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The Economics of Change In Latin America and Everywhere

While many of the trends I will mention here manifest themselves worldwide, I will pay special attention to Mexico and Latin America. Obviously, the present discussion is not exhaustive in any sense; it includes four elements that are widely acknowledged both academically and in the media.

Go Fintech. Indeed. Almost every aspect of our daily experiences is being touched by digital influences. To what extent artificial intelligence, big data, the Internet of things and the like will modify our economy in terms of consumption, production, savings, risk taking, planning, and preferences is uncertain. Nonetheless, consensus does exist that changes will be substantial and enduring. Latin Amer-

ica is not immune to the new technological realities. However, and with few exceptions, it is more a late adopter than a frontrunner.¹ The possibilities are plentiful. I would like to stress two.

First, the private and public sectors should work together in a more comprehensive, digitally-based financial system. It is shameful that one in three adults in Mexico currently does not have access to financial services (I consulted several reports by Mexico's National Bank and Securities Commission [CNBV] about this.). The use of smartphones and the development of simple apps could allow access to basic services, skipping traditional phases and with small infrastructure requirements. Some very valuable experiences exist in low-income African countries that could be considered as references.

Second, public policies should aim to enhance IT literacy. Basic understanding of hardware and some coding could open the doors to better jobs and the development

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of key sectors in the economy. Moreover, it is likely that the aforementioned digital literacy would be a marker of belonging to the middle class, with positive reinforcing effects.

Go Green. Absolutely. With climate-change-based problems widely recognized, lots of human activities and economic processes need to be reviewed and reformulated. The negative position on this is that these changes imply economic costs and challenges in the short run. A more positive view is related to new business opportunities and the awareness of the importance of natural resources in the long-run framework. Thomas Piketty's masterpiece is mostly cited for the effects of financial capital and wealth on inequality.² Nonetheless, it poses central questions on the role and effects of ecological capital. Many aspects can be discussed, I will briefly mention two.

Energy consumption accounts for a big share of humans' carbon print. The development of renewable energies is advancing at an awesome pace. While markets can cope with the changes, passive and active public policies can be extremely helpful. The range of government actions is broad: from regulating and taxing negative externalities, to fostering positive externalities, many related to networks. "Smart" electric grids are an interesting example of the latter.

A more polemical discussion refers to the changes in our lifestyles. It is possible to take a very radical stance—not necessarily rooted in science. Nonetheless, there is growing awareness that many of our consumption habits need to be altered: recycling, avoiding certain materials, transportation, and even fomenting organic produce. A big task is the aligning incentives and ensuring that environment-friendly patterns become mainstream and not too costly.

Go Old. Like it or not. Few phenomena of this importance are so ignored or misunderstood. A demographic transition is taking place all around the world. The critical

point for Latin America is the speed at which it is occurring. A transition that in Western Europe happened in about 60 years or barely three generations, would take on average 22 years in the Latin American countries, even with some baffling cases like Brazil, whose transition is expected in 18 years.³ The economic, social, political, and cultural changes implied are enormous. I will focus on four that are very direct and perhaps the most urgent.

We need to work on our pension systems. Almost every country in the region has problems of some sort. There may be a reduced participation, some persons are not included in the system, with a negative female gender bias and penalization of the informal sector. Also, receiving a pension is no guarantee that it will be "sufficient." Generally, pensions are supported by the fiscal system, and they are capturing increasing shares of fiscal space with the weakening of several public services. Even with very difficult decisions ahead, it is usually better to face them versus allowing an inertia-driven system.

Less obvious than pensions but also very pressing is the design and funding of health systems, both public and private. A demographic transition always carries an epidemiological transition. While a younger population is mainly affected by contagious diseases, an older one is more prone to chronic diseases. Both are dangerous and important; however, the latter type is substantially costlier and presents a tremendous burden for families and public finances. The recognition of the problem, including adequate funding and assessing alternatives, will be one of the key debates in future years.

