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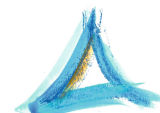
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SPECIAL ISSUE ARTICLE

Escape from the 'lost decades?' Governance challenges in Argentina, Brazil, Colombia, Mexico, and Venezuela

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Abstract

Much of Latin America has experienced a renewed 'lost decade', failing to substantially expand quality of life since the late 2000s. While the outcomes of governance performance across the largest countries – including Brazil, Venezuela, Mexico, Colombia, and Argentina – have discrete causes, common themes like internal conflict, corruption, and overreliance on natural resources plague the entire region. Put more generally, the inability to turn democratic accountability into a state mechanism able to deliver economic growth and public goods in a sustainable manner is a liability affecting all five countries. To explore the difficulties that the large Latin American countries have faced in the twenty-first century, this article examines results from the 2022 Berggruen Governance Index, and then presents three key issues facing the region: insufficient state capacity, flirtations with authoritarianism, and economic inequality and inflation. While the challenges remain substantial, increased regional integration may offer one way out of the predicament.

After a series of crises in the 1990s and into the early 2000s, much of Latin America seemed to be pursuing a hopeful pattern, with encouraging GDP per capita growth rates in Brazil, Venezuela, Mexico, Colombia, and Argentina. In each case, however, this post-crisis upward trajectory eventually stalled and economic growth was unstable, frequently turning negative after the 2008 global financial crisis. Brazil even saw a lower GDP per capita (see [Figure 1](#)) in 2019 than in 2010, while the other countries lost much of the earlier gain. What might explain this troubling trend? According to the 2022 Berggruen Governance Index (BGI),¹ state capacity has either slightly improved or declined across these five countries, with a substantial drop of 22 points in Venezuela. Public goods provision has varied but generally increased modestly, with an 8-point increase in Mexico the only change exceeding five. These improvements in PGP are due largely to increased trade with China and the commodities boom, rather than notable governance successes. Indeed, the bases for long-term prosperity are still largely lacking in most countries, as the crises in Venezuela and Argentina clearly warn.

While the paths of the five largest Latin American countries share many similarities, they differ in

important ways. The largest economy in Latin America, Brazil, performed well until the 2008 financial crisis, before facing a significant downturn from 2011 onwards. In addition to economic troubles, controversial corruption investigations and flirtations with authoritarianism damaged its democratic accountability in the late 2010s.

Mexico has stayed on a mostly positive path due in part to its close trade links with the United States and some industrial policy successes, posting solid economic growth and avoiding the significant downturns seen by Argentina and Brazil (Santarcangelo et al., 2017). However, its powerful neighbour's economic and social problems, including drug consumption and economic crises, tend to spill over across Mexico's northern border.

Venezuela has squandered its vast oil resources, devolving from a mildly leftist government to an authoritarian one with deep political dysfunction and collapsing quality of life as a result. Indeed, total GDP in 2020 was less than one-third of what it was in 2014.²

In Colombia's case, long-brewing armed conflict flared up again at the start of the millennium and raged until 2006, with various aftershocks since then even after an eventual peace agreement was signed in 2016. Despite the violence, it has still posted increases in

