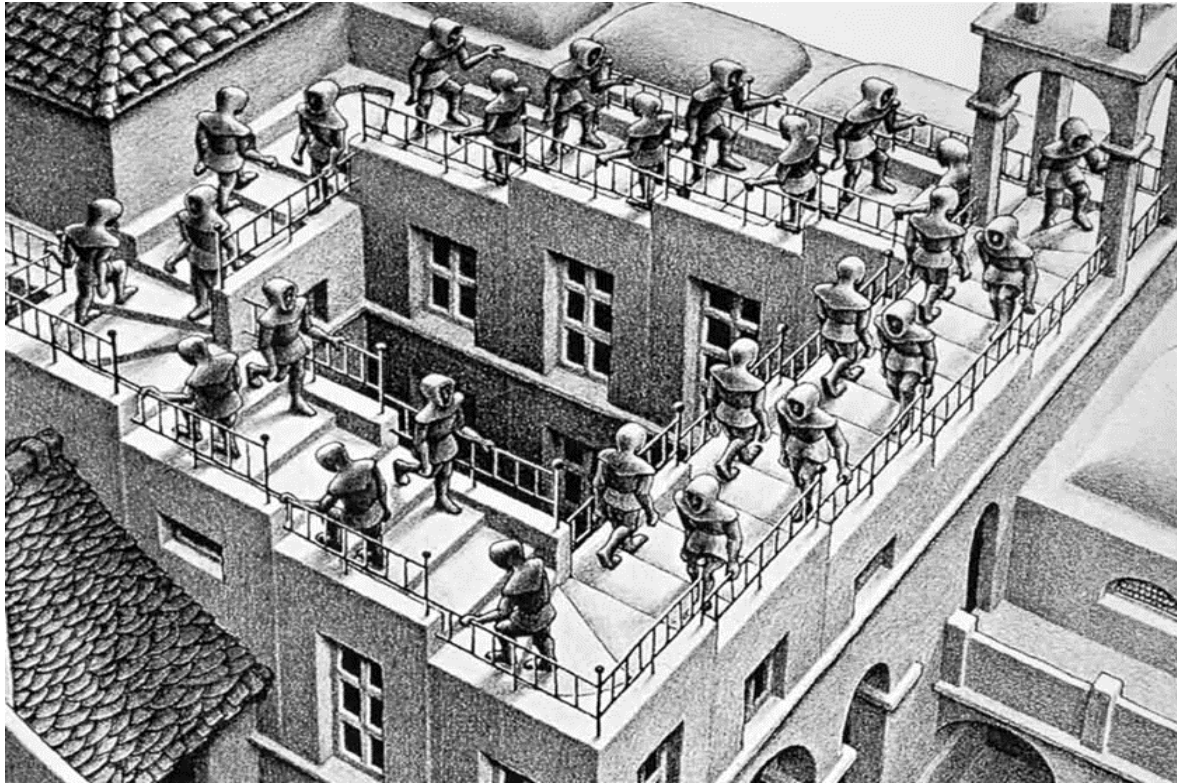


Latin America and the pandemic: a unique opportunity not to waste a crisis



We are not facing new problems, but old problems that have become very serious.”

Raul Prebisch (1980)

“Biosphere and Development,”

Hertie School, Berlin

Juan Carlos Moreno-Brid, Facultad de Economía, UNAM

juancarlosmorenobrid@gmail.com

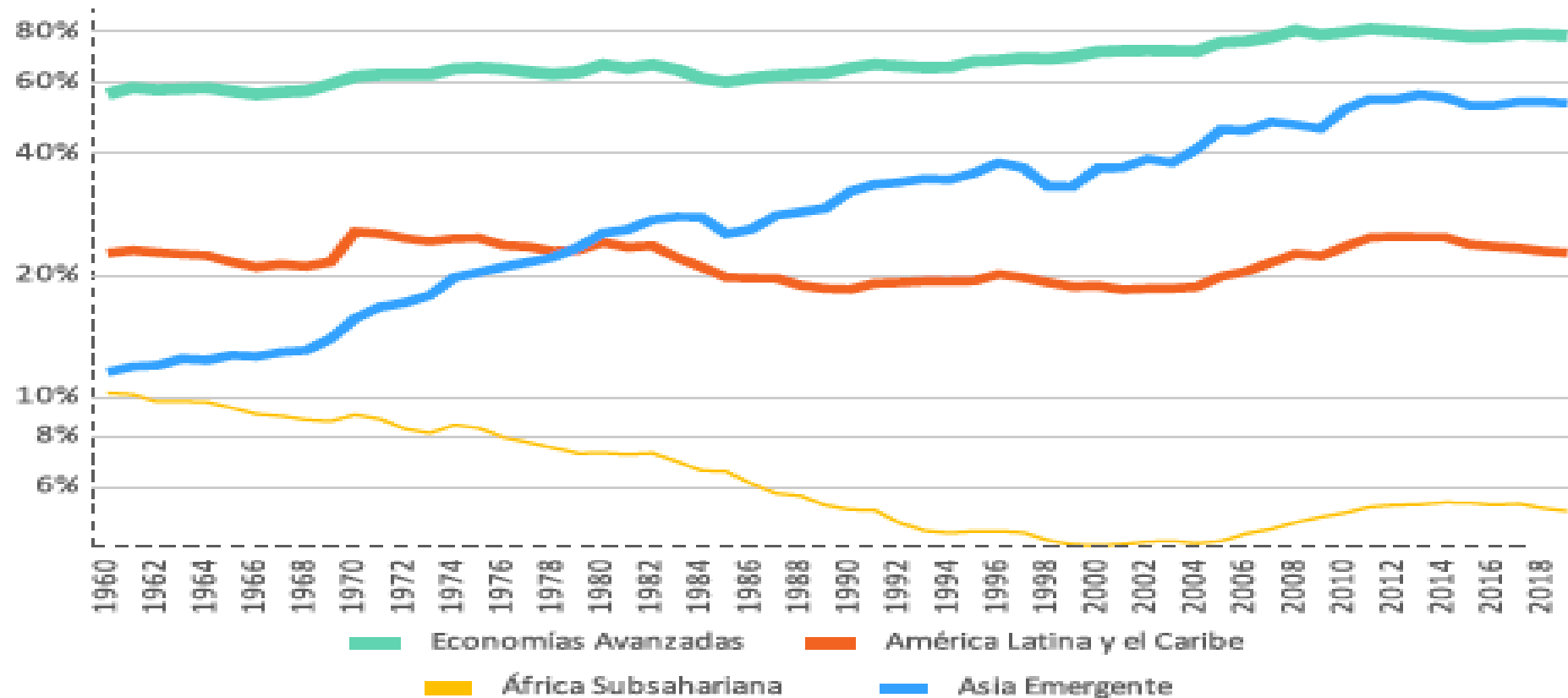
28 April, 2021



HOW WAS LATIN AMERICA PLACED TO FACE THE COVID CRISIS?

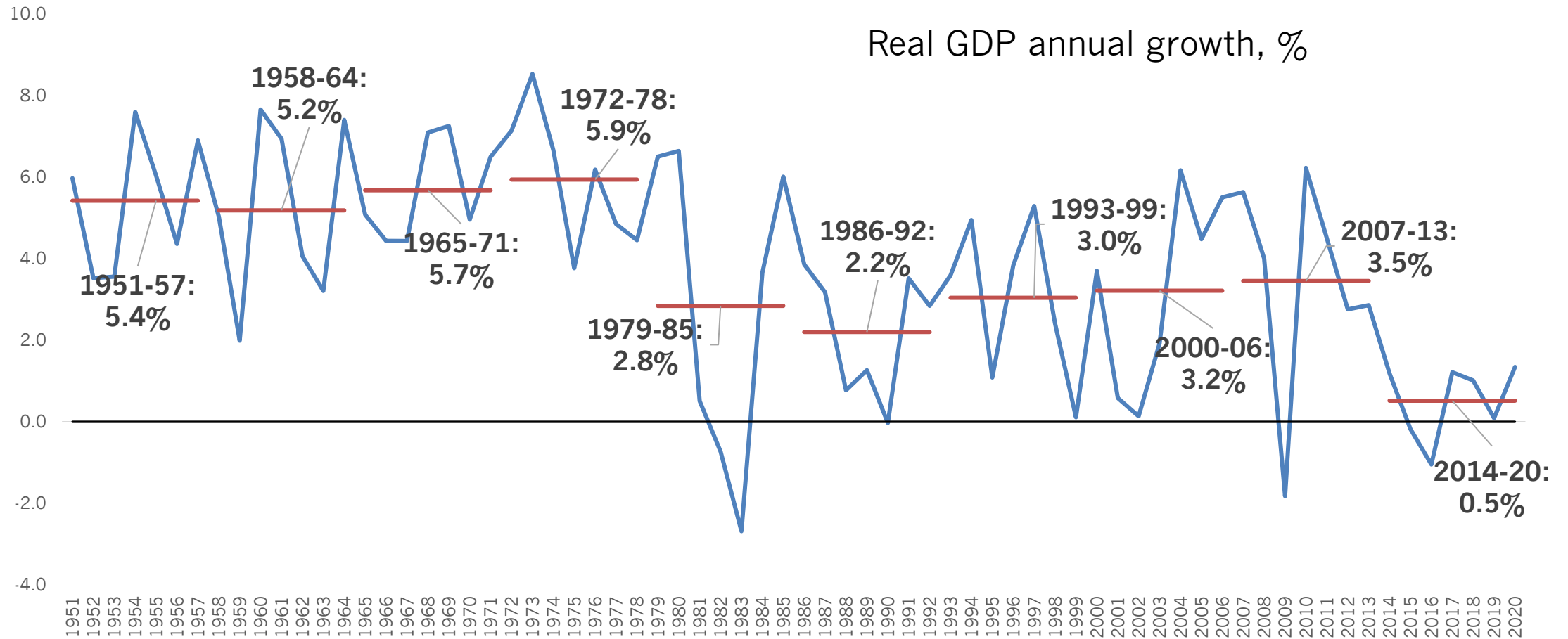
WELL...LATIN AMERICA'S LONG-TERM GROWTH NOT CLOSING THE GAP IN GDP PER CAPITA WITH THE USA

GRÁFICO 1: Evolución del PIB per cápita (PPP) relativo al de Estados Unidos, promedio regional.



FUENTE: Elaboración propia utilizando datos de Penn World Tables de la Universidad de Groningen. Para datos posteriores a 2017 se realizaron proyecciones de los valores utilizando la tasa de crecimiento del indicador disponible en la base de datos de WEO.

IN ADDITION, ITS GROWTH LOST MOMENTUM TEN YEARS AGO





THE 2000s WERE THE BEST AND WORST OF TIMES: MACROSTABILITY, BOOMS/BUSTS IN GROWTH AND RECENT REVERSALS IN POVERTY

Table 1: Latin America, Key Macroeconomic Indicators, 1980-2019

Year	1980s	1990s	2000-08	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
GDP Growth (%)	1.8	3.1	3.6	-1.8	6.2	4.5	2.8	2.9	1.1	-0.2	-1.2	1.1	0.9	0.0
GDP Growth per Capita (%)	-0.4	1.4	2.2	-3.0	5.0	3.3	1.7	1.8	0.1	-1.3	-2.2	0.1	0.0	-0.9
Fiscal Balance (% of GDP)	-3.6	-1.6	-1.6	-2.8	-2.0	-1.7	-2.1	-2.6	-2.9	-3.1	-3.2	-3.1	-2.9	..
Inflation (%)	126.3	82.7	7.7	5.6	5.7	6.7	5.7	6.7	8.9	12.3	20.3	26.0	.na.	..
Poverty Rate (%)	41.9	45.4	37.5	32.4	31.6	30.4	28.7	28.5	27.8	29	30	30.1	30	..
Extreme Poverty Rate (%)	19.7	20.3	14.7	8.9	8.6	8.4	8.2	8.3	7.8	8.8	10	10.5	10.7	..

Source: CEPALSTAT, CEPAL Cuadernos Estadísticos No. 37, World Bank World Development Indicators, and the IMF World Economic Outlook Database (October 2014 Update). For poverty figures from 2009 update based on CEPALSTAT data from Household Surveys Database (BADEHOG). Fiscal data for 1980s includes the average for Argentina Chile, Colombia, Brazil, Venezuela, Peru, and Mexico. Note: Average growth for yearly groupings. Growth rates reflect geometric means.

