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FEATURED Q&A

Should Countries Provide a Universal Basic Income?



The Covid-19 pandemic has spurred debate over whether countries should provide their citizens a universal basic income. // File Photo: Mexican Government.

Q The U.N. Economic Commission for Latin America and the Caribbean, or ECLAC, in a report published in May proposed that governments in the region ensure immediate temporary cash transfers to the most vulnerable in response to the economic fallout of the Covid-19 pandemic, suggesting such transfers be made permanent in the long term as a step toward a universal basic income, or UBI. Will such a cash transfer policy successfully lift people out of poverty, and what unintended consequences might it have in the region? What would a UBI system look like in Latin America and the Caribbean? Is there political will among countries in the region to carry out such programs, and do governments have the ability to implement them effectively as they face the worst global recession in decades?

A Claudio M. Loser, visiting senior fellow at the Inter-American Dialogue, president of Centennial Group Latin America and former head of the Western Hemisphere Department of the International Monetary Fund: "The key issue is the distinction between the need to help the most vulnerable and the idea of a general universal basic income. Latin America has regionwide experience with respect to mechanisms to help the poorest or more vulnerable sectors of the population that proved to be effective and financeable. The idea of a universal basic income has been applied to relatively small samples of people—Finland and other European countries—or for limited amounts as supplementary income, with controversial degrees of success. The costs of one and the other are quite different. On a back-of-the-envelope basis, if 10 percent of the population of Latin America (roughly the number in

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TODAY'S NEWS

POLITICAL

Death Toll Rises to 17 After Storm Hits El Salvador, Guatemala

In addition to those confirmed dead, seven people were reported missing after Tropical Storm Amanda lashed El Salvador and Guatemala.

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BUSINESS

Ford Resumes Operations at Plants in Mexico

U.S.-based automaker Ford said it has resumed operations at its Mexico plants, which had been shuttered due to the Covid-19 pandemic.

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ECONOMIC

Jamaica to Reopen for Tourism on June 15

Jamaica is planning to reopen for tourism in two weeks, Tourism Minister Edmund Bartlett announced. Jamaica is among several countries that have closed its borders to tourists in an effort to curb the spread of coronavirus.

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Bartlett // File Photo: Jamaican Government.

POLITICAL NEWS

Death Toll Rises to 17 After Storm Hits El Salvador, Guatemala

The death toll rose to 17 on Monday, and seven people were reported missing, after Tropical Storm Amanda lashed El Salvador and Guatemala over the weekend, the Associated Press reported. Most of the reported fatalities happened in El Salvador, where Interior Minister Mario Durán said approximately 7,000 people were scattered across 154 shelters. He added that the storm in 70 hours brought a quarter of the rain that the country typically receives in a year. The torrential rains led to landslides and flooding, particularly in the western part of the country. On Sunday, officials said that nearly 900 homes had sustained damage. Salvadoran President Nayib Bukele visited one of the areas that was hardest hit on the outskirts of San Salvador, where some 50 families lost their homes. Bukele said the government would give them \$10,000 for rebuilding their homes. El Salvador's Legislative Assembly approved the use of a \$389 million loan from the International Monetary Fund in order to deal with the impact of the storm and the Covid-19 pandemic, the wire service reported. In Guatemala, a nine-year-old boy drowned after a river swept him away, and another person was killed when a house collapsed, according to David de León, a spokesman for Guatemala's national disaster agency. The storm dissipated after it moved over land, but on Monday the U.S. National Hurricane Center said the remnants of the storm had formed into a tropical depression in the Bay of Campeche and that it was expected to move in coming days through the Gulf of Mexico. As of today at 7 a.m. Central Time, the storm was located 125 miles west of Campeche, Mexico with maximum sustained winds of 35 miles an hour and higher gusts. The tropical depression was moving west at three miles an hour, according to the National Hurricane Center. A tropical storm warning is in effect for areas between Campeche and Veracruz in Mexico.

Protest in Brazil Against Racism Turns Violent

Demonstrators clashed Monday with police in the southern Brazilian city of Curitiba as they protested police crimes against blacks following the death of a black man in police custody last week in the United States, the Voice of America reported. Police in Curitiba fired tear gas and rubber bullets at protesters to break up the demonstration. The gathering had been otherwise peaceful when scores of protesters started vandalizing buildings near the governor's palace. There were no immediate reports of arrests. On Sunday, police deployed tear gas to break up a similar protest in Rio de Janeiro. In recent days, protesters have taken to the streets in front of the White House in Washington as well as in several other U.S. cities following the May 25 death of George Floyd, a black man who died in Minneapolis after a white police officer knelt on his neck for more than eight minutes.

