



Executive Summary

Alamos Alliance XXIX

Stability, Growth & “Radical Uncertainty”: Assessing Options and Opportunities

*La Cantera Resort
San Antonio, Texas
March 10-13, 2022*

The global political-economic order seems to have reached levels of unpredictability not seen since the end of the Cold War. This is occurring amid a moment of “radical uncertainty,” marked by the continued impact of the Covid-19 pandemic, the resurgence of inflation in developed and less developed nations, and Russia’s military invasion of Ukraine.

In the past, in times of crisis, nations around the world have (almost always) debated adopting deliberate isolationist policies. The pretense of national security, public health, self-sufficiency, and the like, is now being used to strengthen new autocracies and a rise in the “bossy state,” as countries around the world begin to fall down a slippery slope to autarky. Leaders are becoming impulsive, enacting policies with large long-term costs in reflex reaction to short-term problems. In addition to recovering from the most severe health crisis in modern history, we are witnessing a sharp rise of geopolitical tensions, rising cost of inputs, a not-so-temporary return of inflation, and stagnant growth. In this 29th edition of *Alamos Alliance*, participants and panelists addressed these issues and opportunities as societies face an epicenter of radical uncertainty.

For the first time, the conference was held in San Antonio, Texas, March 10-13, 2022. The three main topics of discussion were the following:

- **The Return of “Stagflation” and the Perils of Fiscal Mismanagement**
- **The “Supply Chain Mess,” “Near”-Shoring and the Future of Open Trade**
- **Lost Opportunities and “Radical Uncertainty” in Latin America: Why?**

A keynote session entitled **Capitalism, Prosperity and Social Mobility** featured an address by Hernando de Soto, distinguished thought-leader, founder of *Instituto Libertad y Democracia* in his home country of Peru, and former candidate to the Presidency of Peru in 2021. The “early-bird” book presentation breakfast featured a discussion of the links between technology, social progress, and disruption. Manuel Hinds presented his book *In Defense of Liberal Democracy*, with a follow-up discussion led by Luis Rubio, Chairman of the Board of *CIDAC-México Evalúa*.

This *Alamos Alliance* conference featured prominent names in the public policy, academia, and business, including newcomers such as Alejandro Díaz de León (former Governor of the Banco



De México), Ignacio Briones (former Minister of Finance, Chile), in addition to regular attendees such as Phil and Wendy Gramm, Robert Topel, Doug Irwin, Deirdre McCloskey, Anne Krueger, Sebastian Edwards and Pedro Aspe, among others.

The first session addressed the topic *The Return of “Stagflation” and the Perils of Fiscal Mismanagement*. The conversation revolved around global output and rising inflation in the aftermath of the Covid-19 health crisis. A lengthy discussion took place on the “definition” of a post-pandemic world. Tom Saving, who chaired the session, pointed out that output is either falling or stagnant while general price levels are rising. Additionally, the increasing cost of energy and inputs has effectively shrunk the production possibilities frontier for the entire world. Panelists therefore addressed the challenge of answering the following questions: What is happening? And what can be done?

Former Governor of Banco de México Alejandro Díaz de León began the conversation with his presentation entitled *The pandemic: a multilayered, multiyear, dynamic puzzle*. Covid-19 was “a global shock like no other,” that affected societies in ways never seen before. Díaz de León’s discussion exhibited four main issues confronting nations around the world, and responses from markets and policy makers. First, we had a massive health shock. We have just passed the third wave of novel coronavirus cases, and the world has lost over six million people due to Covid-19 related illnesses. A vaccine became available within just one year of the first shelter-in-place orders and authorities approved the first Covid-19 vaccine by mid-2021. Second, financial markets suffered heightened volatility since the start of the pandemic, resulting in increased global risk aversion, debts and defaults, and a marked spike on risk premiums.

Third, in addition to Covid-19 cases and deaths, global shutdowns cause by policy restrictions such as lockdowns severely disrupted labor markets. We effectively entered a “zombie” economy that, as Carmen Reinhart stated in last year’s conference, represented a *This Time it Really is Different* phenomenon. Economies contracted globally in a heterogeneous fashion, and expenditures were slowly revived only after a massive wave of monetary and fiscal stimuli. Finally, the mandated stimulus, coupled with supply bottlenecks, was the trigger behind a rise in global inflation, even prior to the spike on energy prices due to the European conflict between Ukraine and Russia. The severe supply and demand mismatches, plus wage pressures, have resulted in the highest inflation seen in the U.S. over the last four decades. Díaz de León, who was recognized as Central Banker of the Year in 2020, ended his presentation with key recommendations to central banks: in addition to clear and transparent goals, independence from government is critical; monetary policy based on fundamentals over circumstances is also necessary, avoiding labels and buzz words that can well generate market inefficiencies; and an important degree of humility and modesty in the exercise of expenditure expansion capacities.

Professor Sebastián Edwards addressed the topic of uncertainty by focusing on current policy responses and the failure of older generations in the inheritance of a proper narrative for future policy thought leaders.



