

## IMMENSE TRAGEDY KNOCKING AT LATIN AMERICA'S DOOR<sup>1</sup>

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The nations of Latin America and the Caribbean are beginning to confront one of the most challenging periods in their history. The COVID-19 pandemic with its public health consequences and immense economic damage will be a shock that in all likelihood will surpass other adverse circumstances endured by our countries in many generations.

How painful these unfortunate episodes will prove to be for each of our countries will depend on how alert their governments were in each case to the early signs of the tragedy and skillful in implementing strong actions. Unfortunately, the policy reactions in LAC have been rather uneven. Some governments fairly quickly undertook preparations and reacted decisively and efficiently, indeed making the protection of the public's health their primary objective.

In some other significant cases, however, preparations were parsimonious and, frankly, policy reactions rather incompetent. Those governments have failed to project serious awareness about the complexity of the situation; have tended to neglect or minimize the risks stemming from the pandemic; due to ignorance or on purpose, have misinformed their citizens; and have frequently disregarded the scientific evidence, the lessons learned in other countries savaged by the pandemic, and their own experts' opinions. Far from uniting their societies to fight and defeat the pandemic, some leaders have played the cards of division, demagoguery and populism as if they saw in this crisis not a challenge but an opportunity to reaffirm their political power.

Leaders who have decided to play frivolous politics rather than use all the instruments and capacities at their disposal to confront this tragedy head-on are under suspicion that, at least for a while, they opted for a strategy to allow the epidemic to go unmitigated with a view to achieve community immunity rather soon believing, wrongly, that this approach would reduce the economic harm –and any possible damage to their personal popularity-- caused by the pandemic.

Such a wrongheaded belief does not seem to be prevalent any more. One reason for this change of mind probably was that by some accounts, a total lack of suppression of the pandemic could yield 3.2 million people dead in LAC within a year and a half.<sup>2</sup> It is not only that this number of fatalities is dreadful and outrageous, but also that a phenomenon like COVID-19 will disproportionately affect, in their health and economy, the poorer and more disadvantaged

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<sup>1</sup> This article is based on the notes that the author prepared as input for a document by a group of former presidents and academic economists of Latin America, which was published in various international papers and can be accessed at: <https://www.theelders.org/news/world-and-latin-american-and-caribbean-region-cannot-afford-delayed-or-inadequate-responses>

<sup>2</sup> <https://www.imperial.ac.uk/media/imperial-college/medicine/sph/ide/gida-fellowships/Imperial-College-COVID19-Global-Impact-26-03-2020v2.pdf>

ones in our societies. For this reason alone, the ethical argument against a strategy of an unmitigated pandemic is totally unacceptable; in fact, if any government were to go this way, it would be committing an atrocious crime.

Furthermore, contrary to what some people think, a strategy of no suppression would also be a terrible economic decision. The morbidity and mortality of unmitigated contagion would disrupt the economic foundations and the social fabric to such an extent that would cause a destruction of the national income far greater than the economic value-added that would be lost through the direct victims of the disease.

Consequently, for ethical and economic reasons the absolute priority of our governments and societies must unquestionably be the suppression of the epidemic in order to minimize its morbidity and mortality. At any cost, governments and societies must multiply as soon as possible the preventive and medical care capacities of their health systems. Each country's infrastructure and human resources must be tapped effectively, and at once, to protect people from being infected and to provide care for those in need of medical attention. Extraordinary actions are required for this extraordinary situation.

Testing massively and strategically has been conspicuously absent in most of the LAC countries. This deficiency has precluded counting infections with a well-founded diagnosis of the problem's advancement, making it much harder to stop the contagion as this becomes brutally extended. Massive and strategic testing will also be indispensable to seek normality when the time comes.

Of course upgrading short term national health systems to deal with the pandemic will carry a very significant budgetary effort; but not doing it will prove even more expensive. The fiscal space must be opened by sacrificing, as long as needed, other budgetary allocations and priorities.

As the experience of this (and actually previous) epidemics shows, to slow down and stop the contagion calls for an extremely drastic and difficult action: a lockdown that keeps people sheltered to prevent their contagion, which in turn forces the stoppage of numerous economic activities. Needless to say, this is a very difficult decision, this being one of those rare occasions when governments must intervene to induce a severe slowdown in economic activity, while historically they are mandated and expected to do exactly the opposite. This is the supply shock that is being endured already by many countries and reflected, still with a lot of uncertainty, in extremely worrisome economic forecasts. Already, the IMF forecasts that our region's GDP will contract 5.2 % this year, although other analysts consider this estimate rather optimistic.

Evidently as the supply shock takes its course, in the absence of effective compensatory actions, there will also be a tendency for total consumption and aggregate demand to quickly shrink. Admittedly, the supply shock followed at once by the demand shock potentially could trigger a depressive spiral in the economy. Preventing this spiral from happening is the biggest challenge of economic policies across the world, certainly in LAC. Our governments and societies should

not allow this to happen and therefore must undertake an unprecedented effort to avoid the contractionary spiral that is already knocking at our door. To that end the preservation of jobs and at least a part of the income of the labor force must be the key objective of our respective economic strategies. Every means must be harnessed to that end.

To be effective, differentiated approaches between and within the formal and informal sectors of our economies should be applied. Every country must determine what fiscal instruments each conceivably has at their disposal. For workers and enterprises in the formal sector, consideration should be given to the deferral or forgiveness of social security contributions and even direct subsidies for payroll expenses. For the informal sector, workers' straight cash transfers should be implemented. In other words, the task at hand is to improvise an unemployment insurance scheme without precedent in our region that stops the catastrophic destruction of jobs while it puts a floor under the fall of labor income, thus avoiding a prolonged economic contraction. Needless to say, supporting jobs and income of workers is fiscally expensive, but a protracted depression would be fiscally much more onerous. Just consider that in the absence of support for employment and aggregate demand, the contraction in tax revenues and its impact on the fiscal deficit would be immense.