ECONOMIC NEWS

Argentina Again Extends Deadline in Debt Negotiations

Argentina on Monday again extended the deadline to reach a deal with international bondholders to restructure \$65 billion in foreign debt, and the government said it may sweeten its offer, Reuters reported. The latest self-imposed deadline was set to expire today. Technically, Argentina is already in default after having missed an interest payment extension on May 22, but both the government and foreign creditors agreed to continue talks after bondholders rejected a previous proposal. The government is evaluating "additional adjustments" to its offer "with a view of maximizing investor support without compromising its debt sustainability goals," it said in a statement,

NEWS BRIEFS

Int'l Monetary Fund Increases Financing for Honduras to \$531 Mn

The International Monetary Fund has increased its level of financing to Honduras to \$531 million, immediately releasing \$233 million, more than five times the amount that the lender initially approved, Reuters reported. The financing is intended to help the Central American country through the Covid-19 pandemic.

Suriname's National Vote Free and Fair So Far: Caricom Observers

Suriname's national vote so far has been "free, fair, transparent and credible," the Caribbean Community, or Caricom, elections observation mission said in a statement on Monday, Stabroek News reported. Preliminary results show opposition party VHP ahead of ruling party NDP, whose leader, Dési Bouterse, has ruled the country for four decades. Both sides have alleged irregularities in the ballot-counting process. In a separate statement, the OAS electoral mission said that "despite some interruptions and a slow pace ... the mission has not observed changes in trends or serious irregularities."

Jamaica Planning to Reopen for Tourism in Two Weeks

Jamaica is set to reopen its borders for travelers beginning on June 15, Tourism Minister Edmund Bartlett announced, the Caribbean Journal reported. The move would make Jamaica the largest Caribbean destination to reopen the tourism industry for foreigners following border closures due to the Covid-19 pandemic. Saint Lucia as well as Antigua and Barbuda are planning to reopen for tourism on June 4, while the U.S. Virgin Islands reopened on Monday. [Editor's note: See related [Q&A](#) in the May 15 issue of the Advisor.]

Reuters reported. “We are working on the final amendments to the offer, but the margin that remains for adjustment is thin,” said Economy Minister Martín Guzmán, adding that the deadline for talks would again be extended following the offer in order to provide time to draft and sign the final deal. The International Monetary Fund backed the current proposal. In a statement on Monday, the lender said that the new offer is “consistent with restoring debt sustainability” and that there is “limited scope” for Argentina to improve it.

BUSINESS NEWS

Ford Has Resumed Operations at Plants in Mexico

U.S. car manufacturer Ford has resumed operations in its Mexican plants after weeks of shutdown due to the coronavirus, the company said Monday, the Detroit Free Press reported. It was unclear when exactly the automaker restarted its four plants in Mexico, or how many shifts it would operate, but it said the reopening is gradual. “The safety of our work force is our top priority,” Ford spokesman Said Deep told the newspaper in an email. “Working closely with government, suppliers and union leaders, Ford de México is gradually resuming operations and production under the strictest protocols to keep our employees healthy and safe. We have resumed operations at our four sites,” Deep added. Mexico has allowed the reopening of several economic sectors, including the auto industry, following significant pressure from the United States. The U.S. auto industry heavily relies on Mexico for parts and vehicle production, CNBC reported. Fiat Chrysler restarted operations in the Latin American country last week, while General Motors began operations at its three assembly plants in Mexico on May 21, the Detroit Free Press reported. Companies reportedly had to submit a health plan for Mexican authorities to approve before being allowed to reopen.

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extreme poverty, according to ECLAC) were to receive an annual transfer equivalent to 10 percent of per capita income, the cost would be about 1 percent of GDP. It could be somewhat higher if there is graduated support for people slightly above the extreme poverty line. This could eliminate extreme poverty and reduce poverty levels at a reasonable cost. If the idea is to provide the entire population with a minimum income equivalent to only 15 percent of average income through universal transfers, the cost would be 15 percent of GDP, based on a massive increase in taxation. The required effectiveness of the measure and the ability of governments to implement it are enormous. Unfortunately, so would be the social consequences in terms of incentives to work and to pay taxes—the latter a serious weakness in the region.”