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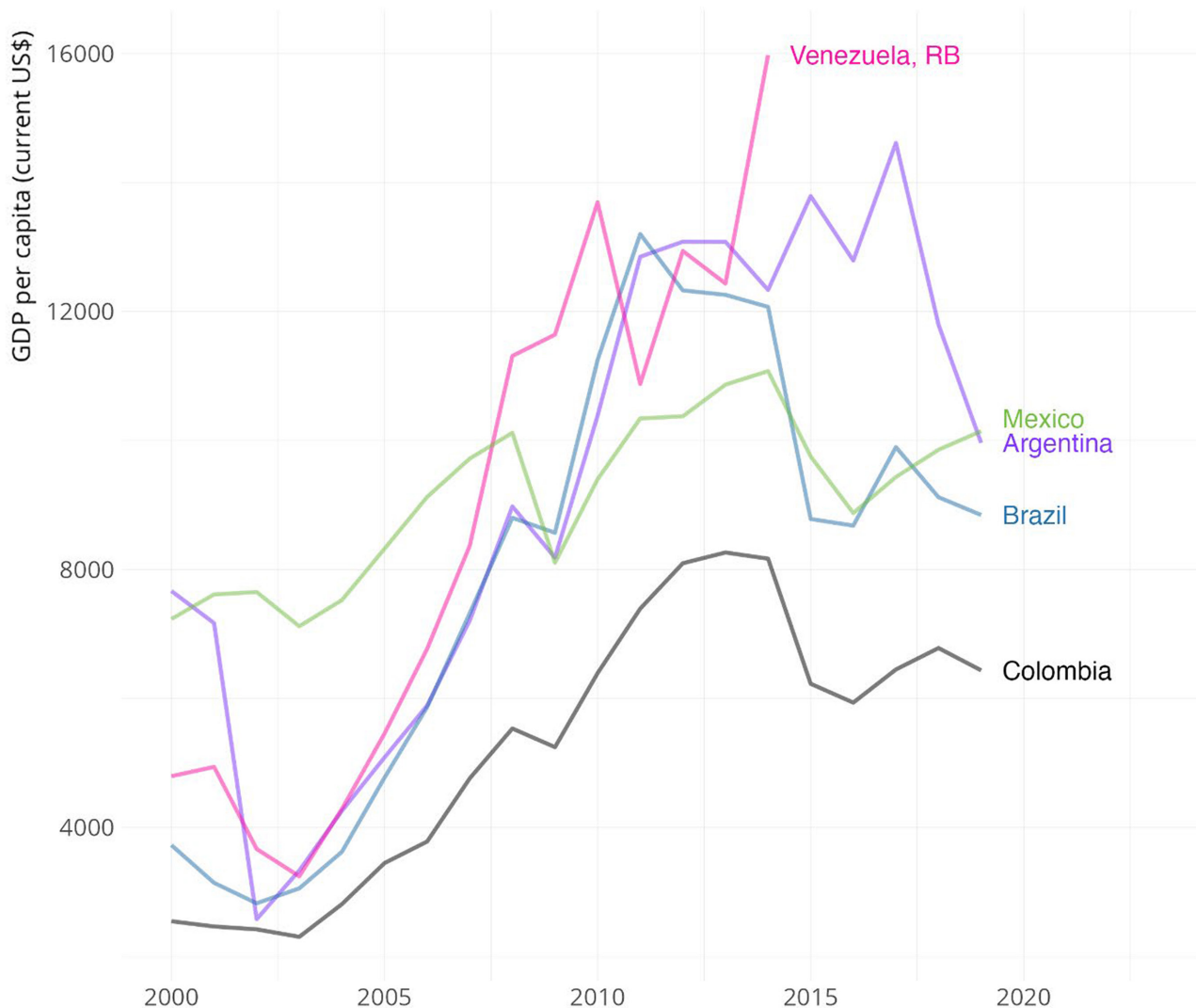


FIGURE 1 GDP per capita (current USD), Argentina, Brazil, Colombia, Mexico and Venezuela, 2000–2019. Source: World Bank (2023).

GDP per capita and public goods provision, indicating that effective governance can persist even in the context of political headwinds.

Argentina presents an extreme case of instability, having fallen from being one of the world's wealthiest countries in the early twentieth century to one plagued by economic crisis today. Since the mid-1940s, the country has alternated between Peronist governments – characterised by state intervention – and more free market-oriented ones, as well as ones seated by the military. Despite experiencing a range of governmental styles, Argentina has not been able to consistently tame inflation and establish a basis for economic growth.

Aside from national specifics, most countries featured in this article have experienced varying degrees of three main problems. First, limited investment in state capacity has limited countries' ability to invest in renewable energy, rein in the informal economy, and build the infrastructure necessary to produce economic growth. Next, flirtations with authoritarianism,

particularly in Brazil and Venezuela, have harmed democratic accountability and curtailed citizens' ability to demand better performance from their governments. Finally, economic turmoil (which is related closely to the previous two factors) has plagued many countries, with high inflation, slow growth, and high inequality particularly large problems.

1 | GOVERNANCE PERFORMANCE IN ARGENTINA, BRAZIL, COLOMBIA, MEXICO, AND VENEZUELA

According to the BGI results, displayed for all five countries in Figures 2–4, Brazil has experienced a significant drop in democratic accountability, falling from 87 to 72 between 2000 and 2019. Much of this took place after the 2014 election, the impeachment of President Dilma Rousseff and the larger *Lava Jato* corruption