Table 2a: Sub-Regional GDP Growth Rates in Latin America, South America Central America and Mexico, 1990-2019 (Percentages)

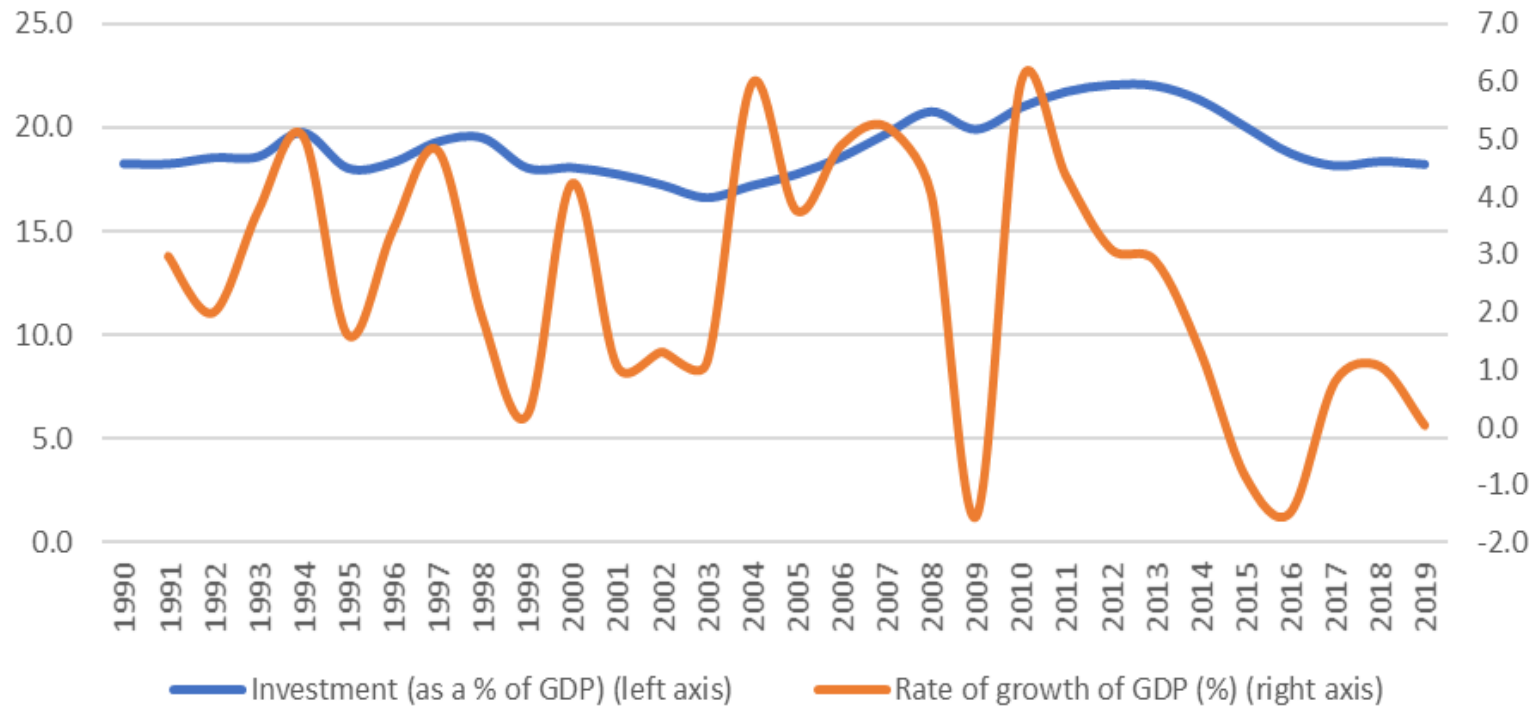
Year	1990s	2000-08	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Latin America:	3.1	3.5	-1.8	6.2	4.5	2.8	2.9	1.1	-0.2	-1.2	1.1	0.9	0.0
South America	3.0	4.0	-0.9	6.7	4.8	2.5	3.3	0.5	-1.6	-2.8	0.6	0.3	-0.1
Central America	4.6	4.5	-0.2	5.1	5.0	4.5	4.1	4.7	4.9	4.6	4.2	3.9	3.2
Mexico	3.4	1.9	-5.3	5.1	3.7	3.6	1.4	2.8	3.3	2.6	2.1	2.2	-0.3

Source: ECLAC based on official figures. Note: Average growth for yearly groupings. Growth rates for country groupings reflect geometric means.

ONE REASON IS THAT INVESTMENT HAS BEEN FAR FROM DYNAMIC; PARTLY CONSTRAINED IN FINANCE TO PRIVATE FIRMS

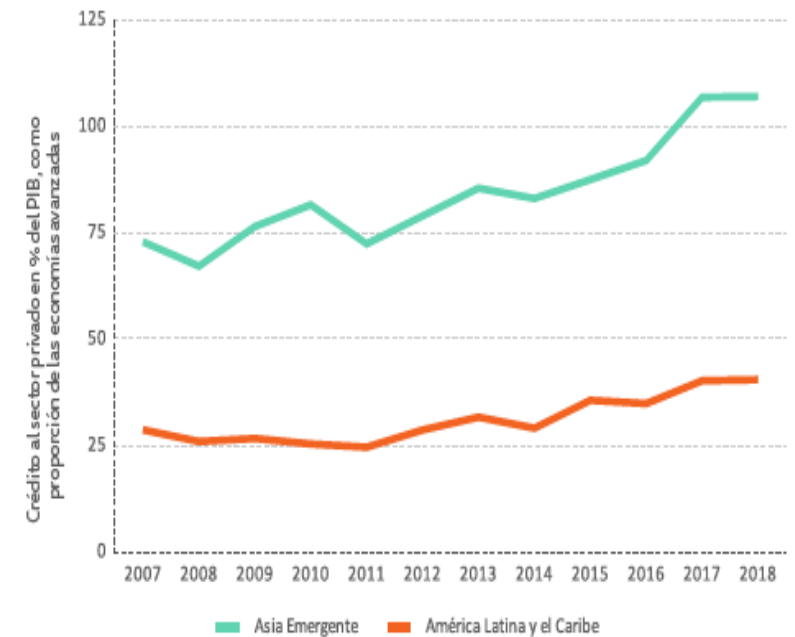


Latin America (10 countries): Investment (as a % of GDP) and Rate of Growth of Real GDP (%)



Source: Own elaboration based on CEPALSTAT (2020). 10 countries include Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru and Uruguay.

GRÁFICO 7: Crédito al Sector Privado (% PIB)
(Cada región como porcentaje de las economías avanzadas)



FUENTE: elaboración propia en base a datos del Banco Mundial 2019 (World Development Indicators Database)

THIS PICTURE IS TRUE AT DISAGGREGATED LEVELS, WITH SOME DIFFERENCES; STAGNANT OR DECLINING



Latin America (10 countries): Gross Fixed Capital Formation (Percentages of GDP), 1990-2019

	1990s	2000-08	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Latin America	18.6	18.2	19.9	21.0	21.7	22.0	22.0	21.3	20.0	18.7	18.1	18.3	18.2
Exporters of Metals and Minerals:													
Chile	14.4	17.5	20.2	21.6	23.6	24.9	24.8	23.1	22.6	21.9	21.0	21.1	21.8
Perú	16.6	16.0	20.9	23.5	24.3	26.3	26.2	25.1	22.5	20.7	20.5	20.6	21.0
Exporters of Agro-Industrial Products:													
Argentina	13.9	13.7	14.5	16.6	18.4	17.3	17.3	16.5	16.7	16.0	17.7	17.1	14.6
Paraguay	21.3	17.3	18.6	21.3	21.0	19.3	19.2	19.6	18.7	18.3	18.4	19.1	17.8
Uruguay	16.3	15.6	17.7	19.1	19.4	22.1	22.0	21.8	19.7	19.1	15.7	15.0	15.2
Exporters of Hydrocarbons:													
Bolivia	16.0	14.2	16.1	16.6	19.5	19.0	19.9	20.7	20.7	20.6	22.1	21.9	20.7
Colombia	19.2	16.9	21.5	22.0	23.1	23.0	23.7	24.8	24.8	23.6	23.7	23.4	23.7
Ecuador	18.7	21.0	23.1	24.6	26.1	27.3	28.7	28.3	26.5	24.5	25.2	25.3	24.5
Major Manufacturing Exporters:													
Brazil	18.5	17.4	18.7	20.5	21.1	20.9	21.4	20.4	18.2	16.6	15.9	16.3	16.5
México	20.3	20.6	21.7	21.6	22.5	22.7	21.7	21.7	22.0	21.6	20.9	20.7	19.7

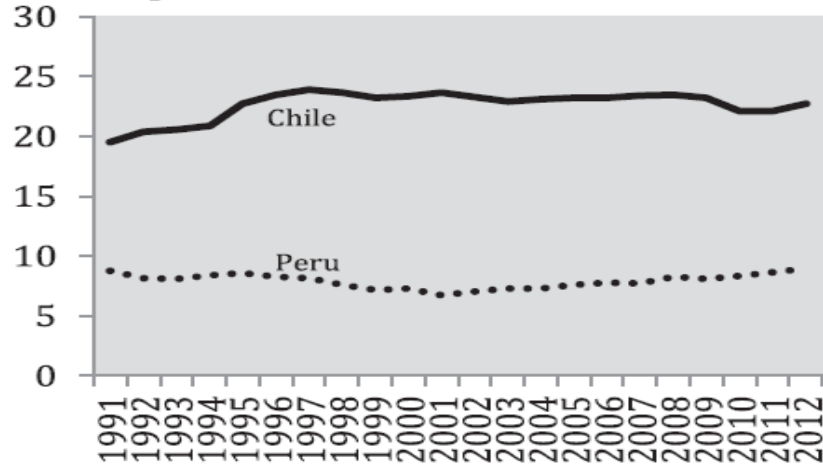
Source: ECLAC based on official national sources.

With very few exceptions, it has always been lower than 25% of GDP

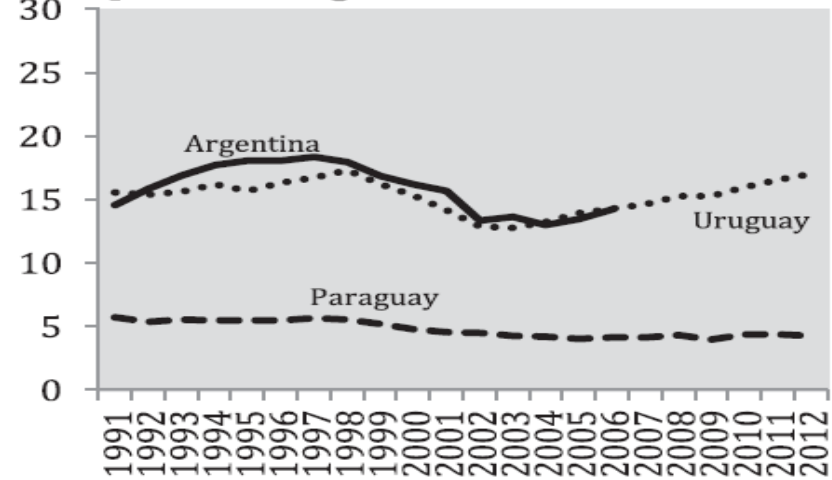


NOT SURPRISINGLY, ITS LABOUR PRODUCTIVITY GAP WITH THE UNITED STATES HAS ALSO WIDENED

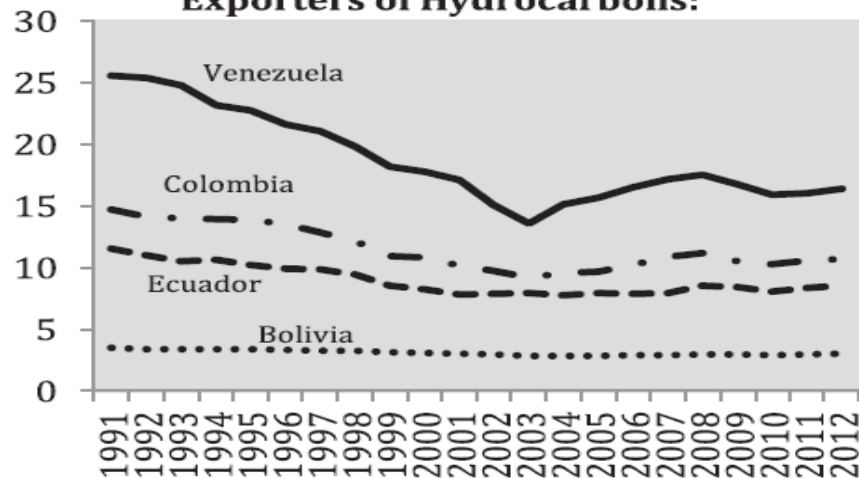
Exporters of Metals and Minerals:



