

# Democratic Backsliding, Tax Shortfalls, and Information Deficits

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*A pernicious feedback loop connecting fiscal incapacity, information declines, and strong-armed rule is hurting democracy in Latin America*

At their core, Latin America's current democratic travails are the result of a complex feedback loop involving governance ineffectiveness and executive aggrandizement. A feedback loop is a system in which a portion of the system produces an effect (the output) that cycles back and affects that same portion, often amplifying its dimensions and making it difficult to establish what is causing what. In Latin America, governance ineffectiveness and executive aggrandizement are interacting to hurt democracy. Each phenomenon has separate causes, but each also affects the other, compounding each other's impact. In this essay, I discuss how this feedback loop operates.

## Governance Effectiveness and Tax Calamity

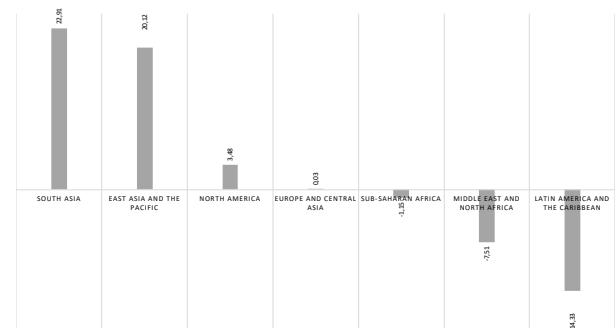
The first element in the feedback loop hurting democracy in Latin America is governance effectiveness, or lack thereof. Governance effectiveness refers to the ability of state institutions to deliver goods and services. It is a measure of civil service performance, which may or may not depend on levels of democracy. Some autocracies are bureaucratically competent, and some democracies are bureaucratically incompetent.

Bureaucratic competence in Latin America is mediocre at best and getting worse. This we know from the World Governance Indicators (<https://info.worldbank.org/governance/wgi/Home/Reports>), one of the most respected

efforts to measure governance internationally. A component of these indicators is an index called "government effectiveness." It measures the quality of public services and the degree of independence of civil service from political pressures. Since 2013, government effectiveness in the region, never high to begin with, has declined, from 58.5 to 50.1.

This decline is not a worldwide trend. It's a Latin American trend. In most other regions, government effectiveness has either held steady, for example, in Europe and Central Asia, and in Sub-Saharan Africa, or has improved, as in East Asia and the Pacific, North America and South Asia. The only other region to experience a notable decline in this period was the Middle East and North Africa (from 45.8 to 42.4), but that decline was by a far smaller percentage than in Latin America. (See Table 1.)

**Table 1. Government Effectiveness: Regional Averages, Percentage Change from 2013 to 2021**



Source: D. Karumann, A. Kraay, and M. Mastruzzi (2010), *The Worldwide Governance Indicators: Methodology and Analytical Issues*.

What this decline in government effectiveness means is that in the span of a decade, the average citizen in Latin America has experienced a visible decline in the quality of services that the state is supposed to provide: law and order, infrastructure, education, health, environmental standards, corruption controls, labor protections, business facilities, and more. The list is long.

There are independent causes of state incompetence and incapacity in the region. Many are historical. But some stem from more contemporary structural conditions. To me, an understudied contemporary cause of government ineffectiveness is the low collection level and distorted nature of Latin America's tax system (see Flores-Macías 2019; Mahon Jr. forthcoming). The region collects far fewer taxes as a percentage of gross domestic product than do the advanced capitalist economies in the world, where the state collects through taxes an average of 34 percent of the gross product of each country. In Latin America and the Caribbean, the average is 23 percent. In some countries, such as Mexico and Peru, the average is a very low 16 percent. Furthermore, tax evasion is high throughout the region (Oxford Analytica 2017), and the taxes collected come mostly from business groups (which hurts investments and encourages corruption) and consumption (which hurts the poor disproportionately).

To make matters worse, the tax-to-GDP ratio in Latin America seems to have gotten worse during the pandemic. Between 2019 and 2020, the decline in tax revenues exceeded the region's economic contraction in nominal terms (OECD et al. 2022). Tax-to-GDP ratios fell in 20 of Latin America's 26 countries. In the rich economies, the average tax-to-GDP ratio actually rose.