Edwards aptly reminded us that “it is impossible to convey what that means unless you lived through it,” *a propo* of the new fashion to, alas, consider price controls as a viable response to inflation. Only those who endured the price volatility of the 1970’s and 80’s truly understand the implications of today’s economic instability. A second important point Edwards developed in his lecture was the importance of anti-monopoly rules and practices. He referenced Henry C. Simons’ *Postwar Economic Policy* requirements as a possible blueprint to guide anti-monopoly policy. This, however, requires “a new narrative, we need to invent it, and it has to be modern.” The notion of “changing the narrative” became a centerpiece of the entire conference.

The third presentation of this first panel was delivered by Ignacio Briones, who addressed the topic of *Fiscal Sustainability, Fiscal Rules, and Intergenerational Justice*. In his lecture, Briones raised the problem of fiscal deficits and their significant expansion in the last two years. He put forward the need of rules in the practice of “fiscal science”: if we have rules in the monetary policy realm, rules that keep them autonomous and with clear targets in mind (i.e., inflation and employment based), the same style of independent and transparent rules would be effective at the fiscal level. This was his cue to introduce the concept of “intergenerational justice,” as the rhetorical device needed to promote fiscal sustainability. Briones’ thesis was that the cost of current excessive and unfunded fiscal spending should not be inherited to future generations. A Rawlsian approach using the veil of ignorance methodology suggests that “intergenerational justice” can serve as a powerful *narrative* needed gain support and traction across the political spectrum for the goal of a structural or rule-based policy of fiscal sustainability.

The session’s chair, Tom Saving, responded that with a term like “justice,” governments can try to justify almost anything they want. “Bad governments can have balanced budgets.”

Other participants also noted the need to distinguish between a state-sponsored monopoly and enterprise monopolies. The former are protected and enabled by specific policy and have seen a rise in market dominance in recent years. The latter have seen a retreat, especially given the sharp decline in transaction of information costs. On the point of narratives, it was emphasized that ideas tend to be cyclical. “Neoliberalism” or the so-called “Washington consensus” was “on the rise” thirty years ago, but it cannot be promoted using the same concepts today. There was debate on whether “intergenerational justice” was the way to going building this new narrative. The session agreed on the need to support the reduction of state size.

The luncheon address was delivered by Charles W. Calomiris on the topic of *The Fintech Future*. Calomiris emphasized that banks are losing market share to fintech enterprises in the business areas of lending and payments. Fintech companies take on lower costs than traditional bankers. They have significantly lower overhead, and their transactions are fast and cheap. Additionally, FICO scores are merely one of the many pieces of data they use when evaluating customers. Therefore, financial products are more customizable. This leads to a more inclusive financial system. Calomiris suggested there are many gains from a growing fintech industry, if they remain outside the status quo adopted in traditional banks, including the possible adoption of charter stable coins.



After this luncheon, participants received a video greeting from John B. Scott, Texas Secretary of State, in which he welcomed participants and praised the effort from academics and business leaders as they join to converse, exchange ideas, and promote friendship among every culture represented in the conference.

The second session was titled **The “Supply Chain Mess,” “Near”-Shoring and the Future of Open Trade.** The session was chaired by Robert Topel. Douglas Irwin was the first speaker, and he reminded our audience that “supply chains work very well, they’ve done a remarkable job, and have been resilient.” World merchandise trade volume decreased sharply, as expected, at the height of the pandemic, but has recovered to pre-pandemic levels and is growing today, although pre-pandemic stability is far from being achieved. As a response to the heterogeneous contractions caused by the pandemic, as well as the recent political conflict in Europe, countries have exhibited fear of dependence in foreign economies. An “erosion” of post-cold war order has been accelerated. On the margin, many nations have slowly shifted towards increasingly isolationist policies.

Professor Anne Krueger followed-up with a discussion centered on the topic of isolationism, particularly as it applies to United States politics since 2016. She recalled the Trump presidency, and his decision to slap tariffs on steel and other metals on grounds of national security, with all partners. Most of these tariffs are still on today, the current administration has not deviated significantly from Trump’s policies. Since the late 1980s, barriers to trade had been going up; however, the period since 2016 has marked an era where there is a perceived “floor” or bottom limit in trade barriers. Recent health, political, and economic crises have only fueled the attitude towards rising barriers with the intent of protecting national interests. “This protectionist sentiment is unbased,” stated Krueger, as she explained that if the world had lacked integrated international supply chains, the personal protection equipment market would have experienced an even deeper scarcity problem. “We are copying the Chinese in the worst ways,” explained Krueger as she touched on the recent protection and subsidizing of domestic industries: “The threat of protectionism is huge.”