Exporters of Agro-Industrial Products:



Exporters of Hydrocarbons:



Major Manufacturing Exporters:

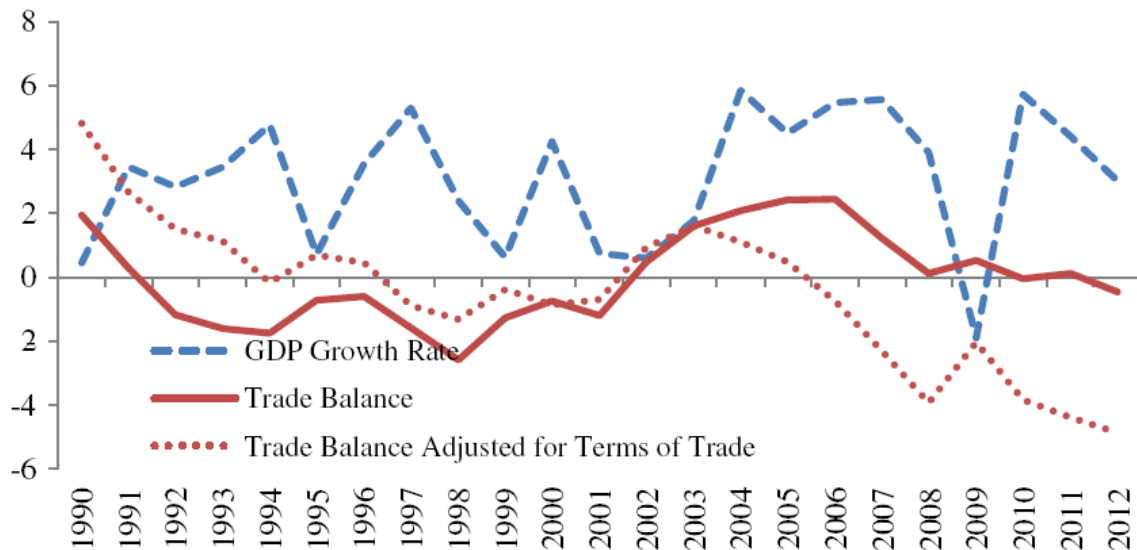


LATIN AMERICA: THE BALANCE OF PAYMENTS CONSTRAINT: INCOME/PRICE ELASTICITIES, TERMS OF TRADE

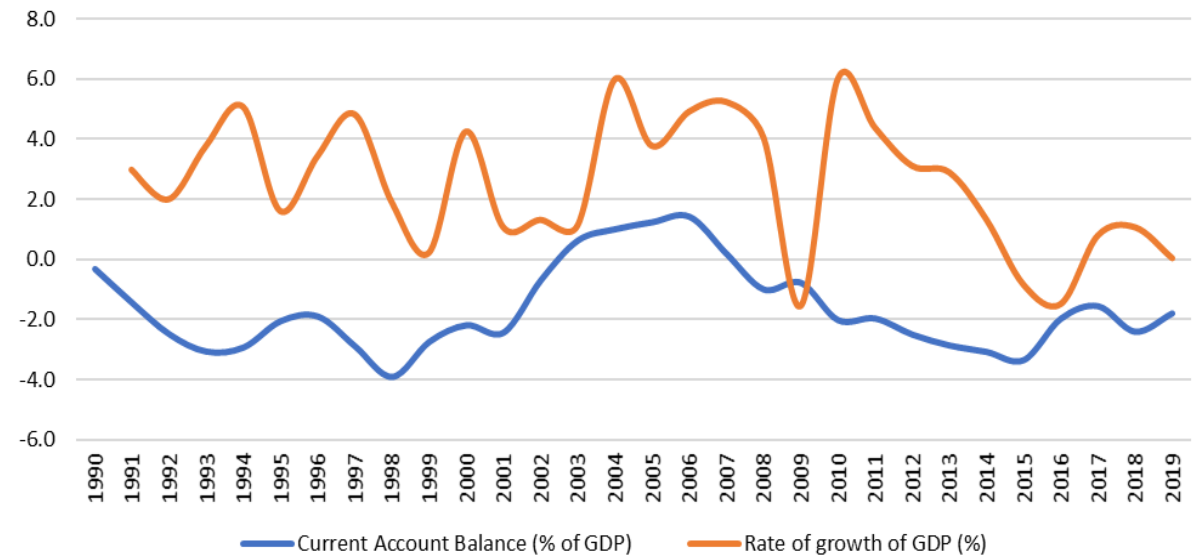


Persistent fast economic growth tends to lead to an unsustainable trade deficit; capital flight and acute rise in the external debt to GDP ratio

Terms-of-Trade impact is a mixed blessing



Latin America: Current Account Balance (% of GDP) and GDP Growth Rate (%)



Own elaboration based on CEPALSTAT (2020).

Export mix: i) Commodities or intensive in natural resources, or ii) Manufactures with low value added and scant innovation domestically, concentrated in few firms (TNCs), weak internal linkages and income/employment multipliers ... weak nexus exports-profits-investment



RECALL THAT THE REGION'S BOOM IN THE EARLY 2000s WAS ACCOMPANIED BY “RE-PRIMARIZATION” OF ITS EXPORTS

Table 8. Latin America and The Caribbean: export structure by technology intensity, 1981–2010^a (percentages of total exports).

	1981–1982	1998–1999	2008–2009	2010
Primary goods	51.5	26.7	38.6	39.1
Natural-resources based manufactures	25.5	18.4	20.8	20.9
Low-technology manufactures	8.2	12.9	7.5	7.1
Medium-technology manufactures	11.6	26.7	21.3	21.5
High-technology manufactures	3.2	15.3	11.8	11.4

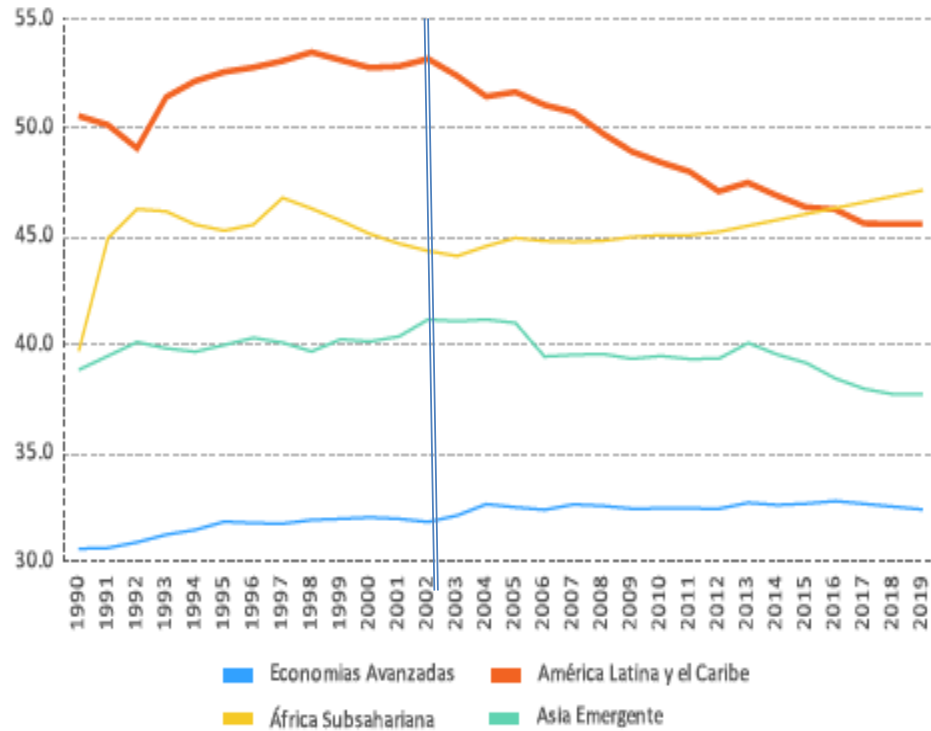
Note: Average for yearly groupings.

Source; Moreno-Brid and Garry (2015)



INEQUALITY IMPROVED IN THE 2000s (FALL IN GINI AND SLIGHT RISE IN SHARE OF LABOUR IN GDP)

GRÁFICO 2: Evolución del Índice GINI, promedio regional



FUENTE: Elaboración propia utilizando datos de WDI del Banco Mundial. Los datos para el año 2019 se aproximaron utilizando una extrapolación lineal.

Latin America (15 countries): share of wages in GDP (at market prices), weighted average for the total region and subregions^a
(Percentages)



Known as the most unequal region in the world

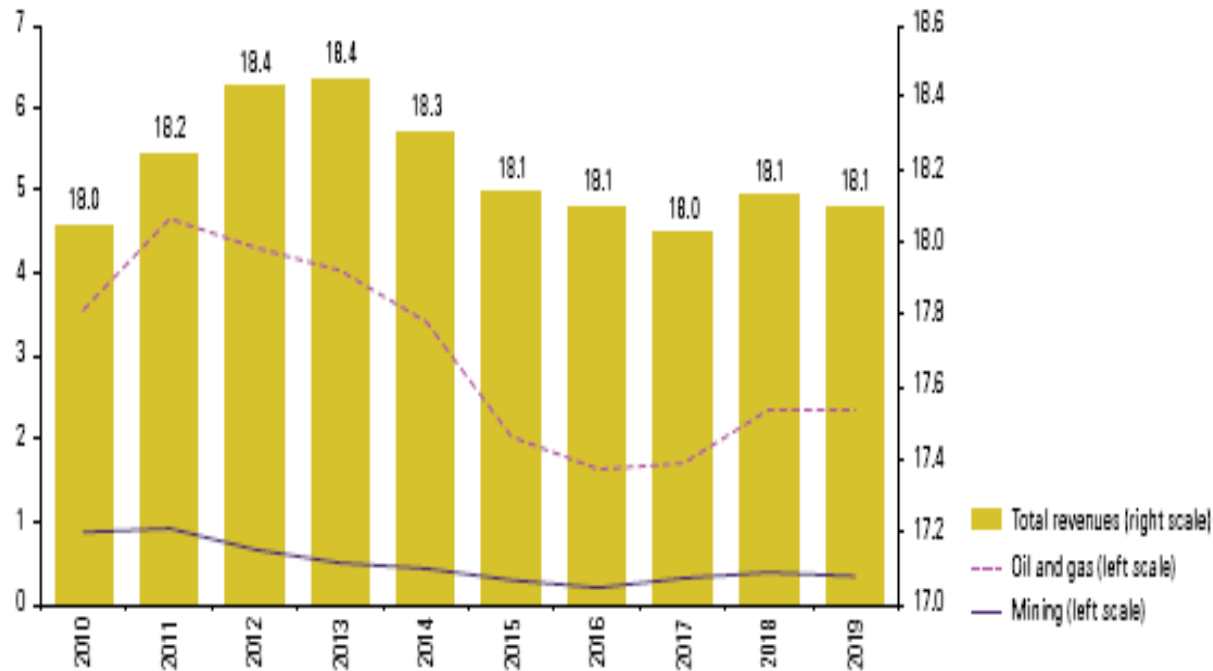
Note the bias in the measurement of income distribution via household surveys in very unequal countries.

THE FISCAL CONSTRAINT: LOW REVENUES AND DEPENDENT ON THE “FORTUNE” OF NATURAL RESOURCES AND...

