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“The Health, Economic, and Political Challenges Facing Latin America and the Caribbean”

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I. Background

The COVID-19 pandemic struck Latin America in late February 2020. Governments in the region had at least two months to prepare for the pandemic by adopting public health strategies, economic rescue plans, and policies to protect millions of informal and vulnerable workers throughout the region. There was time for these governments to learn from other countries on how to address the pandemic in its early stages. Despite the time advantage, none of these preparations occurred.

Why? First, because of weak leadership, poor capacity, and because some leaders – including President Andrés Manuel López Obrador in Mexico and President Jair Bolsonaro in Brazil – minimized the dangers posed by a new and emerging disease.

As a result of these failures, the impact in Latin America has been widespread and tragic. As of September 11, the region's 5 largest economies combined (Brazil, Mexico, Colombia, Peru, and Argentina) registered 6.8 million cases of COVID-19, or about 400,000 more than the United States, and hundreds of thousands of deaths. Brazil alone is the second country in the world (after the U.S.) with the most deaths, and more than 130,000 people perished over the past 7 months. The numbers may be even greater because of substantial underreporting, lack of testing capacity, and no systematic contact tracing protocols.

The toll of the disease has been particularly harsh. The region's economies have suffered unprecedented drops in GDP, with rampant unemployment, and a full-blown humanitarian crisis falling disproportionately on the poor, because of their minimal access to health services and lack of economic support from local governments.

Latin America's economy was already fragile before the pandemic struck, leaving little room in public sector fiscal stimulus. Even so, the response failure has made the situation worse. That failure resulted in part from a misguided view that policymakers had to choose between strict public health policies, such as quarantines and lockdowns, and preserving the economy. That was a false choice that led to hesitation about the widespread adoption of lockdowns and sanitary cordons, producing the worst possible outcome: Countries failed to control both the disease and its economic fallout. Government policies have either been insufficient or misdirected, leaving their populations adrift.

II. The Challenges for Economic Recovery

No sustained economic recovery can occur in the absence of measures to control the epidemic. Action is needed to bring down the viral transmission rate, or the effective R0, below the threshold of 1, meaning that one infected person will contaminate no more than one other person. As some countries have shown, this result can be achieved by a combination of strict social distancing measures, widespread testing, and contact tracing. With the exception of a few small countries in the region, notably Uruguay, almost no Latin American country has significantly reduced the effective R0. The absence of strict social distancing measures, the lack of mass testing, and the inability to conduct contact tracing have led to uncontrolled epidemics throughout Latin America. These epidemics are unlikely to abate over the next several months. Porous borders, dense urban centers, slums, multigenerational households, combined with erratic leadership have significantly undermined social distancing measures.

As countries have returned to nearly normal conditions since the first months of the pandemic – in many places schools remain closed, but bars, restaurants, and shopping centers are open for business – social distancing and other restrictive measures have become politically and socially untenable.

The outlook for the region is therefore grim. Uncontrolled epidemics will continue to ravage the vulnerable population, exacerbating already very high inequality and poverty levels. Governments are trying to convince their populations that economies will recover as soon as a COVID vaccine becomes available. But there is no guarantee that will happen and meanwhile businesses are suffering, particularly small and medium sized companies (SMEs). The SME segment in Latin America has not received any significant financial support from governments. As a result, bankruptcies are widespread, and unemployment will likely continue to rise.

Once a vaccine becomes available, the logistical challenges facing Latin America are hard to exaggerate. Some vaccines currently in Phase III trials require storage at ultra-low temperatures (up to minus 80 degrees Celsius), a capacity that experts agree the region broadly lacks. Transportation and distribution, not to mention a strategy for prioritizing certain groups in immunization campaigns, are nowhere to be found. Finally, while many countries in the region have public health systems – whether partial or fully public – these systems have suffered from insufficient resources and financing even during the pandemic. Hospitals, clinics, and medical personnel are heterogeneously distributed across most countries, adding to the daunting task of vaccinating tens of millions, or even hundreds of millions of people in different countries.

III. The Case of Brazil

Brazil has been especially hard hit by COVID-19 because of its erratic leadership and mismanagement of the epidemic in its early stages. The disease, which at first struck São Paulo, Rio de Janeiro, and other urban centers, quickly spread throughout the country, hitting poor northern and northeastern states, where public health resources are broadly unavailable. Health systems in many cities in these states, already precarious, have collapsed. Death tolls have risen because of a failure to impose quarantines and lockdowns. Strict lockdown measures were at first imposed in some states, but President Bolsonaro consistently undermined these efforts by blaming governors for letting their economies decline. He insisted that the disease should not be treated as a major concern and that quarantine efforts would do more harm than good to the economy and the population at large. Because of his callous indifference and priorities, Brazil's leader was largely responsible for the failure of early efforts to contain the epidemic. Notwithstanding his disastrous performance, President Bolsonaro's standing in opinion polls has improved over the past few months. Brazil still lacks a coherent economic strategy to address rising unemployment and falling GDP. Economic activity declined by more than 11 percent in the second quarter of 2020 compared to the same period the year before.

What explains President Bolsonaro's reasonable approval rates? In April, when the epidemic was ravaging the country and particularly its economically vulnerable population, Congress approved an emergency basic income program of a generous cash payout to last 3 months, but with the possibility of further extensions. Initially, Bolsonaro resisted the program. It then received unanimous Congressional approval, leading him to reap the potential political gains from changing his position.

Brazil's emergency basic income program has been a saving grace in a dismal situation. The cash transfer of about $ 100 per month eventually reached about half of the country's population, or nearly 100 million people, and helped sustain poor and vulnerable families throughout the epidemic. It provided some support to the economy, and importantly to cash-strapped municipalities, which improved their tax collections as a result of the program. Its enormous success not only helped President Bolsonaro's political standing but left the opposition without a viable political narrative to highlight his failures.

Brazil's emergency basic income program has since been extended to the end of December, although the amount of the benefit has been reduced by half. Thus far, this has not impacted President Bolsonaro political standing. Looking ahead, a major challenge will be addressing the end of the program in early 2021, especially as unemployment will remain in the double digits in the absence of other economic measures. Widespread bankruptcies, a credit crunch, and questions over fiscal sustainability will likely hamper efforts to reenact a similar cash transfer program in the near future. Brazil's debt to GDP ratio is expected to rise above 100 percent by the end of the year, and the fiscal deficit will likely hover in the double-digit range as a percentage of GDP.

As the Brazilian economy was already weak before the pandemic, and since there are no expectations that it will improve much with an uncontrolled epidemic in place, the outlook for Latin America's largest economy is nothing short of grim.