



Democratic governance as an effective and enduring response to the challenges facing Latin America





Democratic Governance as an Effective and Enduring Response to the Challenges Facing Latin America

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Foreword

This report was prepared by Jorge Máttar at the request of International IDEA, under my direction. It is based on the minutes of seminars from The State of Democracy in Latin America project, implemented in 2020 by the Fundação Fernando Henrique Cardoso, the Fundación Democracia y Desarrollo, and International IDEA, and on the sessions of the International Forum of Santo Domingo on the Socioeconomic and Political Panorama for Latin America, held jointly with Funglode in January 2021. It also includes reflections, analysis and proposals produced together with Sergio Bitar (Bitar and Zovatto 2021), as well as those of Fernando Reyes Matta, Sergio Fausto and José Octavio Bordón. Other papers and empirical evidence have provided essential background for the preparation of this report.

The text presents an assessment and indicates the key actors, processes and proposals necessary for advancing towards democratic governance in the region. Emphasis is placed on the transformations that need to take place in the conduct, interventions and performance of the main actors—the state, society, private sector and international organizations—if the quality of democracy is to be improved and if we are to move towards a new development model in Latin America. The messages and proposals are broad in nature because they have been drawn up for the region as a whole and are intended to be of use to most of the countries; however, they may also be adapted to the specific realities and challenges facing each country.

The report seeks to identify the determining factors in the response to two key questions for the future of the region: *Is democracy capable of facing up to this crisis without being significantly damaged? And what do we need to do to strengthen resilience and democratic governance?*

In response to these questions, the former president of Chile, Ricardo Lagos, notes: “There are two conditions that have become essential for democratic

governance: one is to assume that it is possible to govern for democracy. In other words, to advance public policies with the conviction that they will become embedded if they are imbued with advances in social justice and greater equity, because it is here that democracy transmits trust and credibility. And the other is to listen, using classic and modern methods, paying attention to what citizens say or mean. Listening to the present and underlying voices of society to find out what it is seeking in order to make democracy more effective, more just, more real.”

From a similar experience, the former president of Brazil, Fernando Henrique Cardoso, comments: “We are living through a change of era. The post-war social constructs, technological standards and forms of communication that previously served as a basis on which to reconcile (albeit not without tensions) capitalist development, social inclusion, and democracy have now disappeared. Restoring a virtuous dynamic among these three objectives is an enormous challenge in a world with more fluid societies, technologies that require more skilled workers, and forms of communication that cut across intermediary institutions such as parties, the press, and universities, among others. Just when we thought we had all the answers, the questions have changed. This report seeks new answers to new questions, with an eye on Latin America. We are convinced that if we are to make progress in democratic governance in our countries then the construction of a regional and global perspective is required, and this report is an important contribution to that.”

International IDEA Secretary-General Kevin Casas-Zamora, for his part, emphasizes the collaborative spirit that has surrounded the preparation of this report and its sense of urgency: “This is, above all, a timely effort,” he noted. “Like no other event in recent history, the pandemic has delivered an assessment of the process of democratic construction that Latin America has undergone in the last 40 years. Real progress in electoral matters can be seen, as well as certain—albeit highly insufficient— progress in economic and social rights, and very limited advances in the task of consolidating the rule of law and state capacities in the region. This assessment, as evidenced by the situation, forms an unavoidable frame of reference for an agenda which, as the pandemic subsides, must protect the achievements and correct the deficiencies of Latin American democracies.”

Each of them, from their respective institutions, has given us a conceptual and political framework from which to look realistically at today’s Latin America, placing the strength of possible hopes alongside critical thinking. The proposals set out in the following report suggest that the answers to these complex challenges can be found in the strengthening of democratic governance and the use that the future generations might give to it.

Dr Daniel Zovatto
Regional Director of International IDEA for Latin America and the Caribbean

Introduction

The new SARS-CoV-2 coronavirus pandemic has exposed a critical juncture for building a new social contract, agreeing on far-reaching fiscal pacts and moving towards a new generation of democracy that is more inclusive, resilient and high-quality. This leads to the need for full democratic governance in the region, underpinned by renewed regional integration.

The pandemic has highlighted longstanding shortcomings and challenges facing Latin America.¹ We must make the most of this moment to bring about the historic transformations necessary to build a democratic governance that will bring peace, prosperity and social justice.

The region requires structural change and this is, of course, nothing new. But now may be the most propitious moment in decades due to the electoral super-cycle that Latin America is experiencing from late 2020 until 2024, a period in which all presidential positions in the region are up for renewal, together with numerous legislative and subnational authorities. It is a unique opportunity that the region cannot afford to miss.

The population is hungry for opportunities for decent work and for health care, education and transport services, among other unmet basic needs, all exacerbated by the crisis. Democracy is the system most likely to offer efficient and lasting responses to these challenges, but it is not exactly expeditious in finding immediate solutions, hence the temptation to implement quick fixes that ultimately do not resolve the root causes of the problems. The great challenge is to ensure that the solutions are sustainable, without neglecting the urgency of the situation.

The situation is complex due to the crisis of confidence being suffered by the main institutions of representative democracy and the state, which results in suspicion with regard to the authorities' decisions, both on the part of elites and from the more disadvantaged classes who, in turn, also distrust the elites.

Democratic governance requires minimum conditions of dignity and well-being for the people in order to function fully. It is not enough for citizens to 'live in a democracy' if they do not enjoy minimum standards of living, if poverty and inequality are not significantly reduced, if the justice system continues to serve the powerful, if we cannot travel peacefully around the territory, if cities are chaotic, unsafe, and polluted, or if marginalization and discrimination continue to be present in our societies. Indeed, democratic governance is nurtured by social and material progress, which encourages trust in democratic institutions.²

Latin America is facing fundamental challenges to its development and to the advancement of democracy. After a lost decade (2011–2020) in terms of economic and social progress during which gross domestic product stagnated in real terms, we are now facing the risk of yet another lost decade (2020–2020). It is imperative to overcome this backsliding and build a sustainable future.

The challenges suggest the need for a renewed state at the service of democracy and sustainable development,³ one that looks to dialogue to find common ground and settle differences, to lead to constructive action and the deployment of capacities to face both the historical issues and new challenges of the post-Covid-19 world, in order to govern better, with vision and efficiency.

The full observance of democratic governance depends on three key pillars that reinforce it and, together, make it easier to take on the challenges of social and material progress and fully democratic government:

- **A re-legitimized political-institutional framework** that promotes the recovery of public trust in politics on the basis of hard evidence rather than promises or declarations of goodwill; that results in a break with the pretences of the past; and that encourages the real influence of growing citizen participation in political decisions.
- **A new social contract** that guarantees basic living conditions: decent employment, universal health care, quality education, decent housing and security for all in a region where democracy, peace and the rule of law prevail, integrated into the world with autonomy and leadership, with an active and intelligent state that has a sense of purpose, a strategy and the capacity to implement public policies that close current gaps.
- **A comprehensive, in-depth and progressive tax reform** that strengthens the reformed state and that is the result of a wide-ranging discussion, especially with the elites, who agree to pay more taxes and which, at the same time, underpins the efficiency and integrity with which the state manages the resources of the nation.
- These three pillars need to be reinforced with a broad and transformed regional integration that shows **a region acting in coordination** in international governance forums, with new objectives and actors and with

collaborative actions in areas such as the 2030 Agenda, infrastructure, climate change, health, cross-border development, innovation and technological development, among other issues.

For these three internal pillars to be consolidated as bulwarks of sustainable development and democracy they must be strengthened, drawing on one another. This requires deliberate and purposeful interventions (for which markets and a *laissez faire* system are not suitable) on the part of two key actors: *a renewed state*, guarantor of the rule of law, and an *active citizenry* that moves beyond a conflict between the elite and the rest of society, now reconciled and cohesive, eager to participate and collaborate in the construction of democratic governance. Today the diminished state and fragmented society persist, with the great inequalities laid bare by the pandemic, further driving up opportunistic profits for some elites, under the passive gaze of the state. This must change if democratic governance is to make progress; one of the fundamental aspirations in this connection is precisely to reduce inequalities in all their dimensions.