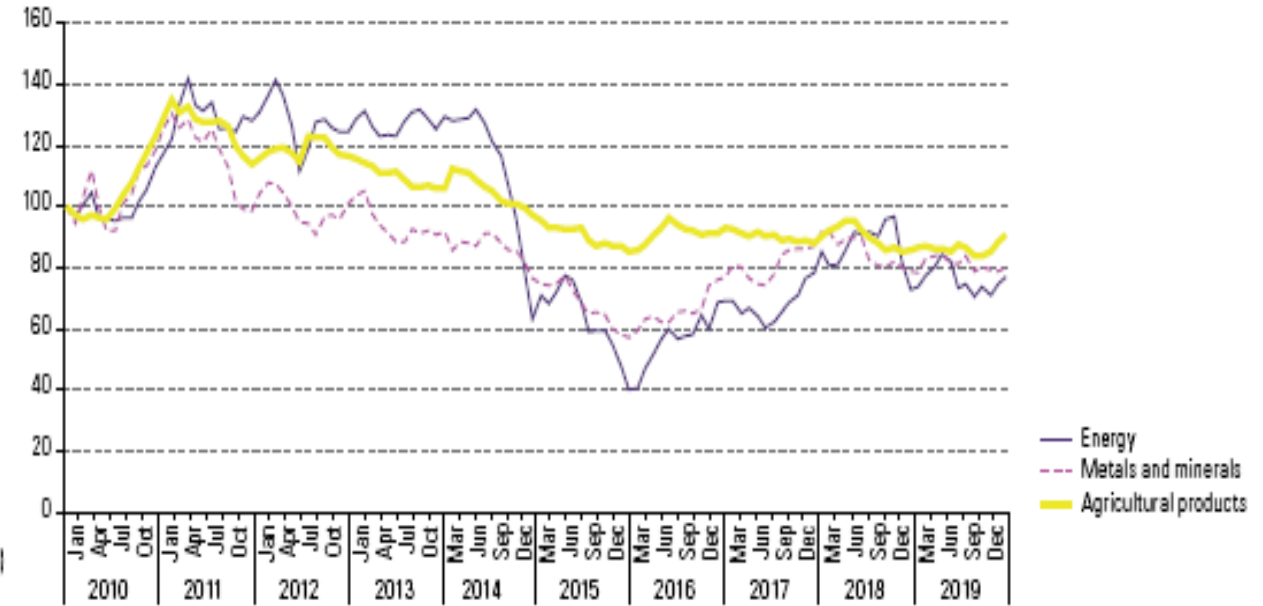


Latin America (16 countries):^a total central government revenues, fiscal revenues from non-renewable natural resources and international commodity prices, 2010–2019

A. Total revenues and revenues from non-renewable natural resources (percentages of GDP)^b



B. International commodity prices (index: 100=average for 2010)

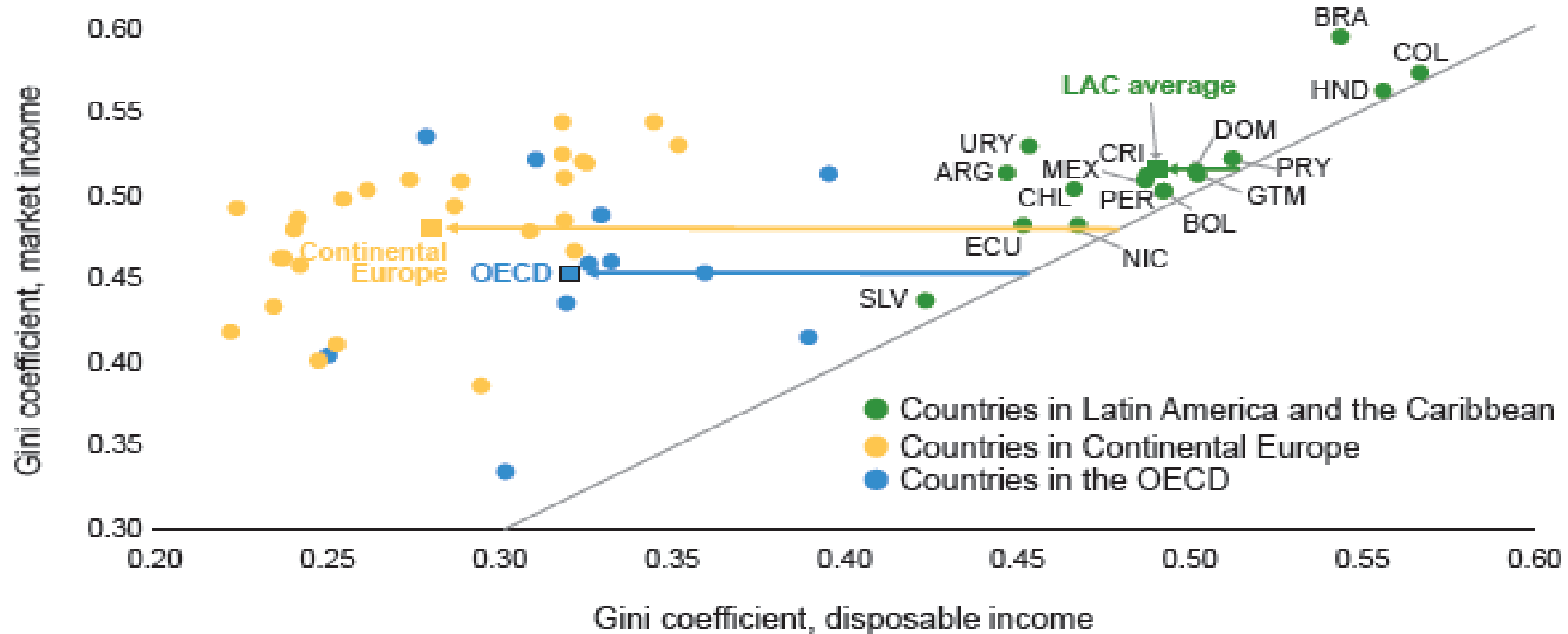


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the World Bank and official figures.

This dependency limits the scope for counter-cyclical fiscal policies, increases their vulnerability. And, given the low overall revenues, ends up cutting or restraining public fixed capital formation reflected in a lagging infrastructure

DIRECT TAXES AND GOVERNMENT TRANSFERS HAVE NEGLIGIBLE IMPACT ON INEQUALITY IN THE REGION

Figure 3.1 Income Inequality Differences before and after Direct Taxes and Government Transfers



Source: IDB staff calculations based on Pessino and Alaimo, 2018.

Note: OECD average excludes OECD members in Continental Europe. Data refers to circa 2012.

FISCAL PERFORMANCE POST-2009: PERSISTENT DEFICITS AND INCREASED DEBT RATIO TO GDP



A. Average of gross central government public debt (percentages of GDP)

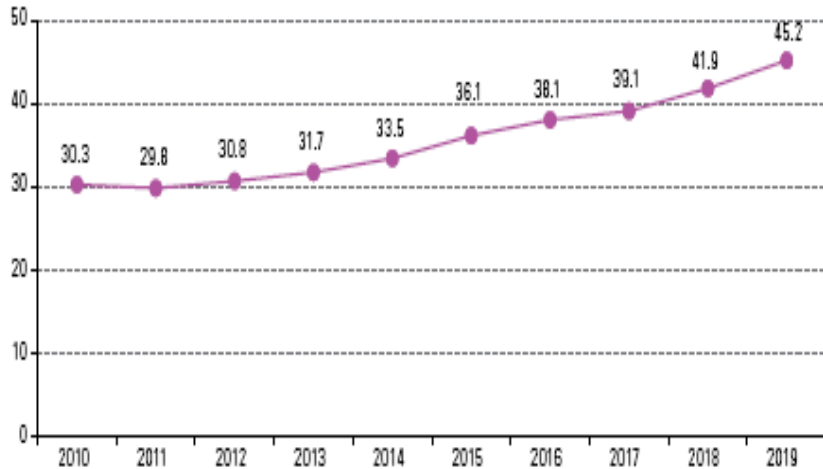


Figure I.9
Latin America (18 countries):^a gross central government public debt, 2010–2019

B. Change in central government gross public debt, 2011–2019 (percentage points of GDP)

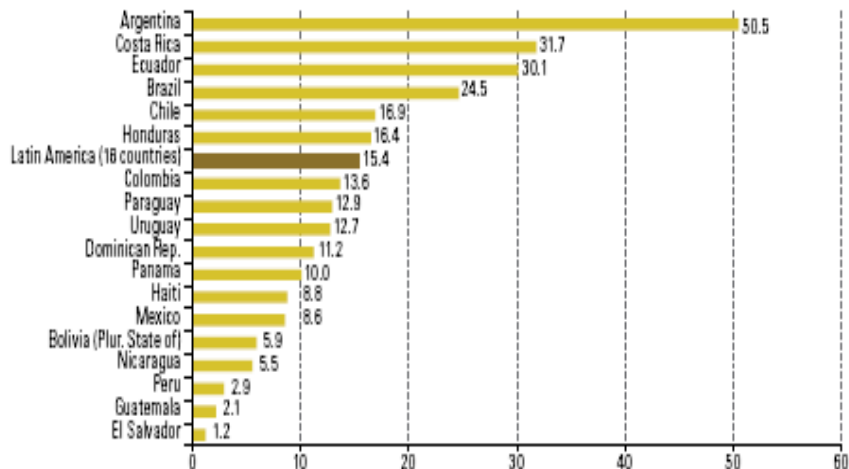
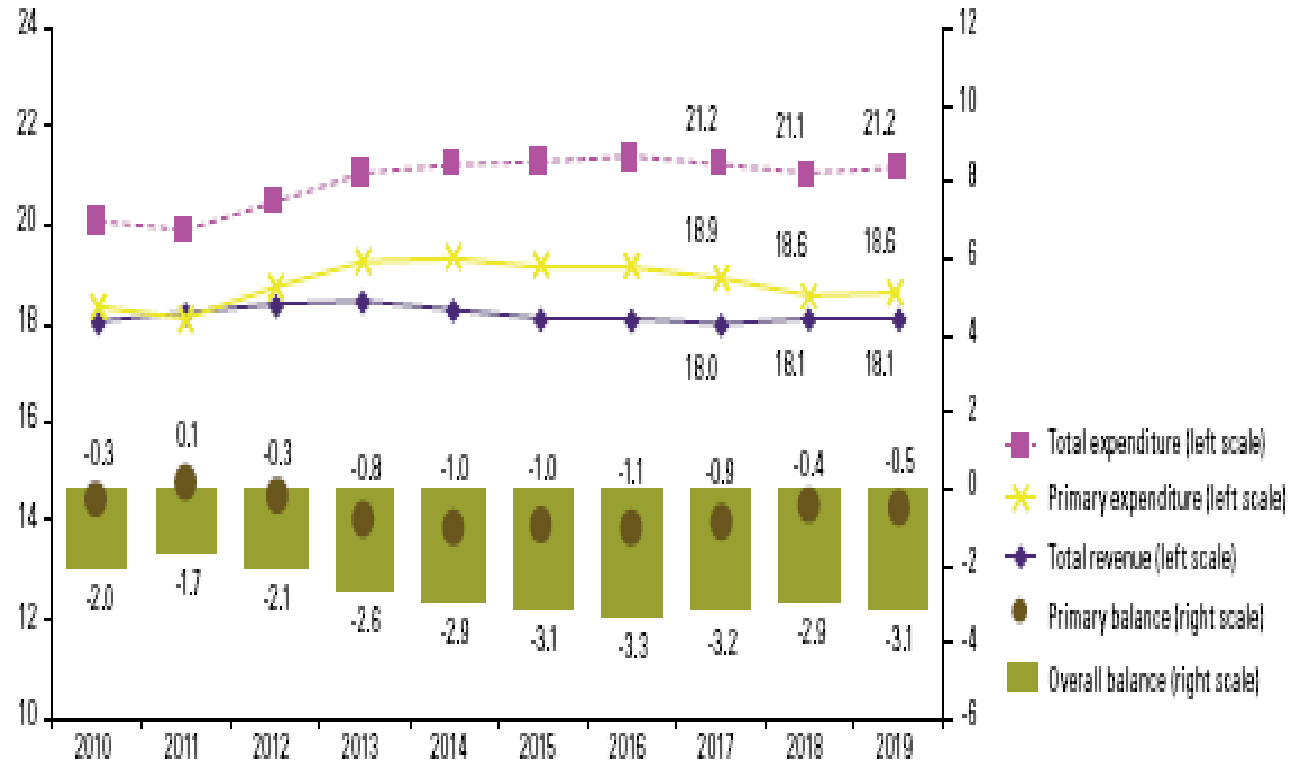


