I. Executive summary

Now, more than ever, governments in Latin America and the Caribbean (LAC) need to abandon all forms of austerity and significantly increase public resources to invest in impactful social policies for their population, especially the poorest and most vulnerable, which have been disproportionately affected by the structural inequalities in the region.

COVID-19 made the social chasm much deeper. Already at the end of the first year of the pandemic (2020), LAC was experiencing its greatest increase in inequality in two decades\(^1\), registering similar surges in extreme poverty levels as a result. Even worse, at the end of 2021, an immensely privileged minority representing 10% of the population captured 77% of total household wealth, whereas the poorest 50% of the population accounted for a mere 1% of wealth \(^2\). To further illustrate this: between 2020 and 2022 (at the height of the pandemic), 27 new billionaires emerged in LAC, whose wealth has grown at a rate of USD 5 million per hour and USD 124 million per day. In LAC, 97 billionaires have more wealth than the 392 million people living in region (60% of the region’s population). The two richest men in LAC alone (Carlos Slim and Germán Larrea, both from Mexico) have more wealth (USD 100 billion) than half of the entire LAC population together (USD 91 billion)\(^3\).

Proposals of progressive fiscal policies aimed at settling the social debt in the region must include measures to make those who have more contribute more by imposing permanent, solidarity taxes on the wealthy of the ultra-rich and excess corporate profits.

However, as if that were not enough, even before the region could recover from the deep scars of the COVID-19 pandemic (between 2020 and 2021), it suddenly had to deal with the adverse external impacts on supply chains caused by the war in Ukraine in March 2022. Thus, yesterday’s waves of infection were followed by today’s waves of inflation. Due to the weight of food, transport (fuel), and housing (electricity, gas and water) in the consumer price index (CPI), the war’s impact on supply caused domestic headline inflation\(^4\) in the countries in the region to soar. This had major social impacts, as it reduced the population’s purchasing power. A combined shock in oil and food prices of 10 percentage points raised inflation by 1.1 percentage point. The current increase in inflation is regressive, and low-income households are the ones affected the most by the rising cost of living\(^5\).

In the face of such adversity, one would expect governments to make significant and sustainable fiscal efforts to protect their populations. However, recent Oxfam research\(^6\) have shown how a major obstacle is standing in the way of effective guarantees of rights in the region, at a time when they are needed the most: austerity. This prescription is not new for the region, but in the current context, it takes on a special importance. The report shows that the COVID-19 pandemic caught LAC “off guard”, with limited capacity to defend the region from the harmful social and economic consequences of the health crisis. As a result, most countries ended up knocking on the door of the International Monetary Fund (IMF) for assistance.
Oxfam tracked IMF COVID-19 loans during the first two years of the pandemic (15 March 2020 to 15 March 2022) and has found enough evidence to show that regressive fiscal consolidation measures were being directly or indirectly promoted in several countries. These measures mark a shift towards austerity plans that limit or cut public spending; tax reforms leaning mostly towards indirect taxes, namely value-added taxes (VATs), which tax consumption, and not wealth or income; or measures aiming to contain or reduce the public wage bill, which affect working people. Oxfam showed that as of March 15, 2021, i.e. in the first year of the pandemic, 85% of IMF emergency loans surprisingly advocated for austerity during the recovery phase. This is despite numerous research, including the from the IMF, indicating that these measures would have devastating effects on inequality, which had already been exacerbated by the health and economic crisis. During the second year of the pandemic, the IMF shifted from recommending austerity measures towards requiring them. Oxfam also found that between March 16, 2021 and March 15, 2022, 87% of the IMF loan programs signed with low- and middle-income countries include austerity or fiscal consolidation conditionalities.