When states are underfunded, they inevitably underperform (Besley and Persson 2014). This is one of Latin America's key developmental challenges. States seldom have enough funds to fully meet the demand for public goods and services originating from an increasingly complex and resource-challenged society.

This state capacity shortfall is a possible reason the region is often besieged by social protests. Protests have spread even to countries where economic growth and democracy are strong or were getting stronger (e.g., Chile, Colombia, Ecuador, Panama). States are fiscally unable to meet the demand for public goods and social services. And ever since the market-oriented reform era of the 1990s, efforts to raise fiscal revenues meet stiff resistance. The poor can't (and shouldn't have to) pay; the middle classes feel they get little in return; and the economic elites use loopholes to keep their tax liabilities low.

In addition to underfunding, another cause of government ineffectiveness in the region is state capturing. State capturing refers to situations in which interest groups that are supposed to be regulated by the state end up eroding the autonomy of regulatory institutions for self-gain. Latin America has a long-standing history of economic elites capturing state institutions: smugglers in the colonial era, traders in the early independence period, *latifundistas* in the agro-export era from the 1870s to the 1930s, industrial conglomerates in the import-substitution era of the 1930s–1980s, drug-connected criminal syndicates since the 1980s, and commodity exporters in the neo-extractivist era since the mid-2000s (see Fernández Milmanda 2019; Trejo and Ley 2020; Mazzuca 2021; Schneider 2021). Each of these groups plays a role in impairing bureaucratic performance. They co-opt and corrupt bureaucrats to obtain the regulatory and enforcement environment that they need rather than the laws and regulations that the country requires.

Whether because of underfunding or overcapturing, Latin American states are unable to provide public goods at the level and quality that society demands. This produces intense displeasure with the status quo. Poll after poll reveals that Latin Americans are disenchanted with governance. Cynicism and radicalism prevail across the electorate.

These reactions are opposite sides of the same coin—disillusionment with state deliverables. Voters either stay disengaged from politics

or engage in politics through increasingly extremist demands. Conditions for unrest and anomie are thus expanding. Support for unproven newcomers or extremists is on the rise. Political parties that historically helped to de-radicalize voters are declining. Moderation is waning. Candidates embracing transgressive speech against the status quo, the institutions, the media, and other politicians are becoming too popular.

### **Rising Demand for Executive Aggrandizement**

A major result of government ineffectiveness is executive aggrandizement or attempts to achieve it. *Executive aggrandizement* describes situations in which a democratically elected president begins to erode the systems of checks and balance, arrogate more powers, erode the independence of other institutions, weaken mechanisms of control, and lessen the rights and resources available for the opposition and civil society to compete politically (Bermeo 2016). Since the 1990s, Latin America has seen some of the most extraordinary cases of executive aggrandizement in the world. Some aggrandizing presidents manage to go far in concentrating power to the point of full autocratization (e.g., Alberto Fujimori in Peru, Hugo Chávez and Nicolás Maduro in Venezuela, Daniel Ortega in Nicaragua). Others push hard enough to produce hybrid regimes, in which a heavy dose of authoritarian practices is injected into the political system (e.g., Álvaro Uribe in Colombia, Rafael Correa in Ecuador, Nayib Bukele in El Salvador, Alejandro Giammattei in Guatemala, Evo Morales in Bolivia, Juan Orlando Hernández in Honduras, Andrés Manuel López Obrador in Mexico). Other presidents push hard in favor of aggrandizement but end up getting booted out of office (or killed while in office), not without generating chaos in the process (e.g., Jair Bolsonaro in Brazil, Pedro Castillo in Peru, Evo Morales in Bolivia, Otto Pérez Molina in Guatemala, Jovenel Moïse in Haiti, Manuel Zelaya in Honduras). Overall, the region is fraught with experiments in executive aggrandizement. Some episodes are more forceful and far-reaching than others. Whether they achieve their aim or not,

all cases of completed or attempted executive aggrandizement generate huge stress tests on democratic institutions.