Figure I.7

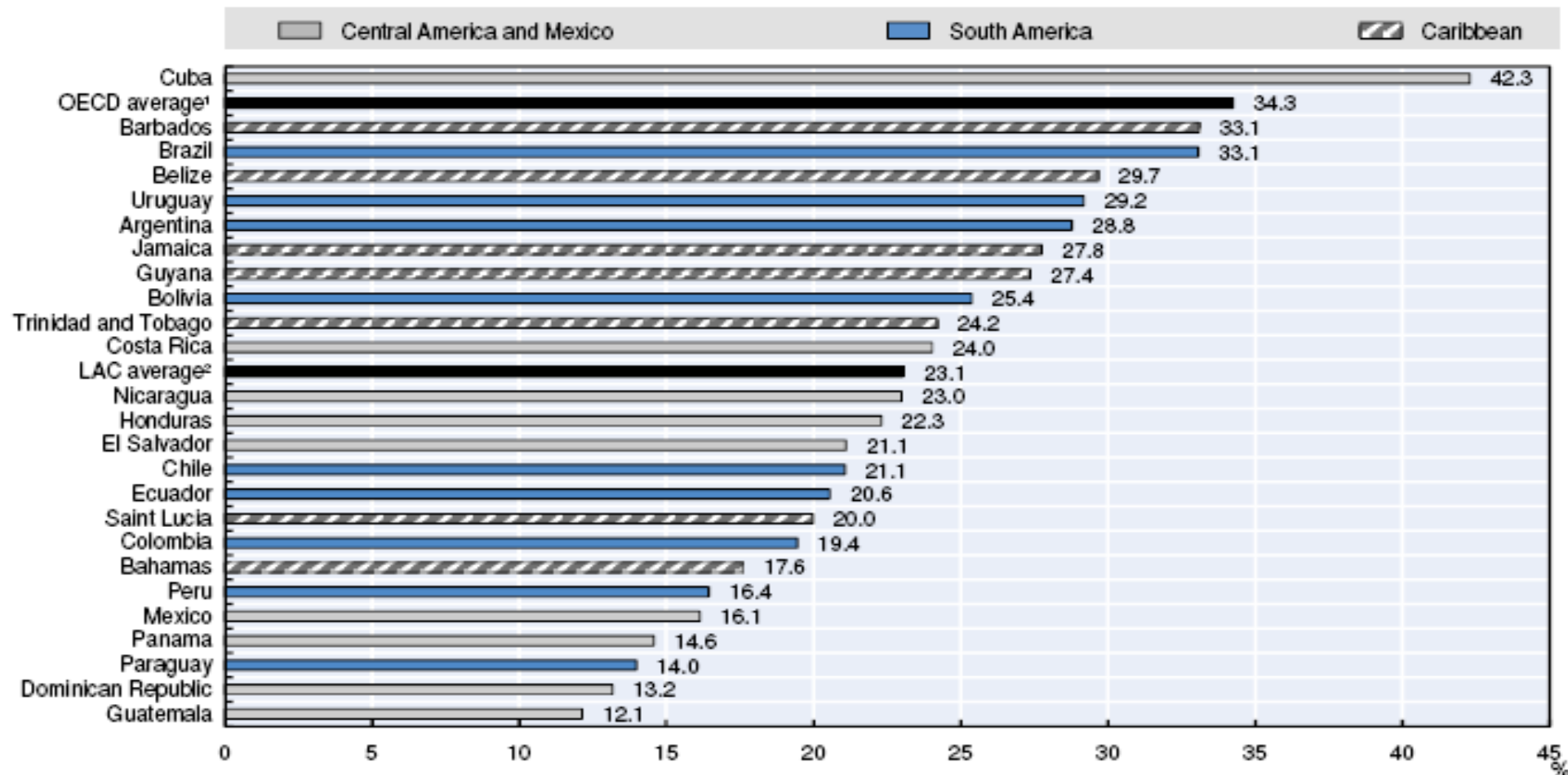
Latin America (16 countries):^a central government fiscal indicators, 2010–2019 (Percentages of GDP)



IN FACT, THE LATIN AMERICAN STATE IS A POOR ONE



Figure 1.1. Tax-to-GDP ratios, 2018
Total tax revenues as percentage of GDP



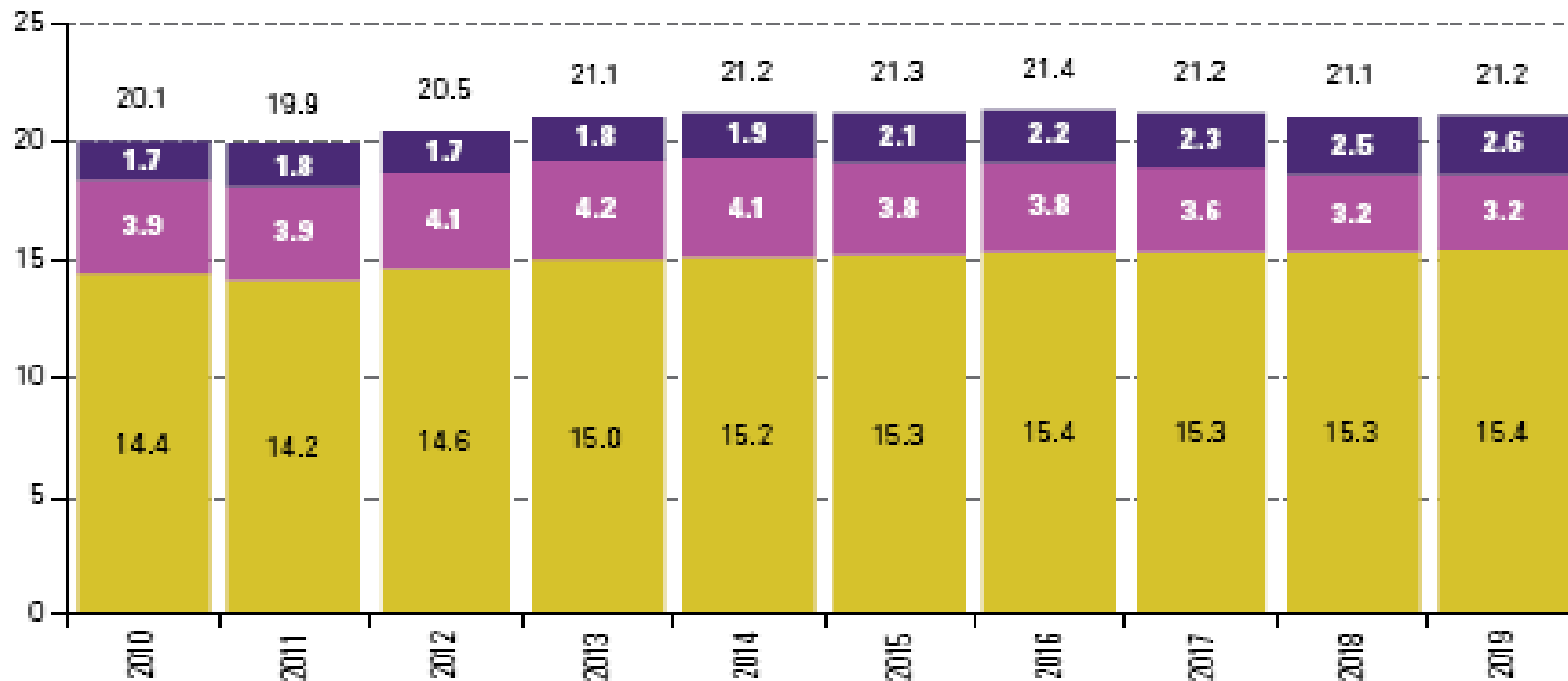
Note: Figures exclude local government revenues for Argentina (but include provincial revenues), the Bahamas, Barbados, the Dominican

CENTRAL GOVERNMENT EXPENDITURE: CONSTANT AS % GDP, WITH HIGHER DEBT SERVICE AND LOWER INVESTMENT



Latin America (16 countries) and the Caribbean (12 countries): total central government spending by component, 2010–2019
(Percentages of GDP)

A. Latin America^a



- Interest payments
- Capital expenditure
- Primary current expenditure



ET MAINTENANT? PRESSING URGENCY: COVID AND ECONOMIC RECESSION

AND THEN DISASTER STRUCK IN 2020



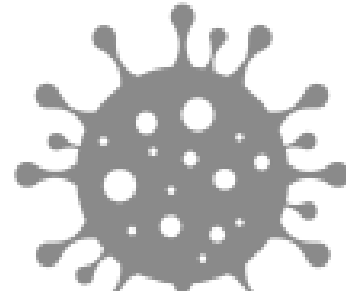
Multilateralism is severely questioned

- Tensiones geopolíticas
- Nueva geografía económica
- Modelos de gobernanza global desgastados



New global challenges all over

- Cambio climático
- Pérdida de biodiversidad
- Revolución tecnológica
- Migración



The Covid19 crisis has augmented the region's long term problems and created new ones



SDGs at risk, at enormous risk

- Agenda 2030
- Acuerdo de Paris



Structural gaps

- Crecimiento insuficiente
- Periferia: restricción externa
- Baja productividad
- Desigualdades entrecruzadas



Social Discontent

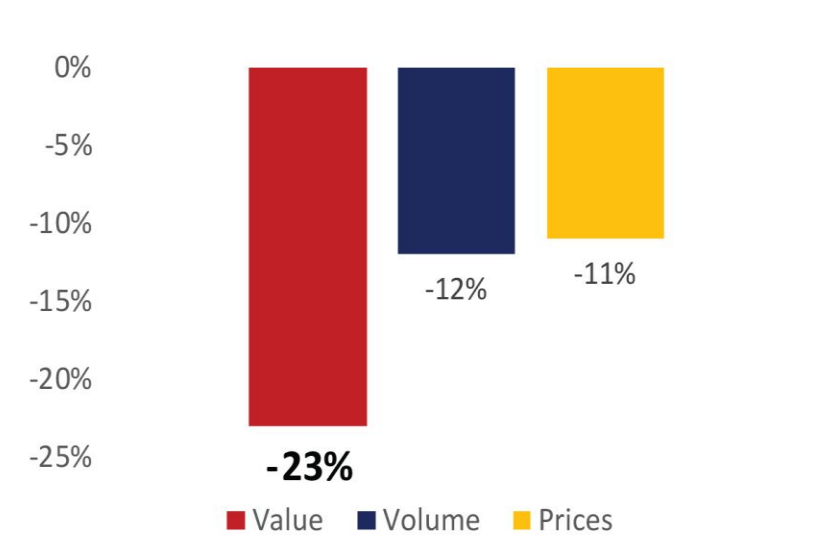
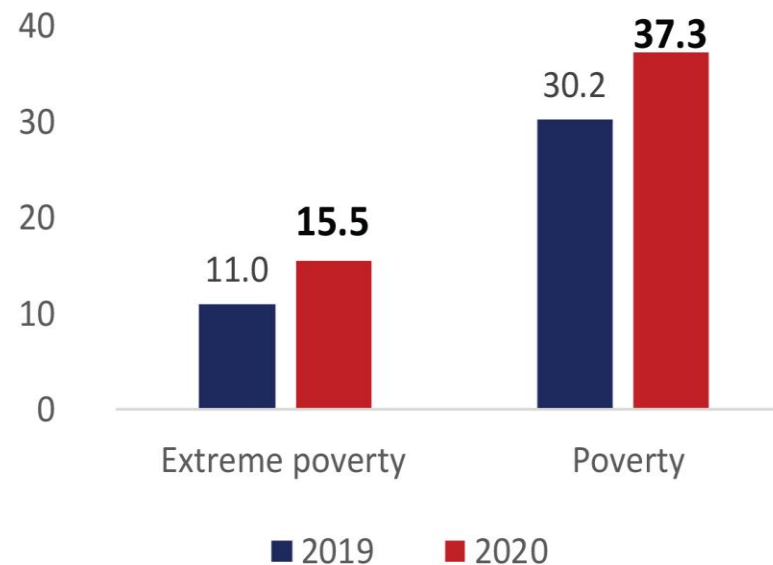
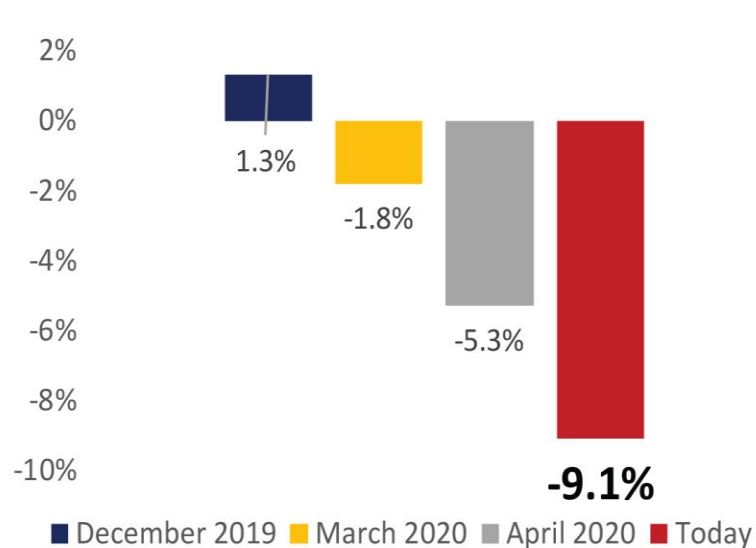
- Fragmentación de servicios salud, educación y protección social
- Desconfianza
- Corrupción