Antonio Ortiz Mena was the last speaker of this session. He expressed agreement with the previous speakers regarding the supply chain “mess” being faced around the globe. He pointed out that there is a perception of opportunity for Latin America, as western supply chains move away from China. Ortiz Mena expressed concern, seconding previous speakers, regarding the post-pandemic trend towards protectionism. It is important to acknowledge huge challenge we are facing today, and the need to consolidate the role of pro-trade institutions, such as the World Trade Organization.

Discussants pointed out the necessity of integration and free trade “among friends.” The existing North American economic integration process suggests, among other things, the need to focus on projects and policies that can reduce transaction costs and fortify regional energy markets. “Simple rules” for reducing transaction costs would also help in improving the narrative, as well as facilitating greater levels of trade.



Manuel Hinds joined us for the “early-bird” book presentation of his *In Defense of Liberal Democracy*, which also featured the participation of Luis Rubio. Progress requires an emphasis on the gains of social mobility equality of opportunity to secure long term growth—especially in moments of disruption and radical uncertainty, such as the industrial revolution and the current technology revolution. Such moments of disruption and dislocation breed ideologies, angry and highly polarized public discourse, and discontent with the status quo. In turn, this is exactly why autocrats seize the moment, with promises of instant redemption. Hinds stresses the need for an intelligent social policy, increased investment and a defense of liberal democracy.

The third session continued earlier discussions by addressing the theme of **Lost Opportunities and “Radical Uncertainty” in Latin America**. Ian Vazquez chaired the session and started by posing a simultaneously simple but tremendously complex question: “What the hell is going on in Latin America?” The panel focused on Latin America’s statist trend over the past five years; a special attention was given to Chile, who recently elected and started the presidential term of Gabriel Boric, marking a strong move towards a radical anti-market agenda.

Ricardo López-Murphy kicked off this panel, via a virtual streaming participation with a lesson on why classical liberalism is losing position in Latin America. He spoke on the importance of political representation, the lack of strong institutional frameworks, the lack of innovation and its corollary of stagnant growth, and the failures to develop defensible narratives. “Some people have the idea that you have to re-distribute income no matter what,” regardless of how seizure of individual property or expropriations hamper wealth creation. This is a popular narrative that needs to be countered while promoting greater human freedom. “I have many questions, and no good answer.”

Alexandra Cox focused her discussion on retirement and pension fund reform in Chile, given her current position as head of the private pension system that was once hailed as among the best examples of pro-market reforms. An issue with some of the low payouts in the current AFP (Administradoras de Fondos de Pensiones) system is informality, and the lack of contributions from the labor force. Cox touched on the issues that will face the new Boric administration, as it attempts to radically change the current system. Among these, financial markets, interest rates, replacement rates, and life expectancy, were discussed by Professor Cox, as it relates to Chile’s population and its regional spillover in South America.

In his participation, Pedro Aspe focused on what has happened with foreign investment trends in recent years. Investment? The last peak of foreign direct investment in Mexico and Latin America happened in 2013. Since then, it has dropped by more than half. “This is structural, and comes from the last ten years.” In Mexico, therefore, this phenomenon was not caused by the current AMLO administration. Today, flat growth coupled with higher inflation threatens to be, not transitory, but structural. Even prior to the Ukraine-Russia conflict, wages and goods were suffering from strong upward pressures due to labor market and supply chain disruptions. Aspe predicted up to two years of interest rate hikes from the Federal Reserve—a phenomenon that



Translates into a reorientation of capital flows into the U.S. capital market, and consequently an appreciation of the U.S. dollar against other currencies. Latin American currencies, in turn, will likely begin to depreciate amid a period of higher inflation, which could result in the sticky and highly damaging inertial inflation of the 1980s—a “very complicated” scenario. As it relates to labor markets, capital flight will probably be accompanied by increases in migration flows into the United States.

Ian Vazquez ended the session with Thomas Jefferson’s famous quote: “the price of liberty is eternal vigilance.”

The closing keynote address was delivered by Hernando de Soto, on the topic of **Capitalism, Prosperity, and Social Mobility**. De Soto highlighted the importance of being proactive and remaining open to outreach in public service (no matter how seemingly crazy current leaders tend to be, as is the case with Pedro Castillo in Peru) to promote an appropriate narrative. His presentation was a deliberation on constructing a narrative revolving around property rights. He described the process of converting capital into wealth through a chain of certificates, titles, and written “rights.” This entails a series of documents delineating “who can do what with what.” De Soto’s bottom line was that we need to destroy the Marxist implication that property is theft. Individuals are their own proprietors and have a subconscious understanding of the power of ownership. The narrative should revolve around the freedom to exercise a person’s will over his/her property, and the need to prevent state agents from taking away those property rights.

Alamos Alliance XXIX centered on the significance of *changing the narrative*, independently of the complexities un understanding a future post-pandemic economy. These and other issues will be addressed in the forthcoming Alamos Alliance XXX, in 2023, marking three decades of this very special conference series.

Carlos Ignacio Navarro
Senior Research Associate
[Private Enterprise Research Center](#)
Texas A&M University



TEXAS A&M UNIVERSITY
Private Enterprise
Research Center