A Mac Margolis, Bloomberg Opinion columnist: “The economic devastation wrought by the coronavirus pandemic has triggered a long overdue policy debate about how to protect the most vulnerable in society. Universal basic income is not the way to go. Yes, paying everyone a minimum wage sounds great: it might eliminate red tape and the vexing task of identifying and vetting deserving households. Yet a universal handout, including to those who don’t need it, gets the Latin America equity agenda backward. Implementing UBI would take foundational reforms, including overhauling taxes, pensions and targeted welfare. Thanks to entrenched interests bent on preserving the regressive status quo, however, that bold agenda has long eluded developing nations. Perhaps that’s why so few countries have basic income programs, none of them in Latin America. Besides, Latin America already has a proven system for helping those who need it most: conditional cash transfers benefit some 127 million low-income people in 20 Latin American countries, aiding families who keep their children in school and vac-

inated. Beneficiaries are selected through transparent rules and eligibility specs, not the whim of welfare gatekeepers. The direct payments, often through cash cards, leapfrog wasteful bureaucracy. Brazil spends 0.5

“**Universal basic income is not the way to go.**”

— Mac Margolis

percent of gross domestic product on its targeted Bolsa Família benefit. UBI could cost 22 times more, Getúlio Vargas Foundation economist Marcelo Neri concludes. ‘That’s helicopter money,’ he said. Cash transfers are not flawless. Millions of self-employed and informal sector workers have slipped through the cracks during the pandemic. Yet the exclusions are an argument for improving targeted poverty relief, not scrapping it, never mind dropping money from the sky.”

A Nora Lustig, professor of Latin American economics at Tulane University and nonresident fellow at the Center for Development and the Inter-American Dialogue:

“As a response to the pandemic, countries are expanding cash transfer programs to protect those hurt by the coronavirus’ economic fallout. Whether to convert this into a permanent change is a different matter. A UBI can provide a broad-based safety net in the face of a reduction in income (such as during the current pandemic). However, if the main objective is poverty reduction, replacing existing targeted programs by a UBI would leave the poor worse off. If the aim is to both reduce poverty and create a social protection floor, a UBI should be high enough, at the minimum, for the poor to be no worse off than under current programs. Achieving this in a budget-neutral manner will require an increase in taxation, which may create work disincentives and political

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resistance from the middle classes. Thus, there is a tradeoff between efficiency and the size of the universal basic income floor. The higher the floor, the larger the potential losses in efficiency due to higher taxes. But, the lower the floor, the smaller the ability of a UBI to act as a genuine safety net. In the end, whether to introduce a UBI will depend on the country. What cannot wait is implementing a universal registry that includes informal workers and the self-employed. In the absence of such a registry, expanding the coverage of transfers quickly enough is difficult. A second matter that cannot wait is to keep track of spending on cash transfers. Accurate information is not available. ECLAC discontinued reporting this data some time ago."

A **Paul R. Katz, vice president for special projects at the Jain Family Institute:** "Throughout the Americas, the inadequacy of existing social protections has been cast into relief by Covid-19. In Latin America, where approximately half of all workers are employed in the informal sector, the tendency to tie social benefits to formal employment presents an especially acute problem. The value of unconditional benefits could hardly be clearer. Governments across Latin America responded to the crisis by instituting or bolstering targeted temporary cash transfer programs. In Brazil, these initiatives include an emergency federal benefit for tens of millions of unemployed and self-employed workers, as well as municipal projects in Niterói and Maricá. (The latter is home to the largest permanent basic income program in Latin America, which the Jain Family Institute has partnered with the Universidade Federal Fluminense to study.) If the academic literature is any guide, these programs are likely to improve the lives of their beneficiaries. As my colleagues Sidhya

Balakrishnan, Sara Constantino and Stephen Nuñez argue in a forthcoming paper, studies and experiments across the world have shown positive impacts on health, educational attainment and crime. Nonetheless, many questions remain, especially regarding opportunity costs and general-equilibrium

“The value of unconditional benefits could hardly be clearer.”

— Paul R. Katz

effects. As with all redistributive social policy, the question of political feasibility is paramount. On this count, Brazil's recent experience offers important new insights. The coalition of social movements responsible for Brazil's national emergency basic income is one of the broadest in the country's history. As Leandro Ferreira, the president of the Brazilian Basic Income Network, recently argued, the rapid success of this initiative has placed a permanent cash transfer program at the center of Brazilian political debate. Yet broadscale benefits bring new challenges, particularly around disbursement. While Brazil's unified database for social benefits, the Cadastro Único, has offered an invaluable point of departure, getting cash to unregistered individuals has required creativity and sustained effort in the face of presidential intransigence. Temporary partial basic income programs represent important steps toward the unification and fortification of existing social benefits. Advocates of a more durable safety net must not miss the opportunity that these initiatives afford, in Brazil and across Latin America."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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Erik Brand

Publisher

ebrand@thedialogue.org

Gene Kuleta

Editor

gkuleta@thedialogue.org

Anastasia Chacón González

Reporter & Associate Editor

achacon@thedialogue.org



Michael Shifter, President

Rebecca Bill Chavez, Nonresident Senior Fellow

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ebrand@thedialogue.org

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