COVID-19 DETONATED THE WORST CRISIS IN A CENTURY



- Demand- and supply-side crisis
- Regional exports set to fall by 23%
- Per capita income will slip back to 2010 levels
- Unemployment will rise to 13.5%, with 44 million unemployed: increased risk of segmentation, precarious conditions and polarization in labour markets
- Closure of 2.7 million formal businesses

Latin America and the Caribbean: projected growth Latin America: poverty and extreme poverty Latin America and the Caribbean: exports

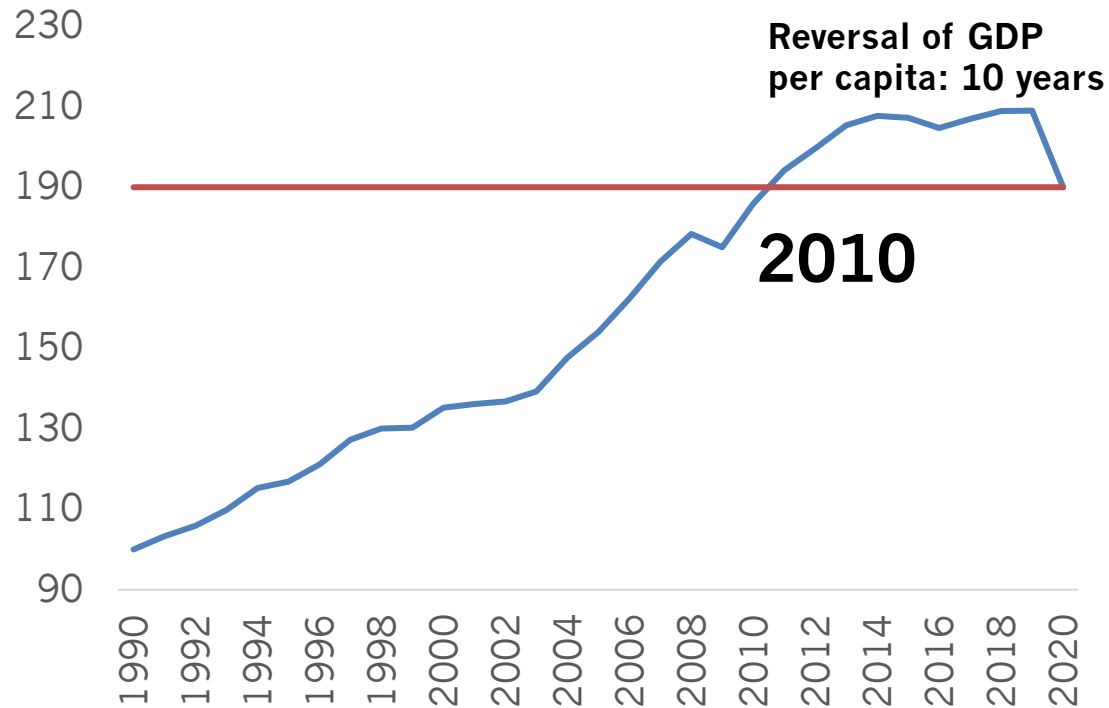


Source: Economic Commission for Latin America and the Caribbean, on the basis of official data.

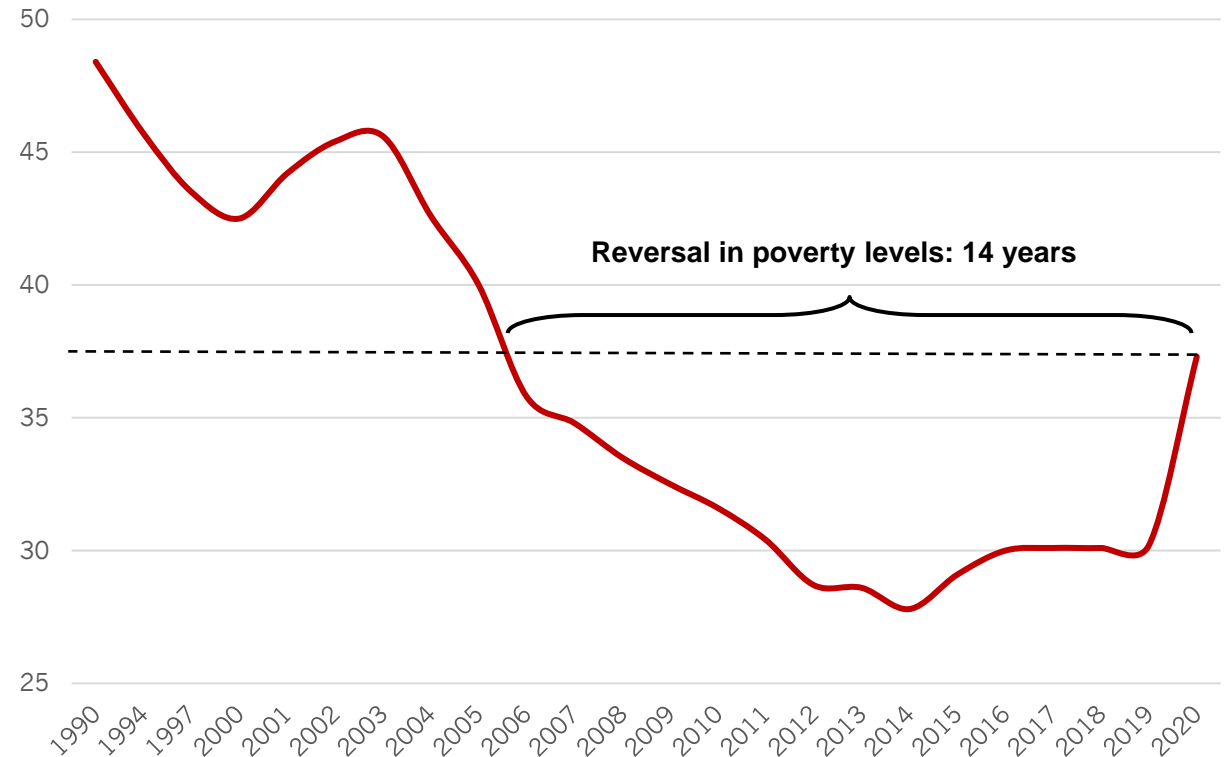
FOR THE REGION, 2020 IS A BRUTAL SET BACK IN ECONOMIC ACTIVITY POVERTY AND, FOR SURE, WILL INCREASE INEQUALITY



LATIN AMERICA AND THE CARIBBEAN: PER CAPITA GDP (Index 1990=100)



LATIN AMERICA : POVERTY LEVELS (Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official data.

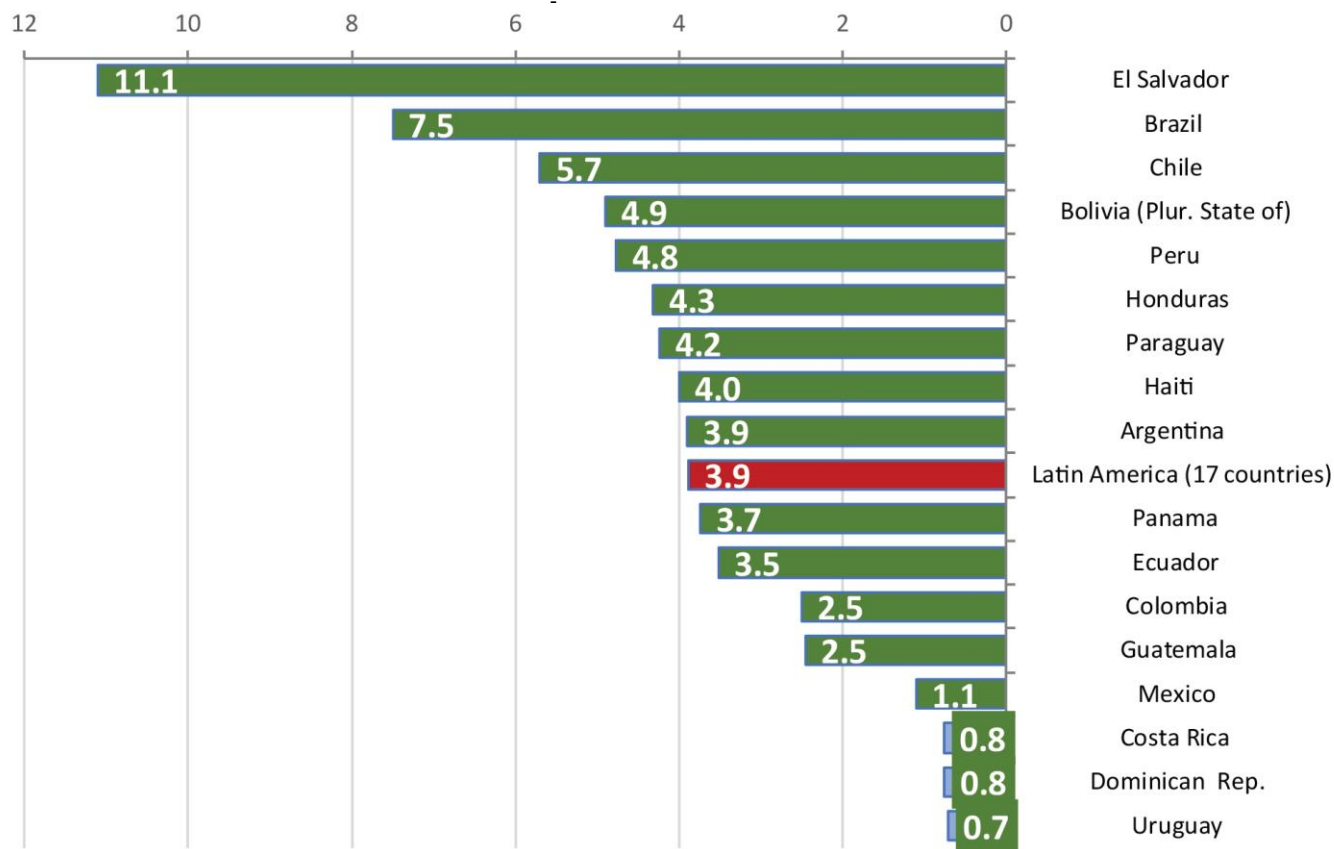
FISCAL MEASURES HAVE DIFFERED WIDELY IN THE REGION, CONSTRAINED BY STRUCTURAL LOW REVENUES, ACCESS TO FINANCE



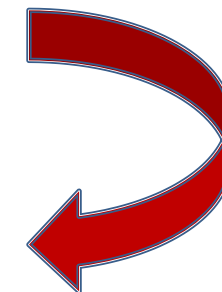
LATIN AMERICA (17 COUNTRIES): FISCAL EFFORT OF MEASURES TO ADDRESS THE CORONAVIRUS (COVID-19) PANDEMIC

(Percentages of GDP)

Spending, tax relief and liquidity measures to mitigate the impact of



- Tax relief
- Public expenditure
- Government backed liquidity support



- ✓ Strengthen health services
- ✓ Support household incomes
- ✓ Protect productive capacities