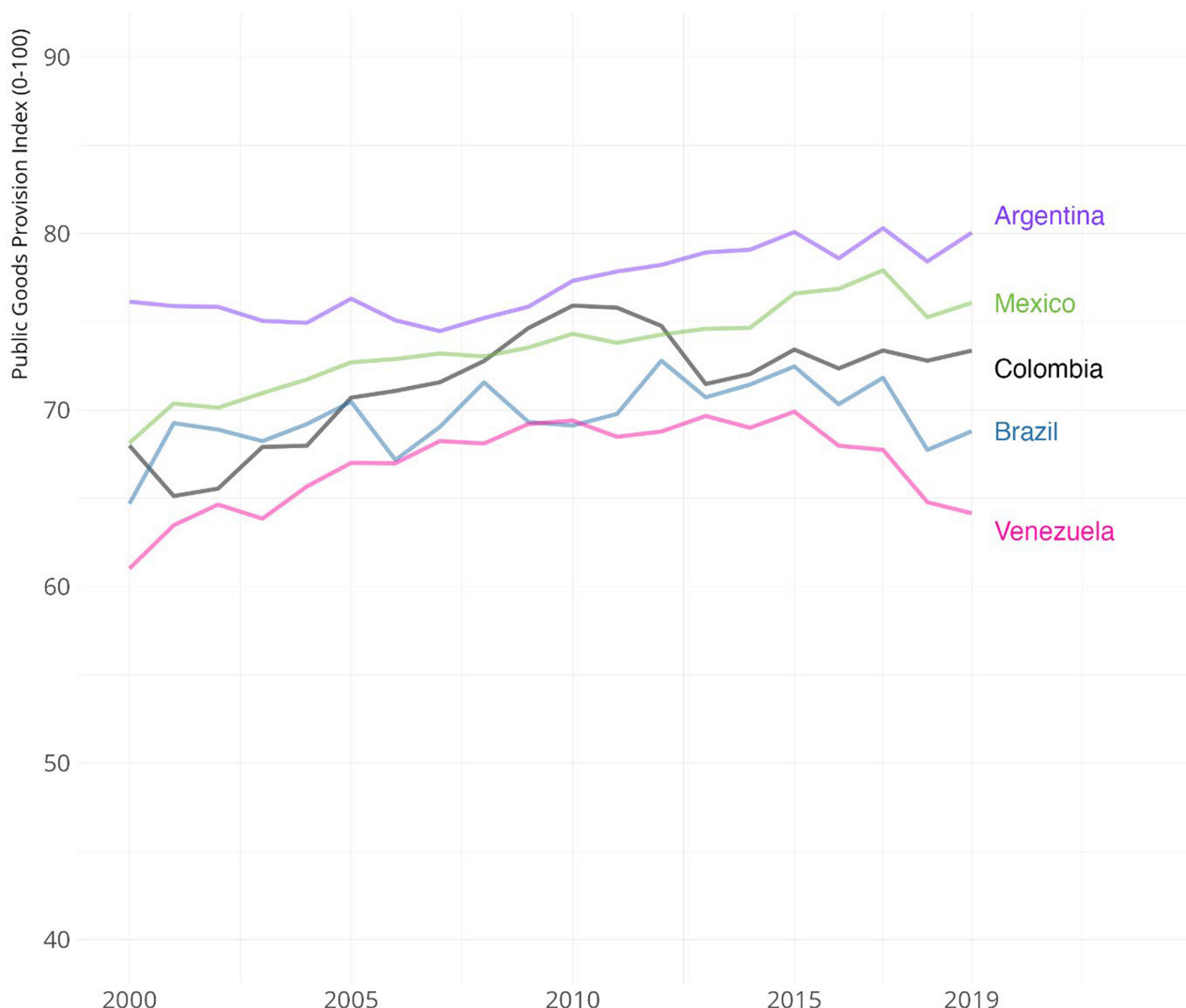


FIGURE 2 Public goods provision, Argentina, Brazil, Colombia, Mexico and Venezuela, 2000–2019. *Source:* Berggruen Governance Index 2022.

investigations in the late 2010s. These events led to the election of Jair Bolsonaro and the beginning of his administration in 2019, which corresponded with further deterioration of democratic accountability. State capacity levels ended the two-decade period with a slight drop of 3 points. At the same time, public goods provision rose from 65 to 69, although it had reached above 70 points several times during the period. Brazil's return to a more predictable leadership under President Lula at the beginning of 2023 could reverse the course of economic stagnation and political instability. However, efforts at greater regional self-sufficiency and geopolitical independence could be stymied on the domestic level, as Lula currently enjoys a far slimmer congressional majority than during his previous presidency.

Venezuela entered the 2000s under the leadership of leftist president Hugo Chavez. Although the country became synonymous with political and economic dysfunction in the late 2010s, in the early years of the

twenty-first century, the country was far from a poster child for the follies of government overreach. Indeed, with substantial oil revenues, a growing economy based on industrialisation and more productive agriculture, and large-scale public welfare programmes, public goods provision improved modestly, from 61 to 69 between 2000 and 2010. Over time, however, the authoritarian slide (especially under Chavez's successor, Nicolás Maduro) weakened democratic accountability substantially, with state capacity also collapsing. Public goods provision then began to slide during the late 2010s, ending up only slightly above where it was in 2000. Based on recent indicators and accounts in the country, the quality of life has suffered even more substantially since 2019 (the most recent year for which the BGI is available), with a refugee crisis along the border with Colombia. Venezuela therefore represents a massive squandered opportunity, having descended from resource wealth and strong social programs to political chaos and woefully low state capacity (at 6 in 2019, it