A third aspect of this transition with profound effects refers to the economics of care. This is a field in social sciences that requires much more development both academically and in policy. The central point is that the older population will need attention and services from other persons. Who should provide these? What are the government's responsibilities? To what extent must the economics of care for the elderly be considered as part of social security. What about charities, altruism, and social responsibility. While many times relatives assume the functions, dwindling family size present a complex challenge.⁴

On a more neutral angle, the demographic transition will pave the way for something informally called the "silver economy." Some aspects of this idea are very direct: establishing production processes that incorporate older persons and a new set of products and services with this

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population in mind. Others are subtler. As the median age of the population goes up and this group represents a higher proportion of society, political positions and even cultural frameworks would evolve too. It is difficult to forecast the exact changes, however; if we observe what has happened in Japan (one of the countries with an early demographic transition), it is safe to argue that the new reality would be structurally different from the current one.

Go Public. This is not clear. The 2008 international financial crisis spawned important lessons. More regulation in the financial sector was a logical consequence of some observed practices. However, stronger arguments were gradually made. Public opinion in developed countries questioned the fact that, while the most affluent individuals bounced back very shortly after the crisis, the damage for middle-class families could be long-lasting. The latter was harsher for those who lost homes in the mortgage market. Eventually, the case began to be built about how in the last three decades many countries had observed inequality increasing at an alarming level.

What the role of government and the modern state should be regarding economic responsibilities and guaranteeing their citizens some level of well-being involves a major political debate and research agenda. . Some people have argued that as a society some efficiency could/should be sacrificed to attain more equity (fairness). Others have pushed the point even further: the inequality we are observing is a consequence of the market system's malfunctioning. To preserve it, better regulations are needed, as well as assuring that the affluence generated is shared more broadly. Maybe this is the call to rethink and invigorate the welfare state.⁵

The situation is that now we are facing the COVID-19 crisis. Ironically, while the current pandemic reinforces the foregoing logic (for example, the need for a stronger public health system), it derails public options. How is that possible? In order to react to the crisis, governments have

resorted to debt, and, with shrinking economies, the prospects for expanding public expenditures in the coming years look very difficult.⁶ With severe public finance problems already occurring (with pensions in the forefront), there is no easy escape. Latin America is particularly affected by this toxic cocktail, just as the Economic Commission for Latin America and the Caribbean (ECLAC) has been documenting.⁷ Hence, a stronger public sector would be desirable, but financial constraints make it difficult. The alternatives are not clear: the challenge is to foster a private sector with social objectives.

This essay is about important economic changes and trends in the short run, with emphasis on Latin America. My view is that fintech and ecological drivers would reshape our way of living. Also, we should think about an older population and prepare for an accelerated demographic transition. Finally, I believe it would be very desirable to have robust governments in the region and more energetic distributive policies. It is quite challenging to fund them. ■■■

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Notes

1 Rabah Arezki, Rachel Yuting Fan, and Ha Nguyen, "Technology Adoption and the Middle-Income Trap. Lessons from the Middle East and East Asia," 2019, <http://documents1.worldbank.org/curated/en/314521559247613834/pdf/Technology-Adoption-and-the-Middle-Income-Trap-Lessons-from-the-Middle-East-and-East-Asia.pdf>, accessed in November 2020. This article documents similar patterns for the Middle East and East Asia, with an interesting labeling of middle-income countries.

2 Thomas Pinketty, *Capital in the Twenty-first Century*, Arthur Goldhammer, trans. (Cambridge, Massachusetts: Harvard University Press, 2017).

3 For a comprehensive discussion of this point, see Alberto Arenas Mesa, "Los sistemas de pensiones en la encrucijada: desafíos para la sostenibilidad en América Latina," ECLAC, October 2019, <https://www.cepal.org/es/publicaciones/44851-sistemas-pensiones-la-encrucijada-desafios-la-sostenibilidad-america-latina>.

4 It is not the purpose of this essay to develop a full discussion. Certain issues deserve a complete presentation on their own. For, example the unfair gender bias that means that women end up with most of the load of the economy of care; also, proposals that suggest that government should provide some financial compensation to care providers.

5 Good elements for the discussion are to be found in Samuel Hammond, "The Free-Market Welfare State: Preserving Dynamism in a Volatile World," May 2018, Niskanen Center, https://www.niskanencenter.org/wp-content/uploads/old_uploads/2018/04/Final_Free-Market-Welfare-State.pdf.

6 Technically speaking, there is a very restricted fiscal space.

7 I strongly recommend CEPAL, "Panorama Fiscal de América Latina y el Caribe, 2020: la política fiscal ante la crisis derivada de la pandemia de la enfermedad por coronavirus (COVID-19)," July 6, 2020, <https://repositorio.cepal.org/handle/11362/45730>.