THE CRISIS HAS REVEALED KEY FLAWS OF LAC'S DEVELOPMENT AGENDA



Económica

Tasa compatible con el equilibrio externo

Social

Tasa necesaria para el objetivo de la igualdad



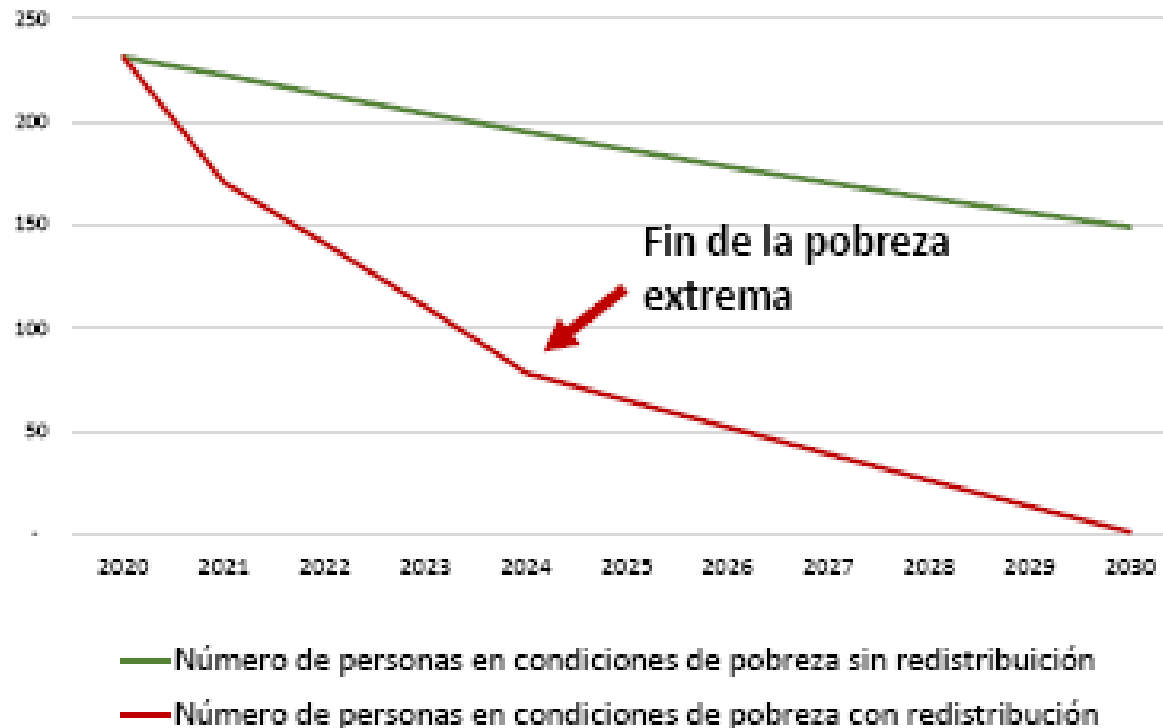
Ambiental

Tasa compatible con los equilibrios planetarios y el medioambiente

La interacción entre las dimensiones económica, social y ambiental hace necesario pensar las tres crisis conjuntamente, así como sus soluciones

GROWTH WITH REDISTRIBUTION REDUCES POVERTY MUCH MORE THAN WITHOUT IT

América Latina y el Caribe: efecto de la política de redistribución
con una tasa de crecimiento del 4%, 2020-2030
(En millones de personas)



Fuente: Comisión Económica para América Latina y el Caribe (CEPAL), *Construir un nuevo futuro: una recuperación transformadora con igualdad y sostenibilidad* (LC/S15.31/0-P), Santiago, 2020.

Objetivo: **Eliminar la pobreza en 2030 (37,8%)**

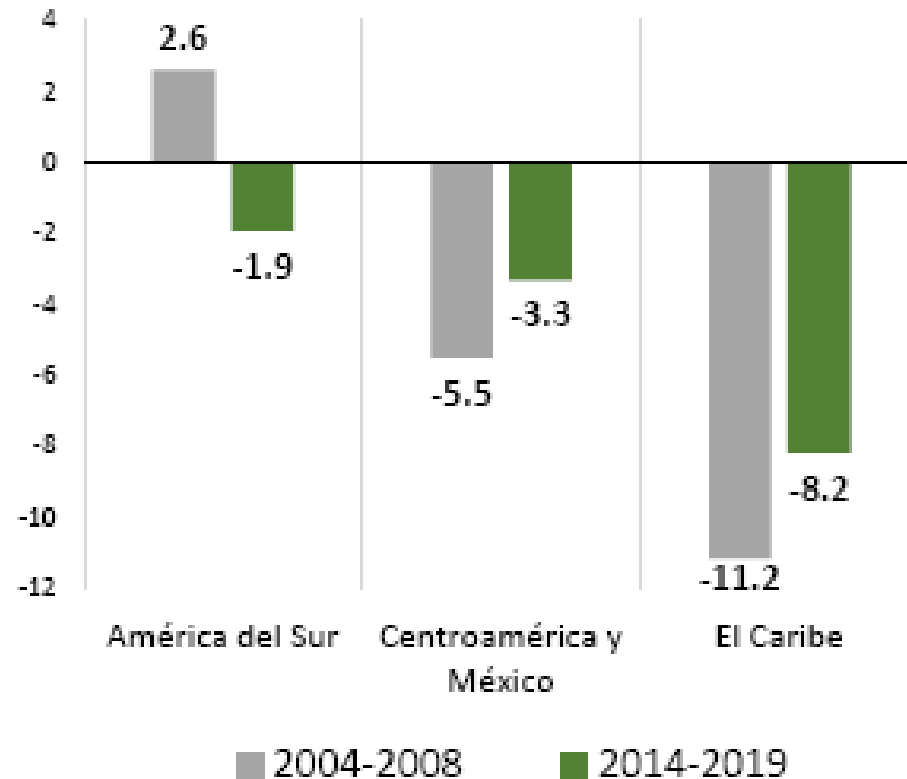
Condiciones necesarias:

1. **Transferencia de una línea de pobreza del decil más rico al más pobre, partiendo de 1.5 % del PIB en el 2021 y aumentando 0.5 puntos anualmente hasta llegar al 3 % en el 2024, permaneciendo en ese nivel hasta el 2030, alcanzando un Gini de 0.40**
2. **Tasa de crecimiento del PIB del 4% para crear los empleos necesarios para reducir el número de pobres**

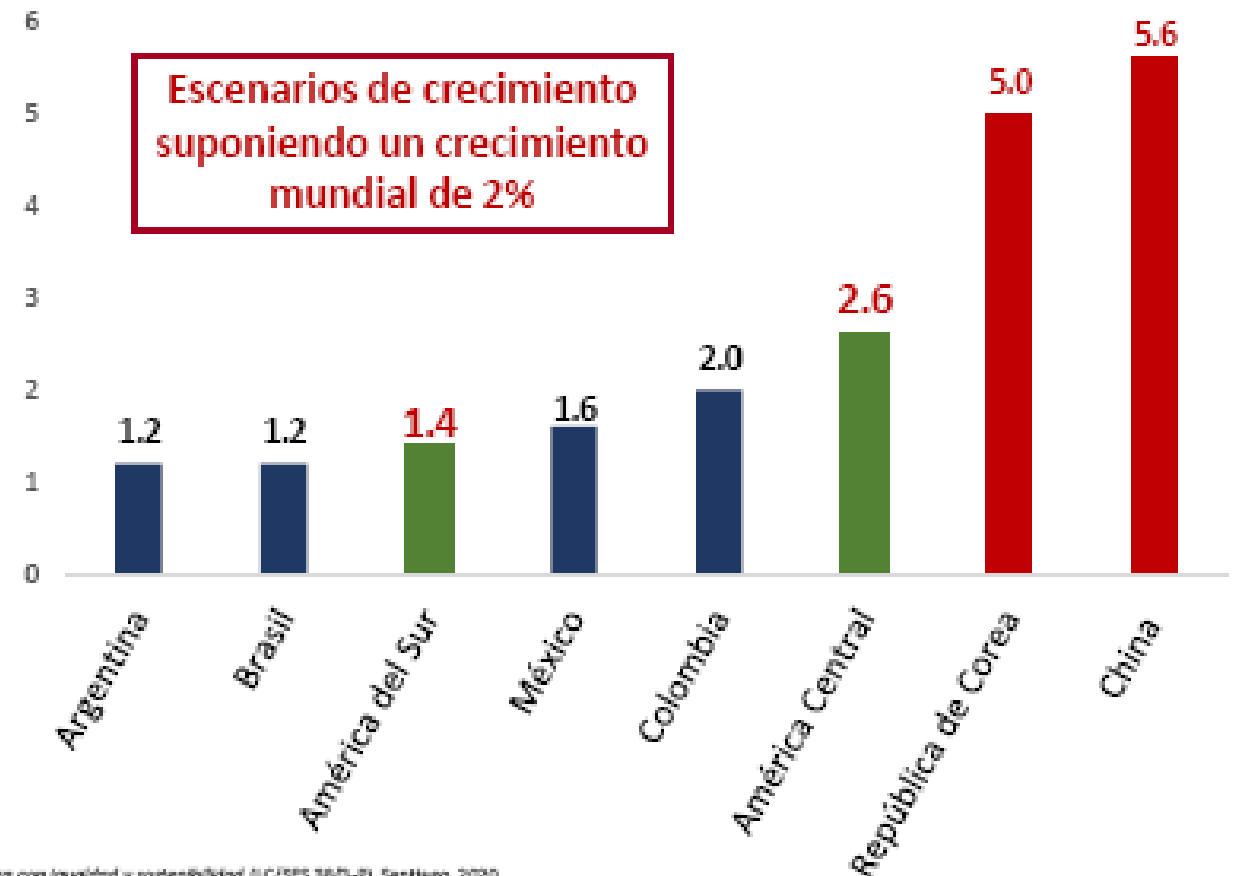
Hay retroalimentación positiva entre mayor igualdad y mejoras en la competitividad, la creación de empleos formales y el crecimiento

BUT THE BALANCE OF PAYMENTS IS A BINDING CONSTRAINT

América Latina y el Caribe: saldo en cuenta corriente,
2004-2008, 2014-2019
(Promedio simple, en porcentajes del PIB)



Países y regiones seleccionados: techo máximo de crecimiento impuesto por la restricción externa en un escenario de crecimiento mundial del 2%



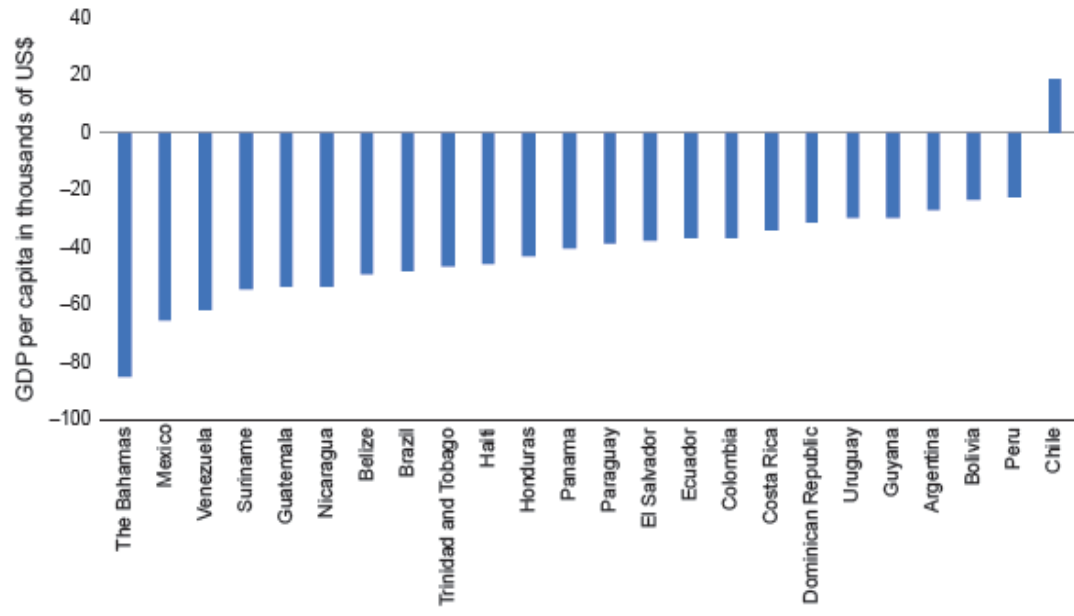
Fuente: Comisión Económica para América Latina y el Caribe (CEPAL), *Construir un nuevo futuro: una recuperación transformadora con igualdad y sostenibilidad* (LC/SES.36/0-P), Santiago, 2020.

Nota: Las estimaciones de la elasticidad ingreso de las exportaciones se realizaron a partir de las exportaciones y del PIB mundial a precios constantes, y las de la elasticidad ingreso de las importaciones se realizaron a partir de las importaciones y del PIB de cada país a precios constantes. Tanto en la ecuación de las importaciones como la de las exportaciones, se introdujo como variable de control el tipo de cambio real. Todas las variables se expresaron en niveles logarítmicos.

AND LET'S NOT FORGET CLIMATE CHANGE. ITS IMPACT ON THE REGION IS AND WILL BE BRUTAL, UNEVENLY DISTRIBUTED



Figure 6.2 The Reduction in Projected 2100 Incomes Given Higher Temperatures



Source: IDB staff calculations based on Burke, Hsiang, and Miguel (2015).

Note: The reduction in projected GDP per capita in 2100 given estimated temperature rises.

Climate change, and the devastation of natural resources are an urgent call not to repeat past policies.