The urgent need to put the crisis behind us sets the parameters for governments' and societies' priorities for action. Yet at the same time, the will to undertake decisive social transformations and extensive structural reforms to rebuild the region must be maintained and fully realized. The magnitude of the challenges demands a collective effort not witnessed in the region for over a century.

The world is at a crossroads that should be taken advantage of to speed up the interregnum of the transition from liberal capitalism to a new approach to development and more democratic regimes. The conditions are in place to promote a new strategy that addresses transformation such that by 2030 (the year by which the Sustainable Development Goals are to be achieved) conditions of democratic governance prevail, with greater social cohesion and well-being, and quality jobs for all.

Table 1. Transformations of key players in the transition to democratic governance

Current situation—weak democratic governance	Desired situation—full democratic governance
<p>The state is passive, absent from many of its tasks, co-opted by interest groups, threatened by organized crime, incapable of enforcing the rule of law and social justice, and useless over increasing areas of the territory (at best, Octavio Paz's philanthropic ogre).</p>	<p>A proactive, inclusive, democratic and visionary state capable of bringing together views from across the spectrum of society and of leading the transformation towards inclusive development and full democracy in a system in which the law is complied with and social justice is advanced.</p>
<p>Inefficient government, acting without strategy, short-sighted, reacting late to a situation and subject to the demands of power groups; permeated by corruption and impunity in the context of a so-called 'spoils' or patronage system; its management capacities are diminished by its managers' lack of professional training, encouraged by its poor image in society, which perceives the bureaucracy as incompetent, inefficient and corrupt.</p>	<p>Good governance manages social demands with transparency, solves short-term problems, and designs, agrees, implements and evaluates meaningful, progressive public policies, in line with a vision of inclusive and sustainable development; it implements forward-looking policies that are sustainable over time because they were democratically agreed upon with broad social participation. The sense of belonging and the dignity of the work of government and public service are recovered.</p>
<p>Legislatures that are ignorant or incapable of recognizing the problems and challenges of society as represented by the parties; legislators spend their time in power struggles devoid of democratic content, more concerned with group or factional interests, power sharing and the exchange of favours, always with a short-sighted view of things.</p>	<p>Plural legislatures which, accepting a healthy political diversity, are capable of debating key issues and challenges and reaching agreement on laws, decrees and provisions relevant to the well-being, development and improvement of democratic practices, with thought given to the next generation rather than simply the next election.</p>
<p>Stultified political parties that forget or spurn their founding platforms and values; the presence of opportunistic political groups that emerge ad hoc, depending on the political situation, or that take advantage of national or local elections; private short-term interests prevail, adapted to the circumstances of the moment, alien to the purpose of negotiating the construction of better societies. Organized crime inhabits political organizations.</p>	<p>Renewed political parties that respect the principles underlying their electoral and governance platforms. They negotiate with other political forces, listen to emerging citizen demands and incorporate them into their platforms and programmes of action. Corruption and impunity are declining within political parties and politics is recovering its foundations in order to strengthen democracy and build a sustainable future.</p>
<p>Society is depressed, dejected, beaten, ignored, divided, unequal, exclusionary and lacking in cohesion; it questions its attachment to democracy and the economic model; the future is viewed with despair and unease; a growing sector of society is complicit in corruption. Spaces for protest are often repressed, especially those of feminists, youth, the LGBT community and indigenous peoples.</p>	<p>A thriving society, where democracy is a value to be nurtured, cultivated and expanded across social strata and throughout the territory; growing participation is reflected in democratic decisions, setting pretence and appearances aside. Progress is being made towards a society of solidarity and inclusion, in which the elites recognize and act to eliminate their culture of privilege. Visions for new social and fiscal agreements are articulated.</p>

Current situation—weak democratic governance	Desired situation—full democratic governance
<p>Rentier, short-term focused private sector, with no commitment to the interests of the nation. It avoids risk and long-term investments. There is great structural heterogeneity, with large competitive companies and small struggling businesses. Public–private initiatives are involved in private business activities with low social returns.</p>	<p>Entrepreneurial, supportive, risk-taking private sector: moving towards a supportive, cooperative capitalism. The productive apparatus has become more dynamic and invests in R&D, accompanied and supported by state policies. Public–private partnerships arise out of the need for investment with high social returns.</p>
<p>Regional and subregional integration institutions are disjointed, uncoordinated, lacking an agenda, discussion or dialogue, with no strategic vision much less agreements relevant to sustainable development and democracy. This results in a lack of common opinions and the region therefore has a minimal impact on major decisions relating to global governance. Cooperation among governments is almost non-existent.</p>	<p>Regional integration institutions are encouraging coordination and collaboration around issues that offer benefits at the country, subregional and regional levels. The Community of Latin American and Caribbean States (CELAC) takes on a pragmatic leadership in which cooperation and coordination are yielding broad economies of scale and scope on issues such as climate change, science and technology, infrastructure and migration, and common positions in global forums.</p>

Source: International IDEA’s Regional Office for Latin America and the Caribbean.

History teaches us that virtuous structural transformations can emerge after major crises but it also shows that lags and problems can deepen (Berman 2020). Transformational changes are inspired by leadership, a purpose, a meaning and a project that brings people together, enhances agreements and defuses differences. The role of the actors is central, since the direction of change depends on it: either the lags are accentuated or a transformational shift takes place.

Table 1 indicates those changes needed in the conduct, composition and nature of the actors to consolidate democratic governance in the region. The first column summarizes the current and persistent conduct of the central political and social actors over past decades and the second column shows the position, which, it is proposed, should persist towards full democracy and sustainable development. These are stylized facts that do not strictly correspond to the general situation of the region or of any particular country. However, by emphasizing contrasting situations, the importance and magnitude of the effort to be made becomes clear.

When looking to the future, the visions offered in this table are open to different nuances, biases and directions, depending on the conditions in each country. But there is no choice: if these transformations do not take place or, at the very least, do not begin to take place, then Latin America runs the risk of embarking on a path to decomposition, with organized crime controlling ever larger parts of the territory and a state co-opted by the interests of the elites.

Endnotes

1. Other factors that have emerged or worsened as a result of the crisis are: *inequalities*, both in income and access to opportunities; *corruption*, due to the opacity in the use of funds allocated to combat the pandemic and, in some cases, diverted for personal enrichment; *the inability or inefficiency* of governments to address Covid-19; *insecurity* which, despite periods of lockdown or quarantine, continues to be a scourge for the general public, who suffer not only from common crime but also from organized crime in areas of the territory where the state has little presence, providing assistance to the unemployed, sick or those affected by the pandemic.
2. In a high-trust democracy, the authorities govern with the citizens; in a low-trust regime, they do so despite them and, sometimes, in opposition to their basic interests. In fact, it is most likely this attitude that generated the distrust in the government in the first place.
3. In this text, we refer to *sustainable development* as that which meets the needs of the present without compromising the ability of future generations to meet their own needs. Sustainable development includes social, economic and environmental dimensions simultaneously and equally.

1. Brief assessment: Where we are and where we could go

1.1. Development was already showing signs of stagnation

The arrival of Covid-19 took Latin America by surprise at a time of fragility, as manifested in a combination of weak states, fatigued and dysfunctional democracies, poor quality institutions, slow economic growth, high underemployment, backwardness and neglect of the health and social protection systems, together with high levels of inequality, informality and poverty, trends that had been taking shape over decades.

From 2015 to 2019, the rate of growth of per capita gross domestic product (GDP) in the region fell on average 0.88 per cent each year and forecasts over the next decade indicate a further risk of stagnation until 2030, which would mean two lost decades in terms of economic and social progress, which would be unprecedented in the history of the region. Some countries could suffer setbacks in the fight against poverty and inequality that would bring indicators back to figures seen some 15 to 20 years ago. We must act urgently and with determination to avert this scenario.