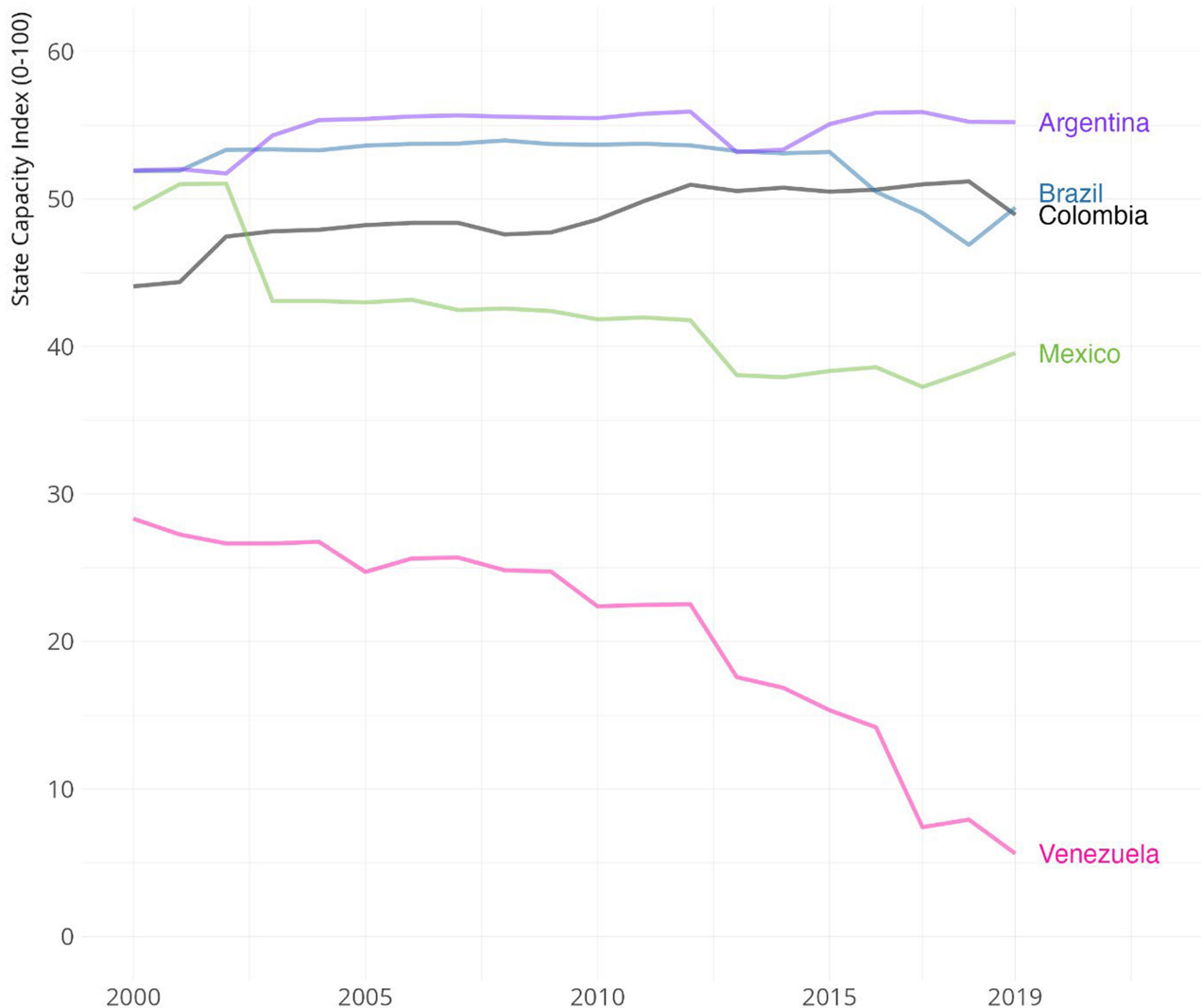


FIGURE 3 State capacity scores, Argentina, Brazil, Colombia, Mexico and Venezuela, 2000–2019. *Source:* Berggruen Governance Index 2022.

is one of the lowest among the 134 countries in the dataset).

Mexico has displayed a mostly solid performance when averaged across the indices, with constant democratic accountability and a drop in state capacity being balanced out somewhat by an increase in public goods provision. While Mexico does face challenges of violence and corruption,³ its economic growth has mostly been steady and governance has been relatively stable. As the nineteenth-century saying that Mexico is ‘so far from God and so close to the United States’ implies, both the ills and benefits of its large northern neighbour spill south across the border. This means that trade linkages with the US boost the Mexican economy, but drug-related crime also plagues it and limits state control in many regions.

As the twenty-first century began, Colombia was plagued by a civil conflict that had begun decades earlier, pitting the government against left-wing militant guerilla groups like the Revolutionary Armed Forces of

Colombia (FARC) that undermined its authority. At the same time, the government often backed or tolerated right-wing paramilitary groups that opposed leftist organisations. Although this support may have furthered the short-term goal of opposing communism, it ultimately promoted a cycle of violence in the country, as right-wing groups committed notorious human rights violations. Add to this the violence associated with drug-trafficking, taken up not only by gangs or cartels but also by guerrilla and paramilitary groups seeking to finance their causes. These divisions haunt the country to this day, as peace negotiated among some factions remains fragile and large-scale internal displacement has undermined Colombia's social fabric.

