**
  - Vulnerability highlighted during the Global Financial Crisis; responses lacked structural focus.
  - Increased public investment did not translate into meaningful growth in the public sector.
- **Potential areas for future research:**
  - Explore crisis indicators and impact of migration constraints on growth regimes.
  - Analyze political dynamics shaping sustainability of economic regimes.

Thank You!

References

Baccaro, L., & Pontusson, J. (2016). Rethinking comparative political economy: The growth model perspective. *Politics & Society*, 44(2), 175-207.

Beteta, H. E., & Moreno Brid, J. C. (2014). Structural change and growth in Central America and the Dominican Republic: an overview of two decades, 1990-2011. ECLAC.

Bielschowsky, R., Castro, M. C., & Beteta, H. E. (2022). Patrones de desarrollo económico en los seis países de Centroamérica (1950-2018) (LC/MEX/TS. 2022/7). Ciudad de México, Comisión Económica para América Latina y el Caribe (CEPAL).

Caldentey, E. P., & Vernengo, M. (2022). Varieties of peripheral capitalism: On the institutional foundations of economic backwardness. *Review of Keynesian Economics*, 10(2), 242-263.

Freitas, F., & Dweck, E. (2013). The pattern of economic growth of the Brazilian economy 1970-2005: A demand-led growth perspective. In E. Levrero, A. Palumbo & A. Stirati (Eds.), *Sraffa and the Reconstruction of Economic Theory* (volume 2, pp. 158-191). Palgrave Macmillan.

Haluska, G. (2023). A economia brasileira no século XXI: uma análise a partir do modelo do Supermultiplicador Sraffiano. *Economia e Sociedade*, 32(2), 297-332.

Hein, E. (2023). Varieties of demand and growth regimes–post-Keynesian foundations. *European Journal of Economics and Economic Policies*, 20(1), 2-23.

Segovia, A. (2022). Las relaciones entre modelos económicos y tipos de capitalismo: la experiencia de Centroamérica. *Comisión Económica para América Latina y el Caribe (CEPAL)*