The downturn in economic dynamism, decline in social well-being and accumulation of unresolved challenges have resulted in popular protests in several countries, especially in the second half of 2019 (less so in 2020 due to the pandemic). We now see these re-emerging in several countries in 2021, demanding fairer social treatment and better public services which, as a result of poor governance and privatization, dis-incorporation or downsizing of the state, are deteriorating or becoming unaffordable for part of the population.¹

The economic recovery highlights the urgent need for structural transformations to improve the rate of investment, both public and private, domestic and foreign, especially in infrastructure construction, in order to systematically and permanently increase productivity and decent employment, to make development sustainable and to make the production apparatus resilient. This will not be solved by the market but by a proactive state with a strategic vision and the broad support of the citizenry.

Structurally reshaping the economy for the better will require not only a change in mindset but also a new social contract that promotes value creation over profit extraction, spreading both risks and rewards, and investing in the common good with social profitability criteria rather than just in specific companies or sectors (Mazzucato 2021). This far-reaching change can only be brought about and spearheaded by a renewed state, with broad social participation.

1.2. Democracy has been showing signs of exhaustion

The population's disenchantment with the performance of democracy and preferences for authoritarian regimes are worrisome. In virtually all the countries the main public opinion polls have shown (since before the pandemic) an erosion of confidence in democracy and its institutions (Latinobarómetro 2018; Zechmeister and Lupu 2019). In 2018, for example, Latinobarómetro recorded 48 per cent support for democracy, with trust in governments at 32 per cent, the lowest percentage for both indicators since 1995. Meanwhile, in the AmericasBarometer 2018/2019, the region showed the lowest levels of faith in elections, at 45.5 per cent, and electoral tribunals, at 28 per cent, in two decades. As already pointed out in the International IDEA In Focus Special Brief 2020, this civic discontent as noted in the polls was reflected in the outbreak of massive social protests in the second half of 2019, prior to the start of the pandemic (International IDEA 2020).

Throughout 2020, the pandemic's effects exacerbated indicators on the quality of democracy. According to the International IDEA Global State of Democracy 2020 Special Brief, Latin America faced multiple challenges to democracy: governments resorted to postponing elections, various fundamental rights were restricted, with a disproportionate impact on vulnerable groups, and government control mechanisms were weakened largely to the benefit of executive powers (International IDEA 2020). Nor do these trends seem to offer any evidence of improvement in 2021, as observed in the most recent analyses of the quality of democracy (Economist Intelligence Unit 2020; Freedom House 2021; Alizada et al. 2021). For the past five consecutive years, the regional average of the Economist Intelligence Unit (EIU) Democracy Index has been in decline. For example, in 2020, only Chile, Costa Rica and Uruguay qualified as full

democracies, according to the EIU Democracy Index, while the remaining countries of the region were classified as flawed democracies, hybrid regimes or authoritarian regimes (Economist Intelligence Unit, 2020 International IDEA 2021). The trends in 2021 do not appear to offer any evidence of improvement.

In this context, the decline in employment, rise in the informal sector, and increased poverty and inequality run the risk of further weakening democratic governance. The economic recovery will make it possible to create jobs, but it will be essential to establish sustainable medium-term expansionary programmes that prioritize new productive jobs, in keeping with the technological changes and automation of numerous production processes, which will require training programmes for the labour force that the state should organize and implement.

Another emerging factor that could threaten democracy stems from the role that the armed forces have assumed in the pandemic. Many countries have had to resort to calling on their armed forces to deal with health emergencies, especially in terms of logistics, transportation, capabilities and control, as the armed forces have an extensive capacity for a coordinated and rapid deployment throughout the territory. In some countries they have also erroneously been granted powers to assist in maintaining law and order, implementing measures that restrict freedom of movement and assembly—curfews, for example—in the context of states of emergency and declarations of disasters.

The militarization of our societies may well be a dangerous reaction to the inability of the liberal economy and elitist political systems to include the popular classes and now, when some do not even aspire to engage in dialogue with them, the temptation to monitor and control them may spread (Zibechi 2021).

1.3. Disparate government responses to the crisis

The countries have implemented business support programmes, increased health spending, reduced and deferred some taxes, reduced interest rates and supported families through direct cash transfers and food packages, among other measures. Efforts have varied from country to country: Brazil, Chile and Peru applied fiscal stimuli in 2020 ranging from 6.5 per cent to 8 per cent of their GDP, figures that contrast with Colombia's 1.4 per cent and Mexico's less than 1 per cent.

Each government has reacted to the emergency—some effectively and others more slowly and incapably—with unilateral measures, with virtually no cooperation, exchange of experience or mutual support, which should exist among the countries of a region. This shows how irrelevant the integration institutions have become at a time when their intervention would appear to be necessary, for example, to negotiate the block purchase of vaccines at an early stage. The region is consequently vaccinating its population at a very slow pace compared to the clear urgency given the continuing Covid-19 infections and deaths.

Fiscal stimuli will lead to higher public debt, posing a challenge for deficit financing going forward. The necessary tax reforms will be a crucial part of the political agenda. The urgent need to return to sustainable growth will have to be a central objective of public policies, so austerity policies would likely meet with resistance from society (see Section 4 for more on this issue).

Defence of the democratic system requires strict oversight of and maximum transparency in public spending, especially in times such as the present. The emergency measures could weaken oversight and integrity mechanisms—as has been seen in some countries—encouraging opaque and corrupt practices. Overpriced procurement, contracting not subject to controls, lack of information for the public and other branches of government, clientelism in the delivery of support, and irregularities in social packages aimed at the most economically vulnerable are just some of the dangers that can affect the proper functioning of democracy.

1.4. The crisis must be used as an opportunity to transform the state

International experience shows that there is no developed, democratic country that has achieved this status without making the state an effective and proactive promoter with, above all, leadership recognized by other development actors.

One of the keys to the failures of neoliberalism in Latin America is the state's abandonment of its role as the engine of development; this needs to be resolved in the reconfiguration of a new state, one that is capable of stimulating social actors to improve the welfare state, promoting democracy, inclusion and social justice. The market is not equipped for these tasks, nor do they fall within its objectives. In fact, their pre-eminence, in the face of a dysfunctional state (passive, submissive, populist or authoritarian), usually results in a decline in development and democracy.

The pandemic teaches us that if there is no systematic and consistent investment in the provision of public assets such as health care, then the well-being of the population gradually deteriorates and suffers excessively when faced with high-impact phenomena such as a pandemic. That requires that we prioritize the fiscal health of our states, while improving the strategic effectiveness and efficiency of decision-making and execution to strengthen democracy's capacity to deliver results to the population.

It is becoming increasingly clear that a strong social model is a driver of productivity. The Nordic countries show that a strong social pillar, encompassing all the dimensions of work, skills and social protection, can support the features that make a market economy work well: trust, high employment, increased output per person employed and rapid technology take-up, as well as flexibility in

shifting labour and capital from low-productivity to high-productivity uses (Sandbu, 2021).

1.5. What scenarios are envisaged in the Covid 'new normal'?

The pandemic has disrupted everyone's life as we understood, suffered and enjoyed it. The priority now is to emerge from the crisis; however, the intelligent strategy is to do so strengthened so as not to lose the path to sustainable development and full democracy. It is important to explore scenarios for development and democracy whose realization depends on the involvement of everyone. Exploring the future is central to aligning expectations, desires and actions that might otherwise unfold in a disorderly, clashing and chaotic manner, without direction or purpose. Bitar, Máttar and Medina (2021) propose three scenarios that are particularly relevant for this report:

- The trend or inertia scenario (no change) describes a future with great continuity from the past, without fundamental changes. High rates of poverty and inequality persist; the region continues to react to decisions taken by the world's leading countries with neither cohesion nor proposals, without a strategic development project, trying to cope with the crisis; democracy continues to deteriorate and adjustments are made to current public policies to avoid catastrophe. It is the continuation of the decadence of the current paradigm.
- The catastrophic scenario (dystopian change) assumes collapse or a significant worsening of the trend scenario. This situation indicates that the current paradigm is collapsing, and the deterioration accelerating: shortages and humanitarian disaster ensue and democracy suffers a serious decline. Chaos reigns and organized crime displaces the nation state from its fundamental functions. A 'new order' is established.
- The desired scenario (full virtuous change) presupposes a structural and dynamic transformation towards a new paradigm of prosperity, inclusion, justice and democracy. This shift marks a different direction in public policy, resulting in a new model of human development that is sustainable, inspiring and innovative, albeit realistic, in keeping with the region's needs, capacities, and potential and a new-generation democracy. Democratic governance is consolidated thanks to a new social contract, discussed and agreed upon by all stakeholders, with the leadership and facilitation of the state; the social pact is based on a fiscal agreement, whose greatest achievement is the adoption of a highly progressive tax

system that places more of the tax burden on those with more income and wealth.

