

Helicopter Money Won't Ease Latin America's Pandemic Pain

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(Bloomberg Opinion) — With the worst of the pandemic yet to come, Latin Americans authorities are scrambling, and not just for hospital beds and coffins. Along with Covid-19, a fever of wonkery has broken out over how to reverse the collective economic contraction and to carry on once the health emergency has passed.

After seven straight years of underwhelming growth, the health crisis's knock-on effects will set back regional gross domestic product by at least 5% this year, a collapse rivaling the Great Depression. Joblessness will jump by around 35% to 37.7 million, with another 16 million Latin Americans likely to fall into extreme poverty. In Central America alone, GDP will fall by 6% and clip some \$3.9 billion from the 48% of households that rely on the shadow economy, according to Manuel Orozco, of the Inter-American Dialogue. And in societies where nearly six out of 10 workers in Latin America live from gig to gig, welfare is more often than not a prayer.

Such dire prospects have mobilized governments to roll out assistance to the most vulnerable households and credit to businesses in lockdown. Many analysts want to go further, tear up the region's clubby social pact and so convert Latin America into the epicenter of a social protection revolution.

It's high time, some argue, for the rich to ante up, through measures such as Argentina's proposed "homeland tax" on great fortunes. Others would bring back the command economy, pump up the welfare state and bury once and for all the "neoliberal" model.

The social policy weapon of choice is bolder still: universal basic income. The idea is fetching and simple: Instead of clunky and often profligate trickle-down assistance from bloated welfare bureaucracies, the argument goes, governments should cut a check for everyone. The rich, middle class and poor families would be eligible for this guaranteed minimum wage, no conditions, no exclusions and no red tape.

Versions of UBI have kicked around for decades — and perhaps centuries. Lately, they have gained critical mass: A World Bank study counted 126 books on UBI, 91 of them published since 2010. Aficionados span the political spectrum. Milton Friedman, the doyen of free market economics, was an early convert. He called it a negative income tax. To many on the left, it's 21st century welfare. Pope Francis is on board. At least 22 pilot experiments are running worldwide.

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The pandemic has thrust UBI to the top of the regional agenda. The cascading health and economic crises have landed the Americas at a civilizing crossroads, Alicia Barcena, executive secretary of the United Nations Economic Commission for Latin America and the Caribbean, said on April 21. To build a "civilizing future," Barcena said, nations must provide a universal basic income that lifts everyone above the poverty line. "The State's fiscal scheme must be changed, let's put public resources into shoring up income," she said.

Impassioned as these appeals sound, basic income is no silver bullet. Yes, giving money to everyone eliminates the costly, time-sucking task of identifying and vetting families for poverty relief. All the better for the last in line whose benefits would no longer would depend on the discretion of state gatekeepers — a double win for transparency and social justice. Or so it would seem.

Yet by sending cash to everyone, including those who don't need it, universal income gets the equity agenda backward. Sure, the well-heeled would have to give back their stocking stuffer at tax time. Whether that largesse actually makes its way through the region's leaky and lopsided tax systems back to government coffers is another matter. "Latin American countries do not have progressive taxation," said Chatham House associate fellow Victor Bulmer-Thomas, a scholar of Latin American economic history. "The danger is that the poor end up paying disproportionately for the universal basic income transfers."

Champions of universal income recognize the challenge and argue that implementing UBI would require foundational reforms on taxation, pensions and traditional targeted poverty relief. That's a daunting to-do list for any nation, never mind those emerging markets where encastled constituencies defend a regressive status quo. Such obstacles may at least partly explain why, despite years of debate, guaranteed basic income is still mostly an idea. "Strictly speaking, there is very little evidence on the effects of UBI in developing countries," noted the otherwise hopeful authors of the recent World Bank study. "None of these has been experimentally evaluated."

What's more, Latin America already has a proven system of getting cash to those who need it most. At least 110 million Latin American families draw monthly benefits as long as they meet basic conditions, such as keeping their kids in school and vaccinated. That means one in five of the 552 million people receiving cash transfers globally lives in Latin America.

Conditional cash transfers leapfrog traditional welfare by whisking benefits directly to qualifying recipients, often through personalized magnetic cash cards. Eligible families are listed on a national household register, which is frequently updated. In Chile, Colombia and Brazil, these registries keep tabs on around 60% of families nationwide, said Armando Barrientos, a Chilean economist specializing in welfare and social assistance policy at the University of Manchester, England. Brazil's pioneering Bolsa Familia cash transfer program even fights tuberculosis by speeding benefits to registered patients and keeping them committed to the rigorous multidrug therapies. "These systems are rules based, not discretionary, which discourages corruption. There's ongoing improvement in implementation," Barrientos said. Cash transfers are not flawless. Millions of workers are self employed or toil in the informal economy (58% in Brazil, 60% in Mexico, 66% in Ecuador) and so go officially unnoticed.

In Ecuador and Brazil, these invisible poor face epic queues, red tape or worse to withdraw the emergency funds they are due in the pandemic-induced economic shutdowns. Yet the exclusions are an argument for improving welfare targeting, not scrapping it.

Consider Brazil, where the deep 2015-2016 recession hit those at the bottom hardest. While average national income fell 2% from 2014 to 2018, the poorest 5% of households saw earnings plunge 39%, according to economist Marcelo Neri, who studies social policy at the Getulio Vargas Foundation in Rio de Janeiro. The logical solution? Close the poverty gap by topping up payouts to the more than 13 million families enrolled in the traditional Bolsa Familia cash transfer program. Brazil, laudably, did that and then extended benefits to millions more who had fallen through the welfare cracks and are now at risk in the fallout from the health crisis.

So what if government instead decided to drop the eligibility requirements altogether and spread the largesse to all 211 million Brazilians, struggling or not? Neri crunched the numbers: Handing out a universal basic income would cost Brazil 22 times more than if it targeted only on those below the poverty line. "It's like throwing money from a helicopter," he said.

The result, he said, would be wasted public revenue when Brazil's public debt is ballooning and the tax burden is already an enterprise-choking 35% of GDP. That's particularly worrying in a country where "temporary expenses have a way of becoming permanent," Neri said. "We need to pinpoint aid and get benefits directly to those who need them most."

No one is suggesting that existing safety nets are enough. Latin America is still the world's most unequal region. To reverse that blighted legacy, the region should indeed look beyond the pandemic and embolden its social pact. More than ventilating government cash, however, Latin America needs to fix its lopsided social edifice. A good start would be to shrink its unproductive informal sector. Half the region's workforce have no fixed job, 65% no bank account and credit is almost unheard of. "The most precise measure of fairness in society is financial access," said Orozco. "An inability to formalize your savings prevents you from creating wealth. You can't do this with cash in a mattress."

The pandemic and the economic misery it has wrought haven't reinvented the region's civilizing agenda. But instead of striving for utopia, Latin America's leaders need to support and improve the social policy tools that work.

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