



Latin America Policy Journal

SHIFTING WINDS IN LATIN AMERICA

Seventh Edition
2018

A Harvard Kennedy School Student Publication

All views expressed in the Latin America Policy Journal are those of the authors or the interviewees only and do not represent the views of Harvard University, the John F. Kennedy School of Government at Harvard University, the staff of the Latin America Policy Journal, or any associates of the Journal.

All errors are authors' responsibilities.

© 2018 by the President and Fellows of Harvard College.
All rights reserved. Except as otherwise specified, no article or portion herein is to be reproduced or adapted to other works without the expressed written consent of the editors of the Latin America Policy Journal.

Rethinking Institutions to Rebuild Trust and Foster Citizen Well-being in Latin America

By Angel Gurría, Secretary General of the Organisation for Economic Co-operation and Development (OECD)

Citizens in Latin America and the Caribbean (LAC) are increasingly dissatisfied with their governments and public institutions at large. Corruption scandals and the impact they are having across society are certainly part of the explanation of this trend. At the same time, the region's economic slowdown in recent years, with a two-year contraction in 2015-16, has impacted social conditions and consequently the trust of citizens in the ability of institutions to deliver on socioeconomic challenges.

Notwithstanding the relevance of these dynamics, there are other structural issues that appear to be critical drivers of this growing social dissatisfaction, namely the shift in citizens' aspirations, the persistence of profound socioeconomic disparities in the region, and the emergence of new development challenges both at the domestic and the global scale. All this reveals the limitations of the current institutional framework to satisfy society's needs and demands.

This growing disconnect between citizens and public institutions represents a critical issue for the sustainable and inclusive development of the region, as highlighted by our *Latin American Economic Outlook 2018: Rethinking Institutions for Development*.¹ Reconnecting public institutions with citizens and better responding to their demands and aspirations is a vital step to guarantee a new period of sustainable economic growth, social progress, political stability, and greater well-being for all in LAC.

The Erosion of Trust and Satisfaction in Latin America

Citizens' trust in institutions has been traditionally low in LAC, but it has deteriorated further in recent times. Data from *Latinobarómetro* shows that the share of the population with little or no trust at all in their governments reached 75 percent in 2017, 20 percentage points higher than in 2010.² Other indicators of trust point to the same trend: in 2016, only 23 percent of Latin Americans said they were confident in the honesty of elections (compared with 46 percent in OECD countries), just 34 percent had confidence in the national judicial system (49 percent in the OECD), and 80 percent claimed their government was corrupt (up from a level of 65 percent in 2010).³

Satisfaction with public services has also deteriorated in the region. From 2006-16, the share of the population satisfied with the quality of healthcare services fell from 57 percent to 41 percent, well below average levels in the OECD (stable at around 70 percent). Likewise, satisfaction with the education system fell from 63 percent to 56 percent over the same period, while it remained relatively stable above 60 percent in OECD countries.⁴

While the decline of trust is not exclusive to Latin America and it is also gaining ground in other regions of the world, there are some particular features in LAC that seem to be driving this trend. These features are worth exploring to better design adequate policy responses.

A larger middle class has driven up aspirations, while a challenging domestic and global context creates uncertainty.

As the saying goes, “every cloud has a silver lining,” and while the growing disconnect between society and institutions is a critical challenge for citizens’ well-being in LAC, it is fair to say that such disconnect has been partly driven by the rise of the middle class, which has boosted aspirations and expectations about living standards. Indeed, the expansion of the middle class has been one of the major socio-economic transformations of recent times in LAC, to the extent that for the first time in decades, the middle class is more numerous than the population living in poverty. In 2015, around 34.5 percent of the population could be considered “consolidated middle class” (living on US \$10-50 a day expressed at constant 2005 prices in purchasing power parity (PPP)), up from 21 percent in 2001. This expansion has been accompanied by higher aspirations and evolving demands and values, as middle-class citizens are believed to be strong supporters of democracy. But in addition to this, there is a large vulnerable class (living on US \$4-10 a day), which represented around 40 percent of the population in 2015, up from 34 percent in 2000.⁵ This socio-economic group lives with the uncertainty of falling back into poverty as a result of negative shocks. And, finally, around a fifth of the population still lives in poverty. Altogether, the increased (and oftentimes unmet) expectations of the consolidated middle class coexist with the instability and insecurity of the vulnerable middle class and the poor, with pressing and unsatisfied demands across all social groups.

The growing divide between citizens and institutions also reflects some persistent socio-economic challenges,

including insufficient growth and high inequality, compounded by an uncertain domestic and global context. The prevalence of low productivity levels and the so-called middle-income trap – the stagnation of countries at middle-income levels – remain critical challenges for well-being in the region. While LAC economies are experiencing a modest recovery after going through a contraction in 2015-16, the global macroeconomic outlook is still far from the dynamism of the previous growth cycle that boosted demand and provided a much-needed tailwind to the region.