The desired scenario is not a result of excessive optimism, nor does it propose an unrealistic change in the long term. It is an ambitious but possible vision, based on structured and rigorous reflection on the limits of the current form of governance in the region, as evidenced by the worsening social and economic problems caused by the pandemic and the risks faced by democracy.² The transformations in the actors, policies and strategies required by this scenario are essential. There is no option. This is Latin America's opportunity to overcome backwardness and strengthen democracy.

The societies are more empowered, defending rights, especially those of women, whose greater presence is vital for this new stage. Democratic governance is an essential condition for taking advantage of the new trends and global factors of change. Democracy, participation and the transformation of the state are priorities for implementing the new policies agreed upon in each country and among all countries.

The crisis has shown us the importance of encouraging structural ruptures in order to reform models, strategies, policies, and institutions, as well as the roles and behaviours of social actors, who must become the critical factors of change.

Endnotes

1. Without denying the presence of violent infiltrators seeking to cause chaos, the vast majority of demonstrators are protesting for objective and legitimate reasons, related above all to the age-old inequalities and injustices suffered by the region.
2. The direction taken by the rest of the world will have an impact on the future that can be anticipated for the region. Four global governance scenarios can be envisaged (National Intelligence Council 2021). The first points to a worsening of the situation, with conflict, isolation and regression. The second is an escalation of the China–West conflict, leading to a kind of wall between the two regions and their political systems. The third scenario proposes competitive coexistence, with rivalry; and the fourth, following the crisis, is aimed at multilateral and global cooperation. The region's countries should coordinate to influence and contribute to building positive scenarios and avoiding negative ones.

2. Effective and democratic governance for the great transformation

Democratic governance is the quality of a political system where it consistently generates legitimate governments, elected through fair and transparent voting, capable of effectively promoting inclusive, sustainable and equitable economic and social progress. It implies a suitable leadership to lead a process of continuous strengthening of democracy, which is resilient, without ruptures or serious interruptions, and takes place by institutional and peaceful means, within the framework of the rule of law, supported by an electoral and legislative majority. Its strength is enhanced by a strategic narrative that points to a shared future, and by a government capable of meeting the basic demands and aspirations of the most vulnerable sectors.

Democratic governance means to govern well today, and, at the same time, to continuously construct the rules of a democracy in motion, in line with the emerging and future demands of society; it expresses the ability to adapt to new realities (such as the one emerging with the pandemic) that arise from an increasingly demanding and participatory society. The challenge lies in the greater costs and complexity involved in satisfying these rather than the initial demands, but it is crucial to listen to and resolve them to strengthen the perception that the democratic system is fulfilling its role.

High-quality institutions and political leaders are essential to lay the foundations for a plural, inclusive, transparent democracy that is respectful of human rights and, above all, resilient, i.e., with the capacity to face up to, survive, innovate and recover from complex crises and challenges. Democracy should be synonymous with good governance.

The region is currently suffering from a lack of trust in its national and regional institutions, both political and non-political, increasing the risk of

populist and authoritarian tendencies in government, especially in the context of the electoral super-cycle. Attractive, simple and short-term responses must be avoided in favour of complex decisions in the short term that may be unpopular but which seek to provide lasting solutions to the challenges and problems.

Organized crime is a threat to the state. Its evolution in the region is eroding governance and leading to widespread corruption, co-opting sectors of the population (especially marginalized youth) and weakening the rule of law so as to pave the way for it to expand into ever larger geographical areas and social spaces.

2.1. Democratic governance and the major changes

The magnitude of the challenges requires major changes to overcome historical barriers and embark on a phase of democracy, social justice and productive innovation. There will be obstacles to be faced, individual and group interests, struggles between visions and ideologies, the persistence of a short-sighted political class and the indifference of a majority that values the immediate security over the uncertain hope of potential future benefits. But it will be necessary to persevere because the consequences of inaction may be catastrophic (see Annex A).

Box 2.1. Why is effective democratic governance essential in Latin America?

The consequences of doing nothing or showing apathy in the face of the current crisis, leaving the path of governance adrift, are worrisome. The rule of corruption, the advance of organized crime, government by the elite, or chaos are all possible scenarios and sufficient reason to promote effective democratic governance that offers the right conditions for a future of democracy and development. More specifically, democratic governance:

- Generates political stability and social certainty and reduces economic volatility.
- Favours the building of points of consensus, seeking common ground and playing down differences among the different antagonistic positions to find a path to democracy and development.
- Guarantees the defence of the state from its attempted capture by elites, interest groups, crime and corruption.
- Creates an environment conducive to honest business from a social perspective and sends consistent and clear signals to investors, both domestic and foreign, public and private.
- Encourages all actors to safeguard the rule of law; encourages the state to punish those who violate it; encourages society to denounce violations thereof; and encourages everyone, together, to act within the framework of the new social contract.
- Is a fundamental ally of the Sustainable Development Goals (SDGs), whose unity, comprehensiveness and simultaneous progress are facilitated by the advancement of democracy and social participation, which drive this progress.

Source: International IDEA's Regional Office for Latin America and the Caribbean.

Democratic governance requires constructing three pillars: re-legitimized political institutions, a new social contract and a major fiscal agreement, reinforced by renewed regional integration and accompanied by progressive arrangements and decisive action by the state, the elites and the rest of society. The actors build the pillars, but the process also requires the confluence of three basic conditions:

- *Agree on what to do and how to do it.* An accurate assessment of reality is essential to agree on priorities. Despite the uncertainty, there are shared elements: social inclusion to improve the living conditions of sectors that are being left behind; a frontal assault on poverty, inequality and informality; the protection of middle-income sectors that fear a return to conditions of poverty; respect for rights against the arbitrary abuse of

power by the elite, and capacity-building by the state to strengthen the health care, education, security, justice, and scientific and technological research systems.

- *Viable strategies and policies* supported by a democratic leadership and a shared vision of the desired future, which will be discovered in the answers to what to do and how to do it. There is the technical capacity to develop serious programmes and show the long-term benefits for democracy and the social welfare of the population, whose representatives must achieve meaningful participation in discussions and decision-making.
- *Transformational programme* with a long-term vision, supported by the majority. Although there have been management and organizational errors, the health, economic and political crisis has awakened a democratic conscience; there has been a willingness to participate politically and electorally, despite the pandemic. The state has shown its capacity to intervene to help the neediest, with direct transfers that were previously unthinkable. These steps will be irreversible. There will be no return to business as usual.

Broad, majority-based agreements are essential to avoid political polarization, the consequent paralysis of public action, and the risk of authoritarianism or populism, because of either a demand for order at all costs or the notion that there are easy solutions to complex issues. New mechanisms, dialogues and permanent participation are needed at all levels to guarantee the inclusion of a demanding and empowered public.

Democracy and development require a recovery, repositioning and revaluing of politics, in tune with the new generations and the realities of the 21st century. Without high-quality political practice and institutions, democratic governance will make little progress. As the former president of Costa Rica, Laura Chinchilla, said in 2020: 'The greatest challenge for politics today is to create spaces for participation, we need more democracy and more youth.'

2.2. Democratic governance on the global agenda

The 2030 Agenda for Sustainable Development can guide national and global policies along a convergent path in order to drive transformation; goals, targets and indicators are not enough, however. It is urgent to move from aspiration to implementation. Each country needs to define specific policies and instruments, and build political capacities, strong coalitions and good, agreed-upon programmes to strengthen democratic governance and thus move steadily in the desired direction.