Unlike the region's government effectiveness, executive aggrandizement in Latin America is to some extent a reflection of global trends. Since the 1990s, the world has been in a democratic recession (Diamond 2019; Lührmann and Lindberg 2019). Many democracies worldwide are experiencing democratic backsliding through executive aggrandizement. The West has few policy tools at its disposal to stop this process, and many political parties in the West are becoming illiberal themselves, no longer interested in doing much to contain this global trend. If the world is experiencing a democratic recession, of course Latin America is bound to show signs of it as well. We cannot fault the region for exhibiting a pathology that is global in nature.

That said, it is important to recognize that the penchant for executive aggrandizement in the region, like government ineffectiveness, does have home-grown causes. Some of these are long-standing, such as the region's ancient traditions of centralism and cult of personalities, which date to precolonial times, but others are more contemporary.

In my new book, *Autocracy Rising*, I discuss an important contemporary cause of executive aggrandizement: asymmetrical collapse of the party systems. I argue that this institutional condition can stimulate the rise of illiberal presidents and pave the way for their expansion of power (Corrales 2022).

But it is important to highlight that executive aggrandizement also has a direct connection with governance trends, not just party-related factors. Government (in)effectiveness and executive aggrandizement are interconnected through a feedback loop. The loop works this way: Deficits in government effectiveness raise the demand for messianism. People clamor for leaders who preach that the solution to governance failings is to concentrate more power on the president and degrade the power of "bad" actors. Bad actors get defined, of course, as those

elites who capture the state. They get blamed for keeping the region stuck in poor governance. Presidents and their leaders feel it is acceptable to charge against them.

And so power concentration gets rationalized easily. If the problem is hyperinflation, the solution is to give the president powers to govern by decree (e.g., Carlos Menem in Argentina). If the problem is increasing terrorism, the solution is to expand the president's powers as commander in chief and rewrite the constitution (e.g., Alberto Fujimori in Peru). If the problem is rising poverty, the solution is to expand the powers of the president to expropriate and distribute while forging non transparent trade ties with China (e.g., Hugo Chávez in Venezuela). If the problem is rising protests, the solution is to criminalize dissent and attack the press (e.g., Rafael Correa). If the problem is one's own ineptitude in dealing with a pandemic, the solution is to intensify cultural wars, seek alliances with antipluralist religious sectors, and appoint military figures to government posts as a way to appear legitimate (e.g., Jair Bolsonaro in Brazil). If the problem is gridlock in dealing with congress, the solution is to abolish congress (e.g., Pedro Castillo in Peru, Nicolás Maduro in Venezuela). If the problem is widespread corruption, the solution is to allow the president to allege that the opposition is the origin of corruption (e.g., Andrés Manuel López Obrador in Mexico). If the problem is increasing crime, the solution is to allow the president to first pact with *maras* and, when that fails, conduct arrests en masse (e.g., Nayib Bukele in El Salvador). If the problem is an unfinished agenda, the solution is to allow the president to seek reelection, even indefinitely (e.g., Bukele, Chávez, Correa, Ortega). Polls suggest that in some cases, when governance troubles run high, even proposing a coup or a self-coup can be well received by parts of the population (Zechmeister and Lupu 2019).

### **Executive Aggrandizement as a Trigger of Governance Ineffectiveness**

The problem with executive aggrandizement as a response to governance problems is that it typically makes governance worse (Weyland

2022). This is not a coincidence but a predictable outcome. Executive aggrandizement produces an outcome that always hurts governance: erosion of information. To concentrate power, the president typically restaffs the bureaucracy by replacing experts with loyalists. Another tactic is to silence critics within the state and outside the state, within the ruling party and outside. The displacement of experts and the silencing of dissent produce a general decline of information across the bureaucracy, the ruling party, and the political system. This decline, sooner or later, hurts governance.

It is hard to imagine government effectiveness improving, at least in the medium term, as expertise and information decline or as regulatory instability rises. Perhaps at first, executive aggrandizement allows the president to achieve some signature policy goal (defeating hyperinflation, reducing crime, lowering poverty rates). But in the medium term, governance problems resurface, with a vengeance. New issues emerge, and the state is caught ill-prepared, lacking both the technical expertise and the supply of information to respond effectively.