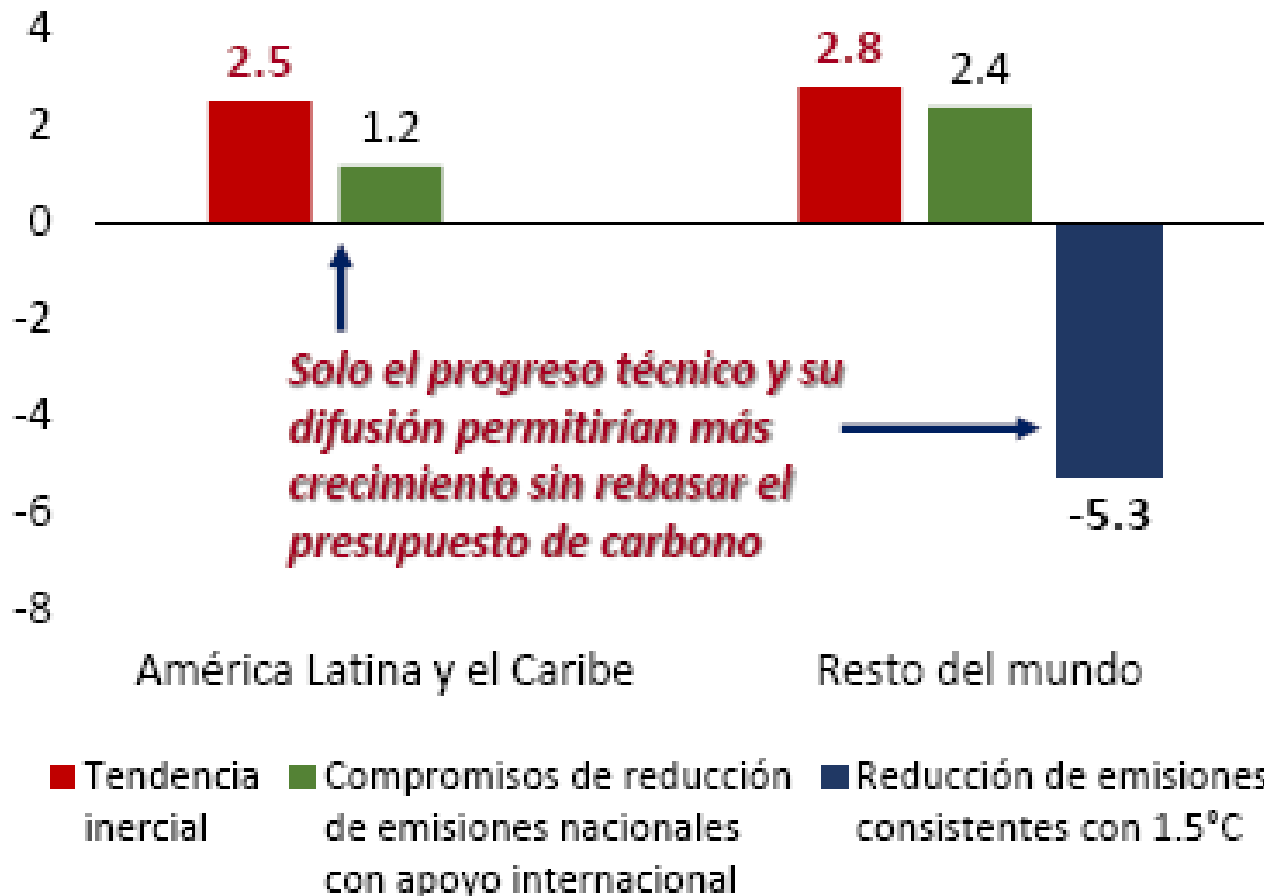
Climate change's social and economic impact make even more binding the three key constraints on economic growth and development: i) the external, ii) the fiscal and the iii) inequality (goes beyond a weak domestic market)

Associated to this is the impact of extreme events, directly on the population and indirectly reducing public revenues and increasing expenditures. And we rely not on environmentally related taxes.

AND OUR ENVIRONMENTAL PERFORMANCE IS A SHAME, ECONOMIC GROWTH –SO FAR– IS VERY DIRTY



América Latina y el Caribe y resto del mundo: Tasas máximas posibles de crecimiento del PIB si no cambia la tasa tendencial de progreso técnico, 2020-2030
(En porcentajes)



- La tasa de crecimiento no puede sobrepasar el presupuesto de carbono, absorbido por pocas economías
- Innovar y difundir tecnologías ambientales para aumentar el espacio para el crecimiento global
- Reciprocidad: **justicia ambiental**
- Sin cambio estructural y descarbonización, la región solo podría crecer al 1.2 % al año para cumplir con el Acuerdo de París

THE VIEW FROM PROPONENTS OF A NEW ECO-SOCIAL PACT



- Latin America is at a crossroads: governments can either:
 - i) embrace a pro-people transition, putting at the center of its priorities sustainability, renewable energy and equality, or
 - ii) bet even more on ignoring climate change concerns, push more for oil and gas and declining industries.

FOR THE MEDIUM TERM. A NEW AGENDA FOR DEVELOPMENT. A GLOBAL GREEN NEW DEAL



The agenda must have political support, funds and tools to remove the constraints on the region's development and increase its commitment to sustainability and equality.

The State is the only actor that can guide a transition to a low-carbon economy. It must put in place a new social pact for a structural change based on decent jobs, a green economy and more equality including universal social protection

FOR THE MEDIUM TERM. A NEW AGENDA FOR DEVELOPMENT. A GLOBAL GREEN NEW DEAL



Immediate steps internally are an i) ambitious and progressive fiscal reform to equality and growth and an ii) active industrial policies committed to a carbon transition

Financing the agenda requires fresh additional resources from the international community and LAC's rich population

ECLAC's: A BIG PUSH FOR SUSTAINABILITY GUIDE TO STRUCTURAL TRANSFORMATION



- Schumpeterian/Hirschman efficiency: more integrated, complex, and knowledge-intensive production to generate positive learning and innovation benefits that radiate throughout the value chain,
- Keynesian efficiency of economies of scale and scope: specializing in the production of goods with high income elasticity (eye on net exports) with multiplier effects and positive impacts on the economic activity and jobs
- Sustainability/Equality refers to classic efficiency on the tripod of environmental economic viability, and social justice

WHAT WILL WE DECIDE? CRISIS IS –SLOGAN- OPPORTUNITY. INDEED, OPPORTUNITY TO SOLVE THE PROBLEMS OR MAKE THEM EVEN BIGGER.



Correct diagnosis on what are the key constraints on the region's quest for a robust, sustainable and equitable long-term development

Equality has a gender challenge that must be explicitly addressed

Priorities, in time and space

Identifying the policy tools including access to financing

Political consensus among relevant actors, nationally and regionally

Ideology, politics and economics...

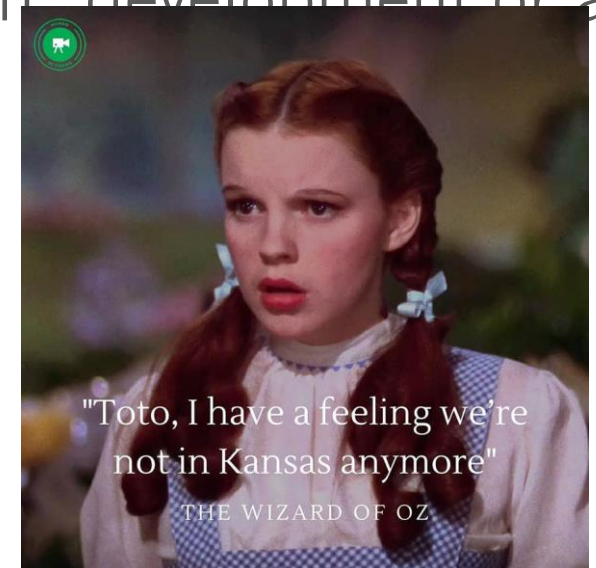
- But.... We were here before, weren't we? Will we be facing the same question ten years from now? If we do, it may be too late!

A NEW DEAL FOR SUSTAINABLE DEVELOPMENT: GREAT IDEA, ITS TIME HAS COME AGAIN, AND AGAIN AND AGAIN?



Unique opportunity presented by the crises and the global recession. Wide acceptance that the old system no longer works and [needs] new solutions. World economy needs stimulus of a GGND. The unregulated market can't resurrect itself on its own from a failure of a historical proportion without significant and coordinated government intervention. Green sectors ... and renewable energy have the prospect of leading the global economic recovery while addressing major environmental crises, and doing so with better returns to capital than “brown” development or a “spending spree”.

Global Green New Deal, Policy Brief, UNEP, March 2009



If not now, if not us... then



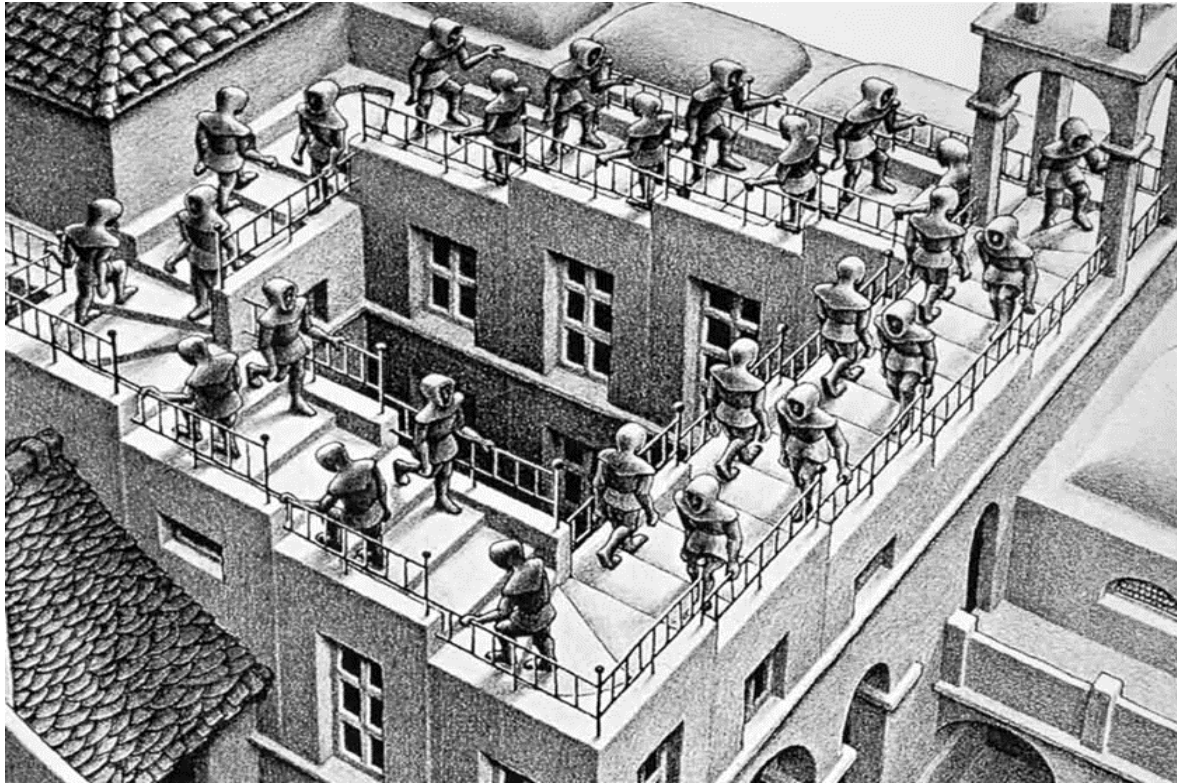
*There is a tide in the affairs of men.
Which, taken at the flood, leads on to fortune;
Omitted, all the voyage of their life
Is bound in shallows and in miseries.
On such a full sea are we now afloat,
And we must take the current when it serves,
Or lose our ventures.*

Julius Caesar, Act 4, scene 3, 218-224

*Men at some time are masters of their fates;
The fault, dear Brutus, is not in our stars,
But in ourselves, that we are underlings.*

Julius Caesar, Act 1, scene 2, 135–141

Latin America and the pandemic: a unique opportunity not to waste a crisis



We are not facing new problems, but old problems that have become very serious.”

Raul Prebisch (1980)

“Biosphere and Development,”

Hertie School, Berlin

Juan Carlos Moreno-Brid, Facultad de Economía, UNAM

juancarlosmorenobrid@gmail.com

28 April, 2021