Democratic governance is built first and foremost at the national level. The governments, private sector and civil society of each country will need to consider measures and reforms, form coalitions, and provide the public apparatus with the functions and resources that will result in state policies aimed at achieving equality, participation and innovation, thereby strengthening democratic governance.

The success of a national strategy with democratic governance in each country will be influenced by global trends. Hyperconnectivity will accelerate global transformations and accentuate their impact on national choices. We anticipate a substantial change in the factors that were driving globalization in its previous phases. Three priorities for all humanity will be overlaid on these—education, health and climate change.

Progress towards this change should be reflected in significant transformations in the well-being and quality of life of the population, such that a consequent decline in social tensions and protests will generate new opportunities for reflection, discussion and action, in which democratic governance becomes increasingly relevant.

If, over the coming months and years, Latin American societies do not establish basic, good quality services for all—in areas such as health care, food, employment, and education—social protests will likely continue to escalate. The challenge is to channel these legitimate demands into institutional responses that are financially sustainable.

Active and prolonged social tension would also result in a divergence between those who favour prioritizing the welfare state and those more inclined to ensure public order. This will not be a purely ideological issue. If the democratic and progressive world, a champion of freedom with equality, does not broaden its vision and expand its alliances, there is a risk that new authoritarian and populist governments will emerge.

- Examples of populist and authoritarian tendencies that have threatened democracy during the pandemic are: the centralization of power in the hands of the executive; a de-institutionalization of democracies that were already weak or dysfunctional; a militarization which, in some cases, has been accompanied by repression; the polarization and radicalization of public debate; and the suppression of criticism and freedom of expression.
- The alignment of international cooperation around what to do and, in some cases, how to do it may be a considerable incentive to discussing and agreeing on policies among the countries of the region. The crisis has, apparently, aligned the proposals.

3. New social contract to promote the welfare state

The implicit social pact, present in the region for decades, needs to be replaced by a new, explicit contract that guarantees democracy, sustainable development, justice and equity—the very things that are missing from the current pact. A new social contract should derive from a broad invitation from the state to social and political actors to dialogue and collectively agree on the whats and hows of moving towards democratic governance.

This new social contract will require a radical change in politics, currently infiltrated by interests alien to the common good, corruption and organized crime; political parties are losing their identity and people are distancing themselves from them because, time and again, those elected have revealed their ineffectiveness. The new politics must be innovative, creative, inclusive and pluralistic. But it must also address the task of building a better future for all, setting aside the vision of immediacy and short-termism that has thus far characterized it.

This new social contract must be accompanied by a commitment from the political class to respect the agreements, regardless of which party or tendency is in government, how the composition of the legislature changes, or what new political movements may appear on the horizon.

3.1. A new state and a new social contract

The role of a new state is key. The crisis has revealed the misdirection of dysfunctional states that are not fulfilling their basic tasks of ensuring security and justice or meeting basic needs and which, in the face of the health emergency, have reacted with neither strategy nor leadership. The new social pact should

include reform of the state, as the driver and coordinator of the process, and to contain the signs of populism and authoritarianism in the region, forever banishing a kakistocracy that is so harmful to the population.

The social pact must be an explicit agreement that contains commitments on the part of the state, business and society to move towards a welfare state. The current agreement is exclusionary, concentrating wealth and resulting in a high level of inequality.

The new social contract would form the first cornerstone of the new-generation democracy and would have as a pillar essential progressive tax reforms with the objective of guaranteeing basic living conditions, decent employment, universal health, quality education, decent housing, and security for all within the framework of a true system of social protection.

The new pact is a great project that will require a renewed state that is active and intelligent, with a sense of purpose and strategy, and the capacity to implement public policies to close current gaps. The essential problem: having a modern, strategic and efficient state and social organizations prepared to implement it and to direct basic resources towards those most in need, keeping corruption in check. These measures can be implemented gradually and should be the result of a broad process of dialogue and deliberation with the community and its organizations, as they are the ones who are most familiar with its problems and solutions.

It should also envisage the gradual implementation of a universal, progressive and permanent basic income that guarantees the survival of all, giving them the autonomy and dignity to develop and contribute to the community. A universal basic income would serve to absorb the impact of the pandemic and technological changes on employment and could also help to reduce informal-sector employment, which is a major cause of social exclusion. All of the above can be achieved through a comprehensive and progressive tax reform that strengthens the state's recovery of its essential functions, which have been abandoned or curtailed over the last 35 years.

Each country must seek the most suitable mechanisms by which to create a system of protection that will ensure a basic threshold of subsistence together with the provision of quality public goods and services to all families, without exception or discrimination. Inequality corrodes the foundations of democracy and is incompatible with an aware society, especially when the technologies available can be put to the service of all. Digitization without regulation and protection will only exacerbate inequalities and frustration; unemployment without training and technical education will leave many to fall by the wayside, generate discontent and protests, and also result in increased violence and crime.

3.2. Politics, elites and the rest of society

Caring for the most vulnerable will become increasingly important. This task today falls mainly to women. The provision of care needs to be paid if we are to increase solidarity and reduce inequality. In some countries of the world including in Latin America universal basic income has proven its effectiveness and viability and has destroyed the myth of its disadvantages. These experiences should be studied and adapted.

The 2030 Agenda for Sustainable Development offers a good frame of reference for discussing the new social contract. The Sustainable Development Goals (SDGs) contain targets and indicators that must be reached by each country and, although the crisis may be distracting us from them, they are nonetheless useful because they provide guidelines to follow and lessons to be learned from third countries regarding the best strategies and policies to follow, based on dialogue and collaboration among peers.

In addition, it is essential to bring representatives of Latin America's economic elites to the table to discuss the social pact, since they have not only failed thus far to contribute to a fair social contract but have often worked to distance themselves from such a possibility, preferring to maintain the status quo. The magnitude of the crisis and the consequences of inaction are so severe that a new pact with the centres of power is essential, to which end the state will have to show its strength. It will be an opportunity to rethink aspects of fiscal policy, such as wealth, inheritance and personal taxes, but also to commit to a clean and efficient use of public resources.

4. Fiscal agreement for sustainable development

4.1. Avoiding another lost decade

Latin America faces the possibility of another lost decade in terms of development, the second this century after that of 2010–2020, and the third if we include the 1980s. It is imperative to prevent another decade of stagnating per capita GDP. Such is the magnitude of the challenge; and the answer lies in fiscal policy, framed and supported by a 'great pact', unprecedented in the region, among the state, the private sector and society.

The context of high indebtedness, together with the objective of reducing income inequality and poverty, will require a significant increase in tax rates at higher income levels. If we want to reduce the current fiscal deficit and also make up for the lags in health and education, there needs to be a progressive increase in tax rates. There will be strong resistance from the economic elites, and intense political debate. The option of a generalized debt write-off does not seem feasible because these are likely to be reserved for the poorest countries; plus, it could restrict future access to private international markets. In addition, the renegotiation of domestic debt is inherently conflictive.

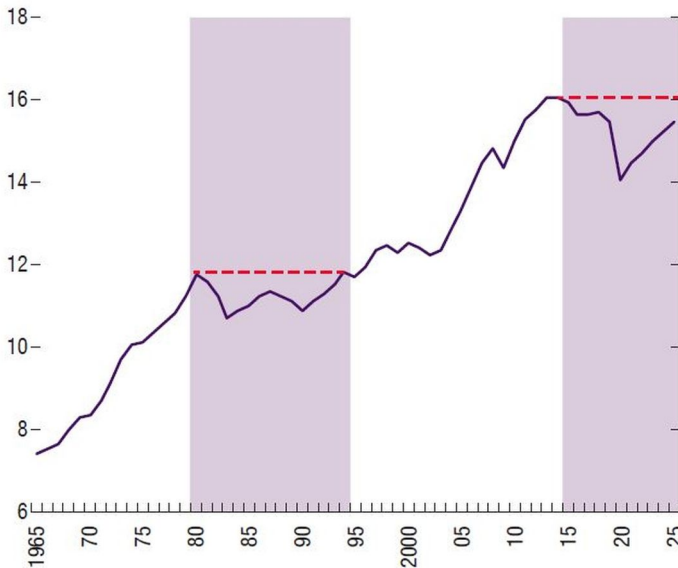
4.2. Tax reforms

The proposed fiscal pact suggests the need to purposefully 'invent and agree upon' feasible major tax reforms in which it will be necessary to inform, negotiate and agree upon winners—and inevitably losers—in the short term but in which everyone wins in the long term. This is the great challenge of the mother of all

reforms and the state must play a leading and coordinating role that will be fundamental to the signing of an agreement organized by the state.