Despite the challenges this conflict imposed, Colombia reported economic growth, more than doubling GDP per capita over the two decades, and improved its performance on all three BGI indices between 2000 and 2019. This represents the only across-the-board increase among the countries covered by this article,

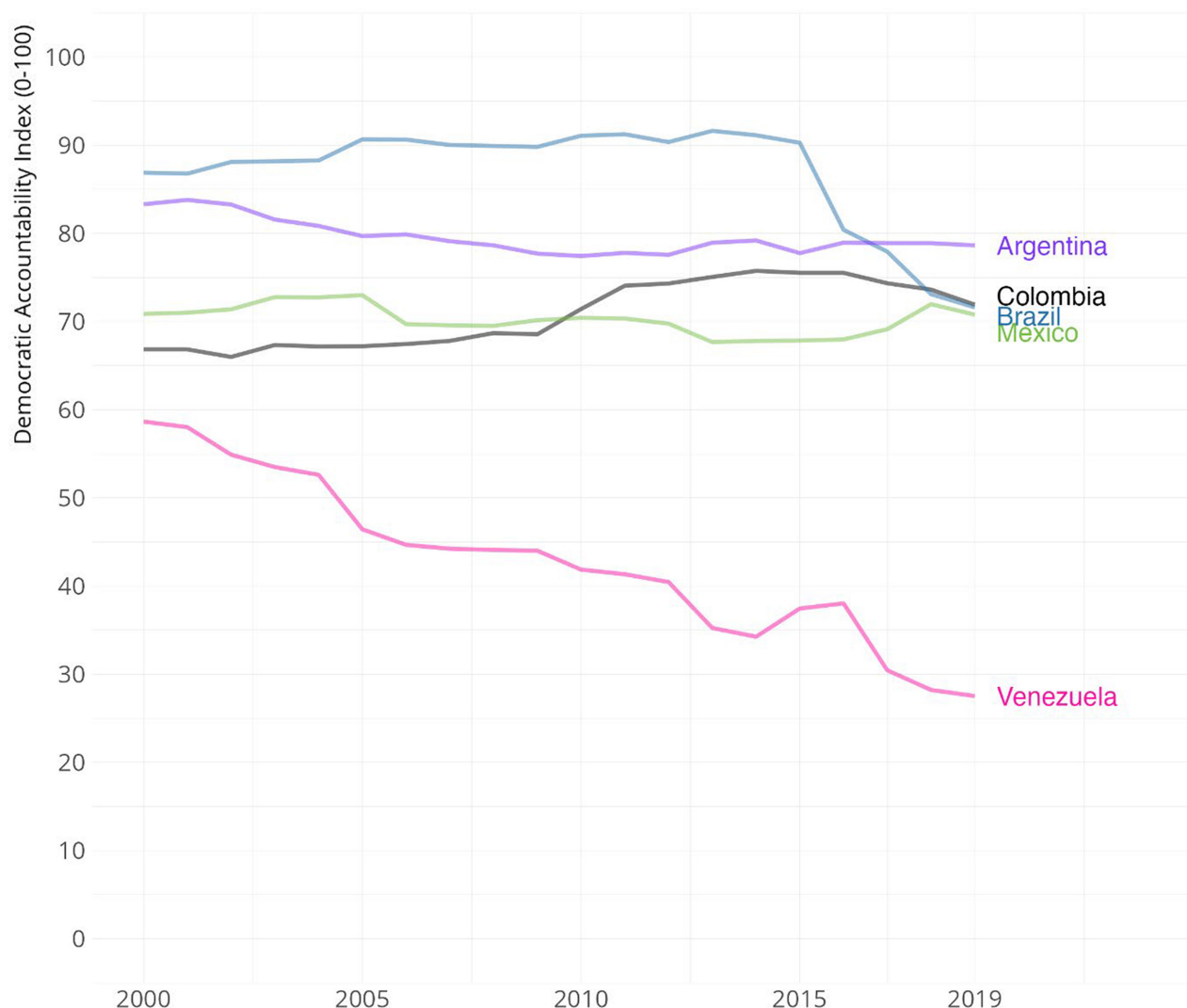


FIGURE 4 Democratic accountability, Argentina, Brazil, Colombia, Mexico and Venezuela, 2000–2019. *Source:* Berggruen Governance Index 2022.

although the gains in each individual index are not the highest. Still, issues like simmering political tensions and dramatic economic inequality have continued to plague the country. Inequality in particular is partly responsible for the 2022 election of Gustavo Petro, the first left-wing president Colombia has ever had. His election aligns with other movements across the region, and it will be vital to see whether he can further boost quality of life, especially in cooperation with like-minded governments in the region.

In the early twentieth century, Argentina boasted the largest economy in Latin America but throughout subsequent decades high inflation, battles with foreign creditors, and bouts of austerity have seen it fall in global GDP rankings (Knudsen, 2023). Since 2000, its governance performance has been decidedly middling in comparison to the rest of the world, but nevertheless, the strongest of the five countries covered in this article on almost all BGI indices. State capacity rose from 52 to 55, driven primarily by an improvement in fiscal

capacity from a dismal 21 to a still-low 31. Coordination capacity rose from 56 to 60 and delivery capacity from 57 to 59. Democratic accountability dropped from 83 to 79, with insignificant changes in institutional accountability and electoral accountability, but a substantial drop in societal accountability, from 92 to 81. Public goods provision increased four points (76–80) with small changes across all three subindices roughly balancing each other out. Even as the country has cycled between neoliberal and Peronist governments, neither political ideology has proven up to the task of addressing high inflation, debt problems, and low growth.