Between April 1, 2020 and May 31, 2022, the IMF has established at least twenty-one financing agreements with fourteen LAC countries for a combined total of 129.5289 billion in Special Drawing Rights (SDRs), equivalent to approximately USD 172.3 billion. For the sake of illustration, this amount is greater than the estimated nominal gross domestic product (GDP) for 2022 of Costa Rica, El Salvador and Panama combined. As we will see later, the terms of these agreements vary from explicit conditionalities that impose deficit reduction or target, and targeting of spending for the country in question, to flexible agreements without any apparent requirements. Yet, even in the latter case, one can clearly see the IMF’s influence in shaping part of governments’ fiscal policy agenda.

In this briefing, Oxfam identifies and describes the main austerity measures that several LAC countries initially adopted based on the explicit recommendations of the IMF or under its influence on the fiscal policy agenda in the region. The report warns that these measures risk of exacerbating inequalities, deteriorating the living conditions of millions of people in the region, limiting rights, and eroding the social contract, thereby creating fertile ground for social unrest and its harmful consequences.

It is important for governments in the region to pursue a fiscal policy model that actively promotes sustainable and equitable economic development as a way to reduce the burden of the public debt on the economy as a whole. To do so, they should use public spending to invest in advancing the social and care infrastructure in order to guarantee rights and social justice, as well as investing in climate transition.

The report also shows that another path is possible if governments commit to expanding social protection policies and enacting progressive tax reforms that tax the wealth of the richest people in the region. At the same time, the IMF should abandon promoting austerity in LAC neither through certain policy recommendations nor through direct conditionalities. It is fundamental that all IMF financing whether through loans or SDRs be used to continue fighting inequality that was supercharged by the pandemic and to mitigate the impact the inflation crisis ravaging the region.
NOTAS:

1 Cepalstat (2022), Gini coefficient, 2000-2020. https://bit.ly/3SIobh2. In 2020, the overall increase in the Gini index was 0.030 in relation to 2019 (↑7%), as it went from 0.461 to 0.464. This upward variation is comparable only to the one recorded in 2001, which rose from 0.531 in 2000 to 0.534 in 2001.

2 Incomes are measured after pension and unemployment contributions and benefits paid and received by individuals but before income taxes and other transfers. See WID.world (2021), World Inequality Report 2022, Summary (p. 11). https://bit.ly/WIDWorld2022

3 Calculations performed by Oxfam based on data from Forbes (March 2022), used for the Profiting from Pain media briefing (May 23, 2022) and updated for this report in September 2022: https://www.oxfam.org/en/research/profiting-pain

4 ECLAC (2022), Repercussions in Latin America and the Caribbean of the war in Ukraine: how should the region face this new crisis? (p.10). https://bit.ly/ECLAC_War_Ukr


9 Calculated using the value of Special Drawing Rights (SDR) in U.S. dollars (USD). As of July 1, 2022, SDR 1 equals USD 1.329890. Data on SDR valuation can be consulted directly at: https://www.imf.org/external/np/fin/data/rms_sdrv.aspx

10 Current price estimates of GDP until April 2022 in billions of USD: for these three countries, the total amounts to USD 166.526 billion (Panama USD 70.492 billion, Costa Rica = USD 65.314 billion, and El Salvador = USD 30.720 billion). Source: International Monetary Fund, World Economic Outlook Database (April 2022). https://bit.ly/3ahjdeO
DATA SHEET:

General content: Rafael Jovine

Country Boxes:

Brasil: Oxfam Brasil – Jefferson Nascimento

Colombia: Oxfam Colombia – investigadores consultores Mario Alejandro Valencia, Germán Darío Machado y Sara Isabel Bolaños

El Salvador: Oxfam El Salvador – Ana iris y Karla Castillo

Ecuador: Grupo Faro – Ana Patricia Muñoz y Ma. Caridad Ortiz

Review and edition:

Oxfam in Latin America – Grazielle Custódio David

Oxfam International, Washington Office – Nabil Abdo

Oxfam Intermon – Susana Ruiz

Style: Pilar Garavito

Design: Erre y Erre | Agencia de la data creativa.

Translation:

Spanish - English: Karen Lang

Espanish - Portuguese: Xiomara Rivas