Among the basic ingredients that the state must bring to the table are a guarantee of good governance, efficiency, probity and transparency in the use of public resources, together with clear and participatory monitoring and evaluation mechanisms. The firmly progressive nature of both public spending and revenues must be an unprecedented hallmark of great importance, which must be vigorously demonstrated to generate confidence and support from all the actors.

Figure 4.1. Per capita GDP growth in Latin America: another lost decade?



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: LAC = Latin America and the Caribbean; PPP = purchasing power parity.

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Source: International Monetary Fund (IMF), *Regional Economic Outlook Western Hemisphere: Pandemic Persistence Clouds the Recovery* (Washington DC IMF, 2020), <<https://www.imf.org/es/Publications/REO/Issues/2020/10/30/Regional-Economic-Outlook-October-2020-Western-Hemisphere-Pandemic-Persistence-Clouds-the-49797>>, accessed 30 June 2021.

Good results must be evidenced in the short term, as must the clarity and relevance of administrative and operating costs. Social protection systems must—

for example, involving conditional transfers—avoid political clientelism and demonstrate absolute transparency in the management of resources. Excesses, inefficiencies and acts of corruption must be punished without exception. In the case of social spending, one of the worst deviations from good governance is to profit from—or outright steal—the resources earmarked for the most vulnerable or needy.

In short, it is a matter of eradicating once and for all the political opportunism, clientelist schemes, deceit, pretence, and appearances that have characterized the use of the nation's resources in different countries and at different times, banishing their exploitation by private and group interests so that they are used for the benefit of the majority and, in particular, for the economic and social progress of the most vulnerable.

4.3. Structural and short-term challenges

The fiscal effort to combat the effects of the pandemic has been achieved through increased indebtedness. This ushers in a new debate on how to solve the increased deficit in the future. Tax reforms and efficient social spending are high on the region's agenda. Agreements will need to be reached with multilateral development organizations, both financial and non-financial, and with blocs of countries and individual countries, on innovative debt restructuring and relief programmes, as well as to ensure continuity in the flow of fresh resources and technical cooperation to the region.

Fiscal policy instruments are essential to meet the challenges of development and democracy. In Latin America, tax revenues are insufficient, social spending barely protects the most vulnerable, and what is spent is spent inefficiently. Public financial management offers ample room for improvement.

On occasion, policies for public spending and revenues not only fail to reduce inequality but even increase it. Social programmes financed with public resources often answer to the aim of garnering votes. Infrastructure projects are sometimes the result of the short-term priorities of the particular administration in power, untethered to the need to promote sustainable development and reduce the region's considerable territorial disparities.

Major progressive tax reforms will be a *sine qua non* for the new social contract in the region, so that those who have more—both income and wealth—pay more taxes and, at the same time, commit to the efficiency and probity of the state's management of society's resources. Indeed, a fiscal pact is an essential part of the new social contract, and a longstanding issue in the region. Today it is more essential for democratic governance than ever.

No true fiscal pact has yet been signed in the region, largely due to deficient state management, a lack of political will on the part of the governments, and the fierce opposition of the elites. The litmus test for the new state will be negotiating

the terms of a structural, progressive and sustainable tax reform with the economic elite.

To make a tax reform feasible, the International Monetary Fund (IMF) proposes two stages. The first is to maintain the IMF's support as long as the pandemic continues and to lay the groundwork for future tax reform, while seeking consensus for this to happen. In the second stage, and insofar as the countries are taking decisions in line with fiscal sustainability going forward, the IMF stands ready to support them with its ample lending capacity, as exhibited during the pandemic, in addition to special drawing rights.

There is no doubt that structural transformations of great importance are taking place. What could be called 'the new IMF' is taking more inclusive positions, extolling democracy and according priority to reducing poverty and inequality. Strengthened global democratic governance is good news for the region, especially considering the fortunate convergence of proposals from regional and global organizations (see Annex A).

4.4. Towards fiscal sustainability

The United Nations Economic Commission for Latin America and the Caribbean (ECLAC) and other organizations are suggesting the need to move towards fiscal sustainability based on the region's capacity to increase tax revenues without taxing the poorest of the poor, which necessarily requires a highly progressive tax policy. We need to analyse which taxes cause people to fall below the poverty line (ECLAC 2021). This proposal broadly coincides with Inter-American Development Bank (IDB) and IMF proposals and can be summarized as follows:

- Reduce tax expenditure that involves evasion and avoidance, which on average come to 6.1 per cent of GDP; 3.8 per cent in direct income taxes and 2.3 per cent in value added taxes (VAT).
- Increase the tax burden gradually, while ensuring tax reform is significantly and sustainably more progressive.
- Consolidate income tax for individuals and corporations.
- Extend the scope of estate and property taxes.
- Move towards higher direct taxes on individuals and corporations.
- Review tax expenditure (current tax expenditure in the region is 3.7 per cent of GDP).
- Strengthen auditing to improve tax collection.

- Consolidate environmental taxes, e.g carbon tax.¹
- Make progress taxing the digital economy.
- Focus public spending on economic transformation—public investment, basic income, universal social protection systems, financing for small businesses, digital inclusion, green pact and clean technologies.

Major structural challenges in the fiscal area relate to strengthening revenue capacity and improving the quality of spending. In addition to the size of expenditure, it is crucial to improve its composition and strategic orientation (progressive nature, social profitability, infrastructure, multiplier effects, environmental impact, long-term sustainability) in order to make progress towards universal social protection systems; to diversify the production matrix into greener economies through environmentally sustainable investments; and to protect employment, which will come under great pressure in coming years due to the automation of numerous production processes. The priority will be on policies that can create decent jobs aimed at informal-sector employment and adapted to the new conditions of production.

4.5. What issues should a major tax reform consider?

A major tax reform must involve transparency and a good accountability system to win support and be effective over time. One must consider the risk that elites may argue that reform is not necessary if evasion and avoidance are corrected; the answer is that the problem is more complex and goes beyond 6 per cent of GDP.

The public will need to be informed, promptly and accurately, about the contents and process of the reform; discussions will need to be held on the specific expenditures and there will need to be digital mechanisms to verify their execution, in a timely manner, with access to all. If not, citizen incredulity and distrust will continue, and citizens will cease to support the initiative. A tax reform is more likely to attract vetoes than votes, and society's ability to veto is great, while its ability to garner votes is limited.

Another issue that will need to be included in the debate for the reform to be effective is international coordination. Instead of temporary taxes to be eliminated after the crisis, it would be more practical to agree on gradually rising taxes with a medium- to long-term horizon.

A wealth tax is another item on the tax agenda. The issue is not just about numbers in the short term; there is an important message that scrutiny and taxation of wealth are here to stay, as a measure that, over time, can act as an equalizer in more prosperous and egalitarian societies.

The recovery of the region's economies in 2021 is progressing better than was expected as of late 2020, but even so the conditions are not the best for

introducing tax reforms, let alone one of the magnitude required by the region. Electoral processes are under way in many countries, and politicians in campaign mode are not interested in talking about 'raising taxes'. The population is dissatisfied and hard hit by the crisis; new social unrest and governance problems could ensue. Each country will have to evaluate and decide on the best moment. The discussion can begin now, with a commitment to it coming into force in the near future, albeit not immediately.