2 | WEAK STATE CAPACITY

The concept of state capacity assumes that a unified central or national government has authority over a certain territory, an assumption that is complicated by the reality in many Latin American countries. Indeed, both

Mexico and Colombia are plagued by large swaths of ungoverned territory, indicating that governance is often carried out unevenly across a given national territory. The Colombia-Venezuela border is particularly problematic, with large areas that were formerly controlled by the Revolutionary Armed Forces of Colombia (FARC) now under the influence of other paramilitary groups, resulting in massive migration flows and internal displacement (Boraz, 2007; Bull & Rosales, 2020; Castilla & Sørensen, 2023). In Mexico, US officials have estimated that up to one-third of the territory is controlled by criminal organisations (Debusmann, 2021). Thus, while central regions may be experiencing better governance, large parts of even relatively better-performing countries are not.

Venezuela has experienced a truly disastrous drop in state capacity, falling from an already low score of 28 to the abysmal level of 6 (one of the lowest scores in the data set). Over this time period, 'gross mismanagement of fiscal, monetary, budgetary and foreign exchange policies, as well as extensive graft, has thrown the country into a complex humanitarian crisis' (Bertelsmann Stiftung, 2022c). Even with the largest oil reserve in the world, Venezuela's production has plummeted, wrecking the country's finances.

This collapse is often attributed to the authoritarian slides of the Chávez and Maduro governments from 1999 to the present. While this is no doubt true, this narrative also ignores some of the previous history of weakened state institutions in the country. Specifically, Venezuela experienced a slow erosion of state capacity and social cohesion already in the late twentieth century, as pro-market reforms increased inequality and political polarisation and eroded the effectiveness of the government to implement reforms and intervene in the economy. Specifically, a 1989 reform package called *El Gran Viraje* ('the great transformation') included drastic economic changes, such as exchange rate devaluation, financial deregulation, trade liberalisation, and removal of most restrictions on foreign investment, the typical package of structural adjustment measures prescribed to recover from the economic crises of the mid-1980s. For the following decade, corruption increased and per capita GDP declined while the power of labour declined and political polarisation increased (Di John, 2005).

As a result, the destabilised Venezuelan state was vulnerable to the authoritarian slide that it suffered in the twenty-first century. Indeed, Venezuela was not necessarily a likely candidate for implosion, at least from the perspective of the late twentieth century. As Di John writes, 'Given its favorable initial conditions, the Venezuelan case demonstrates the stresses liberalization can unleash, not only in transition economies, but in a late developing, capitalist, and longstanding democratic polity' (Di John, 2005, p. 108). In this case, we can then clearly see the long-run influence of failed

policies and also the risk of viewing good governance as merely an act of limiting the state, rather than building one (Fukuyama, 2013).

In Brazil, illegal decimation of much of the Amazon has revealed the limits of governmental control over much of the country. As Sant'Anna and Costa (2021) write, a 'key feature of state capacity is the ability to make credible commitments even when dealing with powerful pressure groups.' This has been notably absent in Brazil, as many landowners have illegally deforested land to allow for cattle ranching and agriculture, often 'creating facts' on land which was not originally theirs. Such behaviour, which is legally forbidden but was tolerated by the Bolsonaro government, both harms the environment and damages the home of native inhabitants.

While it has seen modest gains in overall state capacity, Argentina is still plagued by weak and corrupt institutions (Manuzzi, 2019). State capacity (and the buy-in of critical institutions to build it) is crucial for Argentina's turnaround. In an article on 'The rise and fall of Argentina', Spruk (2019) finds that 'either a transition to dictatorship or the transition to democracy can produce negative effects on long-run growth if the de facto political institutions such as a broad-based access to collective action for non-elites do not support the de jure institutional changes'. This reveals not so much the importance of regime type, but rather institutional co-operation with state-building projects, which has been notably absent in Argentina.

Argentina has not experienced outright authoritarianism in the twenty-first century, but instead has witnessed a series of institutional dysfunctions and breakdowns that have slowly eroded its governance and economic performance over time. In many ways, current problems are also the product of distant crises, as events like the 1930 military coup and 1975–1983 military dictatorship reverberate through current politics. The importance of these institutional breakdowns is hard to overstate: Spruk (2019) suggests that 'in the absence of institutional breakdowns, Argentina would largely have avoided the decline and joined the ranks of rich countries with an income level similar to that of New Zealand'. This counterfactual – comparing two dissimilar countries over a long time period – lacks a degree of precision, but nevertheless illustrates the series of opportunities Argentina seems to have missed over the decades.