In addition, executive aggrandizement tends to come with the imposition of radical policy prescriptions rather than incrementalism. Although going for "Big bang" policies allow presidents to convey that things are finally changing in the country, it can also hurt governance. Many cognitive psychologists as well as organization scientists have shown that radical institutional change (e.g., Bukele suddenly adopting bitcoin; Chávez expropriating more than 800 firms in two years) can prove far more disorienting than orienting for the public (Berman and Fox 2023). Drastic changes (when there is no immediate emergency), even if well intentioned, can be difficult for systems to assimilate. In addition, radicalism relative to incrementalism comes with a higher probability of misfire. And it is highly polarizing, which itself also introduces confusion, instability, and political frustration across the electorate.

Speaking of polarization, executive aggrandizement has been shown to produce or exacerbate polarization (McCoy, Rahman, and Somer 2018; Haggard and Kaufman 2021), and polarization hurts government effectiveness. Few moves polarize the electorate more than presidents initiating executive aggrandizement. Executive aggrandizement no doubt elicits wide support among many of the president's supporters (see Svobik 2019), but it also provokes acute forms of opposition, leading to high levels of resistance, protests, denunciations, and mobilizations (Gamboa 2017; Cleary and Öztürk 2020). Executive aggrandizement can easily bring countries to near civil war.

Here, a new feedback loop emerges: the president feels increasing (rather than decreasing) urgency to concentrate more and more power to neutralize the very same opposition that his power grabbing is prompting. Polarization stemming from executive aggrandizement thus risks stimulating more autocratization, in turn leading to more governance-hurting policy choices: replacing career civil servants with loyalists in the bureaucracy, superseding dissenting voices, forging alliances with non pluralist and radical actors.

But the problems for governance stemming from executive-driven polarization go deeper than just creating a self-fulfilling prophecy. Polarization comes with substantial opportunity costs. A president facing a hypermobilized opposition will necessarily focus less on competent governance than on partisan advancement, less on promoting technical expertise than on politicizing regulation, less on developing effective responses to crises than on developing smart gimmicks to defeat opponents, less on building a résumé based on policy achievements than on creating platforms from which to defame opponents. The priority is to neutralize rising dissent. Competent governance gets de-prioritized.

## Conclusion

I argued that a fundamental cause of Latin America's democratic troubles since the 1990s has to do with state capacity (taxes and capturing), power grabs, and information. These factors are connected through a feedback loop.

Without adequate taxation, there are no capable states. Without capable states, state capture is easier. With less capable and more captured states, democracy is jeopardized (Dincecco 2017). Citizens turn anti-status quo. The demand for leaders seeking executive aggrandizement expands.

And yet executive aggrandizement creates a dearth of information both within and outside the state. It also exacerbates polarization and unrest. These by-products feed back onto state competence. Government effectiveness is bound to decline, which is paradoxical, since one of the reasons many voters welcome executive aggrandizement is their longing for governance capacity.

In any such feedback loop, it is hard to ascertain what is causing what. But it is always clear that escaping the loop is hard and that the effects of each portion of the loop are amplified, all because of self-reinforcing connections.

Democratic forces in Latin America are all under siege because of this feedback loop. Authoritarian currents—some from yesteryear and others more contemporary—continue to conspire against democracy. Nowhere in the region is democracy safe. In four countries, democracy has been totally defeated: Cuba, Venezuela, Nicaragua, and Haiti. In the other countries, democratic forces suffer casualties on an almost daily basis.

It is tempting to think that the assaults against democracy stem from different sides of the ideological spectrum—either the Left is blamed or the Right is. There is some truth to the fact that extreme versions of these ideologies hurt liberal democracies regardless. However, we need to bear in mind that the deeper cause of backsliding stems from governance ineffectiveness and

low taxation, and from the feedback loop that this engenders on executive aggrandizement, information, and polarization. This may very well be Latin America's most insidious political trap.

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