The 2021–2024 electoral super-cycle in Latin America could offer a window of opportunity in which to call for a kind of regional pact in which all candidates commit to including a discussion on comprehensive tax reforms in their agendas, campaigns and government programmes, with the promise that those who win will honour the proposals and agreements while those who do not will maintain their activism on the issue, from the opposition or other forums. As the elections unfold, cooperation can include sharing lessons and experiences, which would be of great benefit to soften the resistance of the opposition and thus muster the necessary political will.

4.6. Funding must continue to flow

In any case, the countries of the region need fresh resources to speed up their productive recovery. The region's economies are already recovering, and the state must be strengthened to provide the social and infrastructure services needed for long-term growth. Funding to maintain social spending and boost infrastructure spending will be enormously helpful; the faster growth recovers, the sooner potential GDP growth will be restored, contributing to the future sustainability of the debt.

The signs of a transition towards the desired situation shown in Table 1.1 may be very propitious for reviving international cooperation—both financial and non-financial—for Latin America on a firm and lasting basis. It must be acknowledged that there are currently doubts over the appropriate and agreed-upon use of funding from international cooperation. Starting down these paths would surely attract the attention not only of traditional cooperation agencies but also of foreign direct investment which, in a cohesive, growing region that is providing productive jobs, respecting laws and the institutional framework, reducing impunity and strengthening democracy, could make strategic sense and reflect a long-term vision.

The region must send signals to the world that it is capable of planning and executing responsible and transformative tax reforms, adopting credible commitments with inter-temporal fiscal frameworks that will set the context for a tax reform, the process for which is starting now and is beginning to be implemented gradually and progressively.

It would be desirable to agree on a tax reform early on; it would not be implemented in 2021, but it would have to be agreed in full now. It is important to have clear rules of the game from the outset. Revenues and spending must be agreed upon simultaneously. The population must be informed that increased revenues will make it possible to spend more on improvements in health care, education and the quality of public services generally. Tax reforms should be supplemented by external financing, among other things to recapitalize the development banks, which have a very important role to play in the region.

Endnotes

1. The region collects around half (in terms of GDP) of the Organisation for Economic Co-operation and Development (OECD) average in environmental taxes.

5. Renewed integration for greater cohesion and to strengthen the region

Latin America is going through a period of little dialogue or regional cooperation. The low level of preparedness, the political and ideological differences among governments, and the internal problems faced by each country paint a picture that is hardly conducive to potentially fruitful collaboration. Regional integration should be relaunched on a pragmatic, firm, sustainable and less ideological basis to give practical meaning and content to a new stage, with new objectives, such as making progress towards democratic governance throughout the region.

The fragmentation and weakening of the integration institutions hampers the development potential of each country and reduces regional influence in defining the trends and rules that regulate international relations. The potential for economies of scale and scope to benefit the Latin American population is especially promising in regional coordination, cooperation and peer-to-peer collaboration projects and initiatives on issues such as:

- public health (vaccines, equipment, drugs, medical instruments and devices);
- environment (biodiversity, renewable energy, the Amazon);
- scientific and technological cooperation;
- joint action on reconfiguring the instruments and rules of global governance;
- a single voice with which to seek points of consensus in global forums and to explore opportunities for international cooperation;

- migration (voluntary and forced, especially to North America);
- external financing;
- inclusive digitization;
- regulatory provisions and tax regimes for digital companies and platforms;
- climate change and Paris Agreement commitments;
- disaster risk management (disasters due to extreme natural phenomena);
- infrastructure that connects countries;
- coordinated response to unexpected high-impact events, such as a pandemic.

5.1. Integration with a sense of reality

This new integration must accept a diversity of perspectives in order to find and exploit common links and a convergence of values in proposals that will allow the region to survive in a world in which no one will listen to us if we don't speak as a region.

The year 2021 is proving to be as complex as 2020, with the added ingredient of increasing weariness, anger and disappointment. Faced with this situation, countries must demonstrate internal management and strategic capacity or, at the very least, show that they are seeking it. With regional cooperation, the search will be more fruitful and will help the world to see us in a positive light once again.

There is a common purpose in the productive recovery that could suggest the advisability of seeking agreement on mechanisms, timeframes and actions; for example, bringing forward investments with a short-term impact on employment and broad multiplier effects in other sectors, as well as prioritizing medium- and long-term investments aimed at achieving the SDGs. These would be good common starting points: reviving the economy on the basis of sustainable strategic investments.

5.2. Moving towards a new phase of regional cooperation

The current lack of coordination among Latin American countries is unsustainable, particularly at a time when the international order is being structured with new rules, alliances and changes in state and non-state powers. If such dispersion is maintained, it will only slow down the development of each country, reduce its autonomy and compromise its democracy. It will lead nowhere if one imagines that the issues can be solved by national measures alone.

The region is suffering a crisis of confidence that makes it difficult to consider regional cooperation. We must overcome this and establish a new and effective democratic governance that builds agreements as we move forward. How? With concrete examples of collaborative agreements that show positive, convincing and immediate results based on pragmatic initiatives that will garner support and convince sceptics, for example, when it comes to economic recovery (in the very short term) and health systems (in the medium term).

Proposals from the countries' economic and social actors should be heeded as they have the best information and experience for making proposals, which could be agreed upon among them and then formalized (or not), taking advantage of the regional and subregional integration mechanisms.

It will be necessary to assess what resources are needed to relaunch integration—for what, for whom and when. To this end, a discussion on creating a kind of Latin American fund for democratic governance is proposed to channel resources through the development banks of the region (e.g., CAF, IDB, Central American Bank for Economic Integration), the IMF and the World Bank aimed at relaunching integration and cooperation starting, for example, with a strengthening of health systems and education, and the development of infrastructure projects for renewed growth.

6. Building democratic governance

In this section, we return to the question posed at the start of the report: What should the political and social actors (government, society, private sector, international cooperation) do to defend democracy, strengthen its resilience and move towards the institutionalization of effective and democratic governance in Latin America? To answer the question, the interventions and the processes proposed for the transition to sustainable development and full democracy are presented as fundamental objectives and aspirations for the region.

First, we return briefly to the different scenarios, and we argue that it is essential to act to build a sustainable and democratic future, for otherwise we may spin aimlessly or continue seeing more inequality and concentration of wealth. Second, to support the proposals aimed at consolidating effective and democratic governance, we propose radical changes in the conduct of the main political and social actors. These changes are necessary if we are to create the will to promote actions, reforms and policies that will give meaning, strength and permanence to the objectives of governance. The idea is that this will serve as a basis for eventual dialogue, meetings and cooperation among governments, international cooperation agencies, society and non-governmental organisations, among other actors.

Third and finally, we refer to the changes in the processes of dialogue and encounters among the actors and propose changes in the way of doing politics, public policy, public management and planning including a forward-looking perspective, as key ingredients of structural transformations.

6.1. How we can achieve the desired scenario

The road to the desired scenario is long and hard; one must persevere in the effort, based on progress made in the pillars of democracy, development and

regional integration, with broad social participation, clarity of objectives, and the definition of a long-term strategy to be implemented with the participation of all stakeholders. Public policy, planning including forward-looking perspectives, recovery of the basic functions of the state, and the participation of citizens in all phases of the effort are fundamental to achieving a better future for all.

There is no other path that offers transformative and lasting results and brings us closer to the SDGs. The basic process consists of the state calling for truly open, inclusive and democratic discussions, setting aside the old practice of rigged, closed dialogues that are merely pretence and that answer to a formal need to comply with government commitments and 'be accountable' to a society that has matured and that demands to be taken into account. That is the essence of democracy.

Current trends call for truly democratic and inclusive conversations. The result will be a new social contract which, in turn, will inevitably be accompanied by major fiscal agreements. Cooperation and understanding will be the transformative force. It is essential to create the institutional framework and the prospective and strategic capabilities within government—and in all the other actors in development and democracy—to prepare and walk this path.

6.2. The performance of the political and social actors

History teaches us that virtuous structural transformations can emerge after major crises but it also shows that lags and problems can deepen (Berman 2020). Transformational changes are inspired by leadership, a purpose, a meaning and a project that brings people together, enhances agreements and defuses differences. The role of the actors is central, since the direction of change depends on them: either the lags are accentuated or a transformational shift takes place.