3 | FLIRTATIONS WITH AUTHORITARIANISM

As seen in Figure 4, Mexico, Colombia, and Argentina have all seen modest or no change in democratic accountability scores between 2000 and 2019. Mexico both started and ended at 71 (with minor fluctuations

in between), while Colombia rose by five points in the time span (67 to 72) and Argentina dropped by four (83 to 79). In contrast, Venezuela has seen the full range of democratic backsliding, with ‘amassing of political and economic power in the hands of an autocratic ruling elite, unfettered corruption, patronage networks, weak institutional arrangements and the brutal repression of dissent’ (Bertelsmann Stiftung, 2022c). President Maduro, who assumed the presidency after Hugo Chavez’s death in 2013 and was later elected to the post, has been adept at clinging to power and shows little sign of loosening his grip on the levers of government. The massive plunge in democratic accountability scores underpins these observations.

More mildly, Brazil also experienced a slide towards authoritarianism during the tenure of Jair Bolsonaro (2019–2022). During his time in office, ‘the quality of Brazilian democracy has deteriorated significantly, especially for people critical of the government and critical journalists’ (Bertelsmann Stiftung, 2022b). Still, not all blame can be placed at Bolsonaro’s feet. Alarming, despite having experienced authoritarian rule most recently from 1964 to 1985,

Brazil has long been one of the countries with the lowest support for democracy in Latin America. In 2018, the share of respondents that prefer democracy over any other form of government was only 34%. Support for an authoritarian regime under some circumstances reached 41% in 2018. (Bertelsmann Stiftung, 2022b)

It is therefore crucial that the current Lula government show that democracy can continue to deliver the public goods that benefit the majority of the population.

4 | INEQUALITY, INFLATION, AND THE INFORMAL ECONOMY

Many countries in Latin America are among the most unequal in the world (see Figure 5), though the trend since 2000 – except in Colombia – is towards greater equality. At the same time, they have experienced a chronic lack of sustained economic growth. Governments are therefore in a bind as to what to prioritise: reducing inequality or boosting economic growth. Ideally, the two policies would go together as a greater marshalling of the resources of wealthy citizens towards investment that could boost growth and increase welfare for all. Given relatively limited state capacity and political opposition, however, this task is much easier said than done.

Notably, Argentina has failed to use its potential as a renewable energy power to bolster its economic

independence and fiscal capacity (Tooze, 2022). Argentina simultaneously has some of the largest fossil fuel and renewable power potential in the world, yet has traditionally underutilised both. With the severity of the climate crisis, it now should move towards greater investment in renewables (Puccio, 2021). This could provide a way to create sustainable economic growth and lower the country’s high debt/GDP ratio.

Argentina has long experienced economic turmoil under the various mainly Peronist governments that followed the end of the dictatorship. However, even the pro-business President Macri (2015–2019) was not able to stem the economic decline. Furthermore, his loss to another Peronist candidate resulted in a further blow to investor confidence, as ‘devaluation of the peso after the primaries catapulted the inflation rate to 53.5% and the poverty rate to 40.8% by the end of 2019, and foreign debt rose to 90% of GDP’ (Bertelsmann Stiftung, 2022a). Argentina therefore seems stuck in a vicious cycle of economic mismanagement and crisis, with inflation rising to nearly 150% in 2022. Although recent efforts at stabilisation and agreements with international institutions show some signs of stemming the immediate crisis, the long-term economic outlook remains challenging (International Monetary Fund, 2023).

On the more positive side, levels of absolute poverty have been dropping in nearly every country, with the exception of Venezuela (see Figure 6). There, the situation is well known with plunging incomes, mass migration outflows, rising inflation, and other forms of economic dysfunction. Contributing to these economic troubles, in Venezuela,

the share of citizens living under conditions of extreme poverty surged to 79.3% in 2019, and the proportion of the workforce deemed skilled labor dropped to 42.3%, a consequence of the decaying education and training system, as well as the massive exodus of well-educated and skilled Venezuelans who have fled the country’s crisis.

(Bertelsmann Stiftung, 2022c)

In Brazil, seemingly prudent economic management under Presidents Cardoso and Lula, high commodity prices, and enhanced social policies enabled over 20 million Brazilians to rise out of poverty between 2004 and 2015 (Ibarra, 2023). The current Lula administration is attempting to conduct comprehensive poverty reduction again, but a more divided legislature and lower commodity prices will make a repeat of his earlier success difficult (Singer, 2023).

