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Progress in Latin American Capital Markets

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For over two decades several Latin American countries have made steady progress in improving their local capital markets. This fact has gone mostly unnoticed in the United States, with the notable exception of Chile's famous pension system. The reason is that the economies of that region grew slowly for much of the Eighties and Nineties, and that sluggish growth overshadowed the improvements in the national financial systems of several countries. The region's growth rate has now risen, and is at the highest level of the past quarter century. The growth is not limited to the commodity export industries. It is broad-based, and is being financed via the local capital markets, not by foreign borrowing. The progress in creating well-functioning national financial systems is very exciting and has engaged my full attention for most of the past ten years. That large and varied region, home to over half a billion people, is at last on track to realize its economic potential. The chronic pattern of instability has been brought under control. In country after country in the region, consensus has coalesced in favor of monetary stability, fiscal prudence, rule of law, and transparency in the affairs of financial institutions. There are governments that have been labeled populist, but most of those governments have been pragmatic and have exercised moderation in spending.

The specific topics that have engaged me the most are stock market development and venture capital. Those are essential for new business creation and they are also the acid test for a country's financial system. Many systems can gather and allocate a country's savings, but only a very few national systems are able to have a flourishing venture capital industry and also a market for initial public offerings. Babson's work in Latin American has emphasized new business creation, and my contribution to that work in the region has been to draw attention to the need for capital market development as a catalyst of new business growth. For a more extensive look at this endeavor and to see some of my writings, including the ones in Spanish and Portuguese, please visit my website faculty.babson.edu/edmunds.