Table 1.1 indicates the changes that are necessary in the conduct, composition and nature of the actors in order to consolidate democratic governance in the region. The first column summarizes the current and persistent conduct of the key political and social actors over past decades and the second column gives the proposed position for seeking full democracy and sustainable development. These are stylized facts that do not strictly correspond to the general situation of the region or of any particular country. However, emphasizing these contrasting situations highlights the importance and magnitude of the effort required.

The visions presented in Table 1.1 are open to different nuances, biases and orientations depending on the conditions in each country. There is no option: if these transformations do not take place or, at the very least, begin to take place, then Latin America runs the risk of embarking on a path to decomposition, with organized crime controlling ever-larger parts of the territory and a state co-opted by the interests of the elites.

6.3. Strategies, actors and instruments

Comprehensive, cross-cutting, multidimensional, and inter-temporal solutions

The transition to a higher stage of development within a democratic framework requires simultaneous, interconnected and interdependent progress in the pillars of sustainable development—economic, social and environmental—which means an integrated approach to policies, in clear contrast to the traditional approach of promoting independent, disconnected and sequential advances.

The cross-cutting nature of the strategy is crucial due to the multiplier effects, externalities and interaction among the pillars of democratic governance. The multidisciplinary, multilevel and inter-temporal approach to public policies is complex, corresponding to the diversity and depth of the challenges. It must move away from the simplistic, unilateral and often improvised solutions that have proved ineffective in the past. Strategic solutions are required to virtuously build the future of civilization.

A new approach to public policy

Public policy is a key tool of the political system for moving to a stage of democracy, prosperity, equity and inclusion. It is not enough to be willing and convinced that it is possible to achieve a democratic, equitable and inclusive society; deliberate actions are needed, along with a re-engineering of the institutional framework and the professionalization of the public administration to prepare us for the future.

The drawing up of policies, programmes and strategic development plans should take account of three basic conditions: coordination between the short and long term, dialogue between the plans and the national budgets, and the involvement of institutions representing all social sectors.

The transformations are aimed at the legal and formal structures of the state apparatus and the human resources apparatus, to strengthen the institutions of the new state, staffed by honest, competent professionals committed to public service. The professionalization of the civil service (for example, through the civil service career path) and the eradication of corruption and impunity are essential ingredients of this strategy.

Lasting solutions require persistence and a long-term horizon

Proposals to address the challenges of democratic governance will not result in immediate solutions. The objectives, goals, targets and indicators can take the 2030 Agenda as their reference point albeit always in a national context. In terms of development, it is advisable to start with macro fundamental aspects such as growth, investment, employment, poverty and inequality reduction,

environment, health, and education, with a cross-cutting framework for improving democracy.

Society's participation is essential

Unlike in the past, the construction of a country project requires the participation of society as a fundamental actor in strategic public policy decisions in the region (design, implementation, monitoring and evaluation). Social movements and protests have revealed a failure on the part of the authorities to listen, not to mention decades of disdain for citizen proposals; such proposals are increasingly trying to make themselves heard and be taken into account in decisions that affect the basic needs of citizens, such as employment, security, health and education.

It is not a matter of substituting one elite or power group for another. Social participation is an inherent aspiration of the democratic state; it is neither a concession nor a conquest. Insofar as the participation of society generates democratic social leadership and is reflected in public policy decision-making and in its monitoring and evaluation, it will be more likely that the rhetoric, pretence and appearances that have characterized public affairs and politics in the region in the past will be eradicated.

The strategy must begin now

Building the image of a democratic, prosperous, inclusive and supportive Latin America must take the form of a participatory exercise in each country. It is not necessary to go down the road of authoritarian regimes, as some often argue, alluding to cases of successful economic development in Asian countries. The experience of countries such as Denmark, Finland and Norway shows that it is possible to build a prosperous future in a participatory democracy. The region can aspire to build its own future, drawing elements from the international experience, recognizing its history, and lifting up the values and aspirations of the population.

Democracies in Latin America are resisting but they are at risk. There is no time to lose, and no effort should be spared to defend, renew and strengthen them.

6.4. The role of international cooperation

This report seeks to provide background and inputs with which to generate a debate within and among the countries, regionally and internationally, on what the region needs to do to emerge from the crisis and, in tandem and immediately, build a strategy to move towards a scenario of effective and democratic governance.

In order to test the arguments, analyses and proposals in this text, the next step will be to convene a participatory, democratic and inclusive discussion (how

could it be otherwise?), organizing meetings to review, analyse, focus, expand and refine the recommendations made herein.

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Annex A. Fiscal measures to be considered

IMF: Fiscal responses for a post-Covid-19 world

Significant fiscal efforts were made in Latin America and the Caribbean to address the pandemic. Looking to the future, if we are to continue to combat the effects of the pandemic and lay the foundations for a sustained recovery, it will be necessary to maintain an expansionary fiscal policy that prioritizes social protection systems while ensuring financial sustainability.

Adapting the fiscal strategy

As the IMF's Fiscal Monitor notes in its April 2021 edition, global vaccination can be self-financing with increased economic activity, as it would result in higher tax revenues. There is a need to strengthen project implementation capacities and improve public procurement procedures; embark on a green, digital and inclusive transformation of the economy; design medium-term strategies to manage fiscal and financial risks; and make renewed efforts to achieve the SDGs.

To meet these priorities, the following measures are needed

- Increase international cooperation to contain the pandemic. Speeding up its control in all countries (IMF, 2021a) would generate tax revenues and

also save billions in fiscal support measures. Vaccination would thus pay for itself.

- Measures should be better targeted and adapted to the administrative capacity of the countries.
- National governments have to strike a balance between the risks of a large and growing public and private debt and the risks of prematurely suspending fiscal support, which would stymie the recovery. Credible medium-term fiscal frameworks are key to achieving this balance. To support this objective, the design of tax regulations could be improved. For example, rules or commitments for the 'early approval' of tax reforms could be created. Improving the fiscal transparency and administrative management of governments will increase the benefits of fiscal support.
- In order to help meet pandemic-related funding needs, governments could introduce a temporary tax on high income or wealth.

Equitable opportunities for all

Economic policies should aim to give everyone equal opportunities throughout their lifetimes, reducing existing gaps in access to quality public services. In most countries, achieving this goal will require generating additional resources and improving public service provision, while promoting inclusive growth.

The IMF documents how persistent and large inequalities have worsened the effect of the Covid-19 pandemic, while the crisis has in turn exacerbated those inequalities (IMF, 2021b).

Economic policy responses must recognize the different aspects of inequality, such as income, wealth and opportunity, which reinforce each other and create a vicious circle. In this context, government interventions must combine pre-distributive policies, which affect income before taxes and transfers, and redistributive policies, which reduce market income inequality, mainly through transfers and, to a lesser extent, through taxes, especially in advanced economies.

Accordingly, economic policy should include the following elements

- Invest more and better in education, health and early childhood development.

- Collect the necessary revenues. Advanced economies can increase the progressive nature of income tax and expand the use of inheritance and property taxes. Wealth taxes could also be considered if the above measures are not sufficient.
- Act transparently. For most countries, it would be appropriate to anchor these reforms in a medium-term fiscal framework as soon as possible. Strengthening public financial management and improving transparency and accountability, especially in the case of Covid-19 response measures, would improve trust in the government.

Source: Based on the IMF *Fiscal Monitor* (IMF, 2021b).

The pandemic has highlighted longstanding shortcomings and challenges facing Latin America. We must make the most of this moment to bring about the historic transformations necessary to build a democratic governance that will bring peace, prosperity and social justice.

The region requires structural change and this is, of course, nothing new. But now may be the most propitious moment in decades due to the electoral super-cycle that Latin America is experiencing from late 2020 until 2024, a period in which all presidential positions in the region are up for renewal, together with numerous legislative and subnational authorities. It is a unique opportunity that the region cannot afford to miss.

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