Meanwhile, global trade and investment flows have decelerated in recent years. The costs of increased openness and connectivity are weighted as never before against the benefits, and many perceive that globalization has left them behind. This has fueled inward-looking policies in key global players accompanied by uncertainty about a potential reversal of global integration, with consequences for international trade.⁶ Equally, new challenges such as technological change and its potential impact in the world of work, aging populations, migration, and climate change are intensifying. Confronted with this international context, citizens are uncertain about the capacity of institutions to respond to this complexity and to guarantee further progress.

The social contract is weakening: institutions need to be rethought to build a new state-citizens-market nexus.

The growing disconnect between citizens and public institutions is weakening the social contract in LAC, with critical implications for well-being. When citizens perceive that public institutions are unable to respond to their demands, they have lower incentives to fulfill their obligations in the social contract, mainly voting and

paying taxes. In fact, the willingness to pay taxes (i.e. “tax morale”) remains weak: in 2015, 52 percent of Latin Americans were willing to evade taxes if possible (compared to 46 percent in 2011).⁷ Tax evasion undermines the state’s capacity to provide quality public goods and services effectively. This, in turn, has a negative impact on citizens’ lives – shown by the deterioration of well-being indicators in recent years – and risks perpetuating a negative spiral.

It is in this context that LAC can largely benefit from rethinking its institutions to construct a renewed state-citizens-markets nexus to better respond to people’s needs and demands. There are two broad areas of policy recommendations in this direction, as highlighted in the forthcoming *Latin American Economic Outlook 2018*.⁸

First, institutions must be rethought to support inclusive growth. This objective should go hand-in-hand with the provision of better job opportunities, greater macroeconomic stability and better prospects of socio-economic progress for citizens. A particular focus here must be placed on the institutional transformations needed to achieve greater levels of trade integration, production diversification, and value-addition. LAC needs to shift towards further regional and global integration. To achieve this goal, persistent barriers, mainly non-tariff, need to be removed. This must be accompanied by policies to support investments in skills, technology, and R&D. At the same time, the region should progress towards a stronger common negotiating position in the international arena. There is some progress, however. The rise of the Pacific Alliance is the single most promising development towards regional integration in many decades.

Second, institutions must be rethought to build empowering and enabling states

that deliver and respond to citizens’ demands, creating and providing them with the opportunities to thrive in life irrespective of their socioeconomic background. Effective institutions are critical for broadening access and delivery of key social services and infrastructure that form the foundations of a prosperous society. Better and more resilient institutions will help advance the Sustainable Development Agenda in the region. In this endeavor, states need to be more reliable, forging a culture of integrity and transparency that leads to regaining citizens’ trust; they need to be more capable, improving the efficiency and effectiveness in the delivery of services to citizens and making better use of existing resources; and they need to be more forward-looking, to anticipate change, adapt to emerging challenges and demands, and find innovative responses to them. Corruption, weak state capacities, and lack of effective interaction channels with society all contribute to push public administrations away from citizens’ demands.

As Borges once said, “the future is not what will come, but what we will do.”⁹ The task is clear: to bring institutions closer to Latin American citizens and adapt them to the changing needs and aspirations of society.

NOTES

1 OECD/CAF/ECLAC, *Latin American Economic Outlook 2018: Rethinking Institutions for Development* (Paris: OECD Publishing, 2018).

2 Corporación Latinobarómetro, “Informe 2016,” 2017, www.latinobarometro.org.

3 Gallup, “World Poll database,” 2016, <http://www.gallup.com/services/170945/world-poll.aspx>.

4 Gallup, “World Poll database,” 2016, <http://www.gallup.com/services/170945/world-poll.aspx>.

5 World Bank, “Tabulations of SEDLAC (CEDLAS and the World Bank) and World Development Indicators (database),” 2016, www.worldbank.org/en/topic/poverty/lac-equity-lab1/Overview.

6 OECD, *Fixing Globalisation: Time to Make it Work for All*, (Paris: OECD Publishing, 2017).

7 Angel Melguizo et al., *Revisiting the Determinants*

of Tax Morale, OECD working paper (Paris: OECD Publishing, forthcoming).
8 OECD/CAF/ECLAC, Latin American Economic Outlook 2018.

9 Translated from its original version in Spanish, “El futuro no es lo que va a pasar, sino lo que vamos a hacer.”



Angel Gurría

Angel Gurría has been the Secretary-General of the OECD since 2006. Under his leadership, the Organisation has established itself as a pillar of the global economic governance architecture including its active engagement with the G20, G7, APEC, and other international fora. Mr. Gurría has advanced the OECD’s impact and relevance in several policy areas, focusing on the promotion of better lives through inclusive growth and new approaches to economic challenges. He has also made the OECD more inclusive through new memberships, strengthening the link with key emerging economies and fostering its global outreach. Mr. Gurría came to the OECD following a distinguished career in public service in his native Mexico, including positions as Minister of Foreign Affairs and Minister of Finance and Public Credit in the 1990s.