Even though the support of employment and income of the labor force should be the top tool to prevent a depression, the relief to enterprises is also essential. In addition to the fiscal incentives for job preservation, there will be a need to activate temporary mechanisms to grant and guarantee sufficient credit. National development banks and even central banks should play a role in this endeavor, but transparency, clear rules, and absence of discriminatory and discretionary decisions are indispensable.

Measures must be taken to avoid the bankruptcy of enterprises that, not having a structural solvency problem, could cease to exist due to the recession and the absence of credit and liquidity in the economy. Government leaders should be mindful that if a widespread bankruptcy of enterprises is not avoided then the next prey of the crisis would be the banking system. If this were to fail, the totality of the payments system, and in fact the entire economy, would irremediably collapse.

The fiscal cost of supporting jobs and enterprises must be compensated to some extent rather soon with adjustments in other items of public expenditure --current and investment-- of lesser social profitability. Furthermore, it is very important to commit seriously from day one to the future correction of the immediate fiscal deficit and enlarged public debt to be incurred to deal with the crisis. Obviously there will be a deterioration in the essential indicators of public finances and national debt, but actions must be taken so that such deterioration is assessed as temporary and reversible over time. A joint commitment by the executive and legislative branches of government towards the correction of the larger fiscal deficit within a reasonable term will be helpful to mitigate the risk of the credit downgrade now threatening many of our countries.

Among an array of actions, our governments should consider the enactment, within a reasonable term, of taxes on the emission of carbon and other GHG causing global climate change. Given the dramatic fall in the price of hydrocarbons, the present is the best moment to tax emissions without affecting consumers perceptibly. Governments could also commit to reform their existing tax systems with a view to fix both their loopholes and other distorting features as well as their patent incapacity to finance the public goods demanded by our societies.

In designing their strategies, our governments must take into account that the domestic economic consequences will be severely compounded by severely adverse external economic conditions. All of our economies are interdependent with the rest of the global economy and this will bring about within the next few months a dismal condition even in the best of cases. The channels through which our economies will be affected are multiple, and include widespread recession, acute contraction of global trade, collapse in the prices and volumes of commodity exports, disruption and even destruction of supply chains, volatility and extreme risk aversion in the international capital markets, interruption of foreign direct investments, and drastic contraction in income from both tourism services and migrant workers remittances.

The governments of LAC should not be hesitant to rely on the international financial institutions in which our countries are shareholders. We must deal with those institutions on the basis of our own programs to confront the crisis, knowing that to be credible and effective to get proper attention to our requests, our policies must be serious and coherent. Partnering sooner rather than later with the multilateral financial institutions will be crucial to temper adverse reactions in international capital markets towards emerging economies like ours. The collaboration with those institutions will also help to dispel notions of moral hazard. Our representatives should get organized to request formally and rationally for regulatory forbearance from the pertinent institutions. Financial regulators, credit rating agencies, and accounting standards institutions must adapt their criteria to deal with the exceptionally adverse systemic circumstances.

The voice of Latin America in the world must be louder than has been the case so far. Our leaders should be calling forcefully for international cooperation to confront the crisis. It is sad that they have failed to condemn the unilateralism, distrust, fear-based nationalistic postures, and protectionist policies such as export controls on medical supplies and other critical resources that have been practiced by some countries, particularly the United States. Rather than being quiet in the pertinent international fora, our governments should have been more forthcoming in calling for a coordinated effort to increase medical supplies to meet satisfactorily the worldwide demand and increasing substantially the resources available to institutions like the World Health Organization.

Our governments also have a responsibility to call firmly for international coordination to deal with the macroeconomic consequences of the pandemic. The successful coordinated actions of the key central banks to stabilize the advanced-economy financial markets a few weeks ago is once again strong proof that coordination is indispensable and that international cooperation is in the national interest and benefit of all parties. But much more cooperation is required in all

other aspects of economic policies. Only through exceptional international collaboration will the damage be mitigated and the recovery achieved throughout the world.

The Latin American governments should call strongly for enlarging the firepower of the international financial institutions. In particular our governments should be supporting strongly a \$500 billion, at least, SDR allocation at the IMF in order to increase each IMF member's international reserves, which will be urgently needed in the difficult circumstances being confronted in international capital markets.

Instead of relying on the populist expedients they have used in the past to pursue electoral success, some of our leaders should understand that the only ethically valid strategy to deal with the pandemic in every one of our countries involves abiding seriously by the values of democracy and must rest on the trust between citizens and their government leaders. To earn that trust, instead of propagating unfounded illusions, our governments must grant people the truth, irrespective of how overwhelming this is. Trust is not created with demagogic posturing; it stems from sensible policies and actions guided by a strong comprehension of responsibility and commitment, not by the desire for personal popularity. True, trust is also built on hope but this must be based on the truth, not on its systematic concealment. Trust is also inspired by humility through listening, learning and asking others to help; it is nourished by promoting unity in goals and action, never by practicing intolerance and arrogance. In short, trust, needed now more than ever, can only be built by respecting the essential principles of democracy.

After hard fought battles, democracy is the rule, not the exception in Latin America. Now, far from being an excuse to weaken it, the pandemic must be another powerful reason to strengthen it.