Related to these problems, the large informal economy in Latin American countries weakens the ability of governments to coordinate the economy and strengthen fiscal capacity. As Table 1 shows, the countries covered in this article have significant degrees

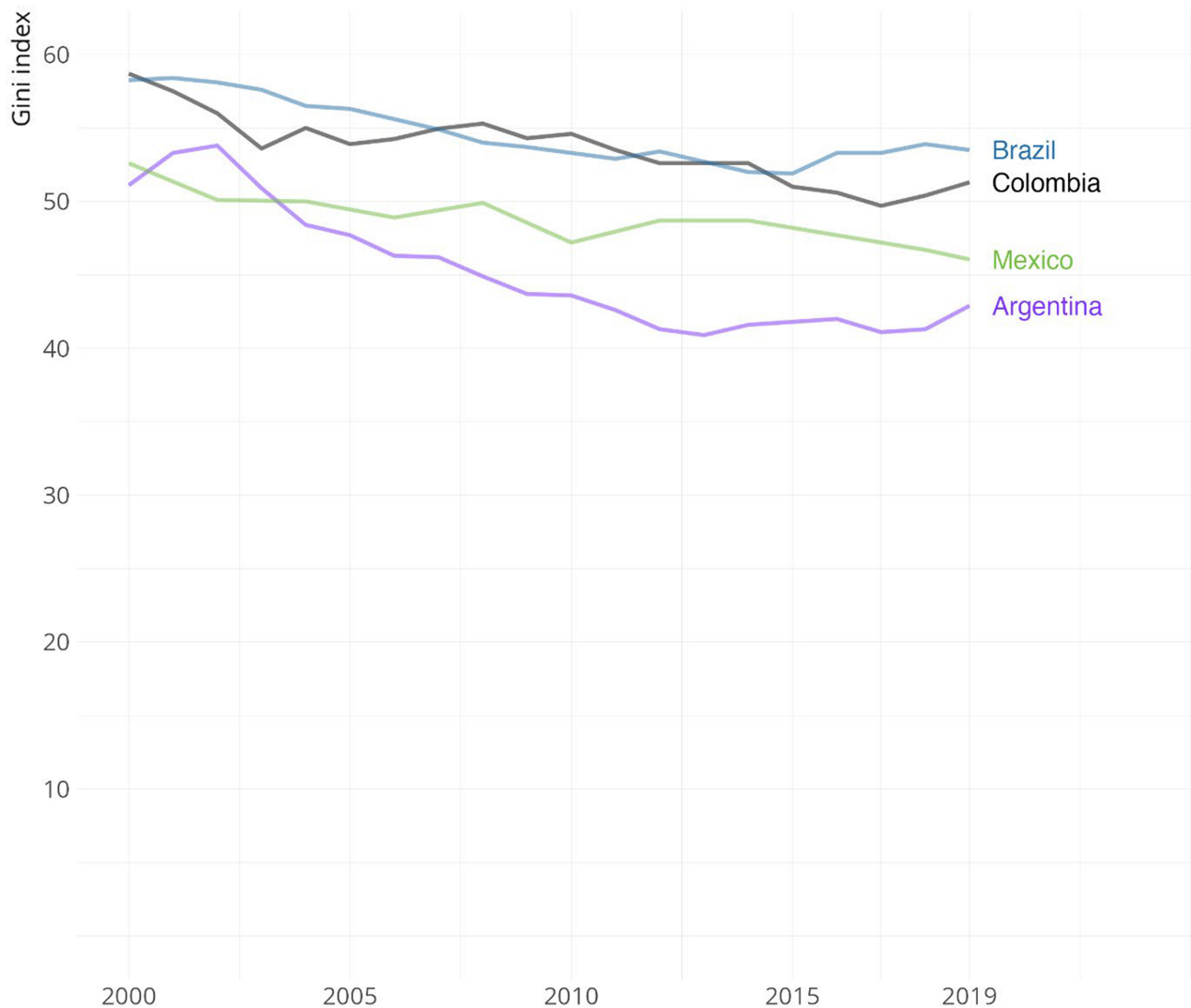


FIGURE 5 Gini coefficient in Argentina, Brazil, Colombia and Mexico, 2000–2019. Data for Venezuela is missing; Mexico is only reported every other year. Source: World Bank (2019).

of informality as measured by percent of workers employed in the informal sector⁴ (Venezuela is not in the OECD, but due to large black markets would also rank highly on this list). A large informal sector can be seen as both a cause and a symptom of weak state capacity.

5 | ESCAPE FROM THE LOST DECADES?

Much of the preceding analysis paints a discouraging picture of the economic and political situation in Colombia, Mexico, Brazil, Argentina, and Venezuela. While the challenges faced by some of these countries – ranging from rising authoritarianism to high inflation to environmental degradation – are substantial, the situation is not completely dire. As noted above, poverty has dropped in four of the five countries examined in this article (the

World Bank no longer reports data on Venezuela). Thus, even as headline stories of political dysfunction dominate the news, there is progress in actually improving living standards across much of Latin America, as indicated by improvements in BGI public goods provision scores, even in Venezuela. Whether they can continue is another matter, however. Specifically, the role that commodity prices play in the development of state capacity in Latin American countries remains ambiguous. Commodity revenues can provide the resources to allow the state to provide higher levels of public goods, but can also provide a fiscal buffer to cover up governance failures. Therefore, the ability to adapt to changing economic circumstances – rather than the circumstances themselves – will be the most vital element of governance success in the coming decade.

In addition to purely economic concerns, many other vital questions face the region. For example, it remains

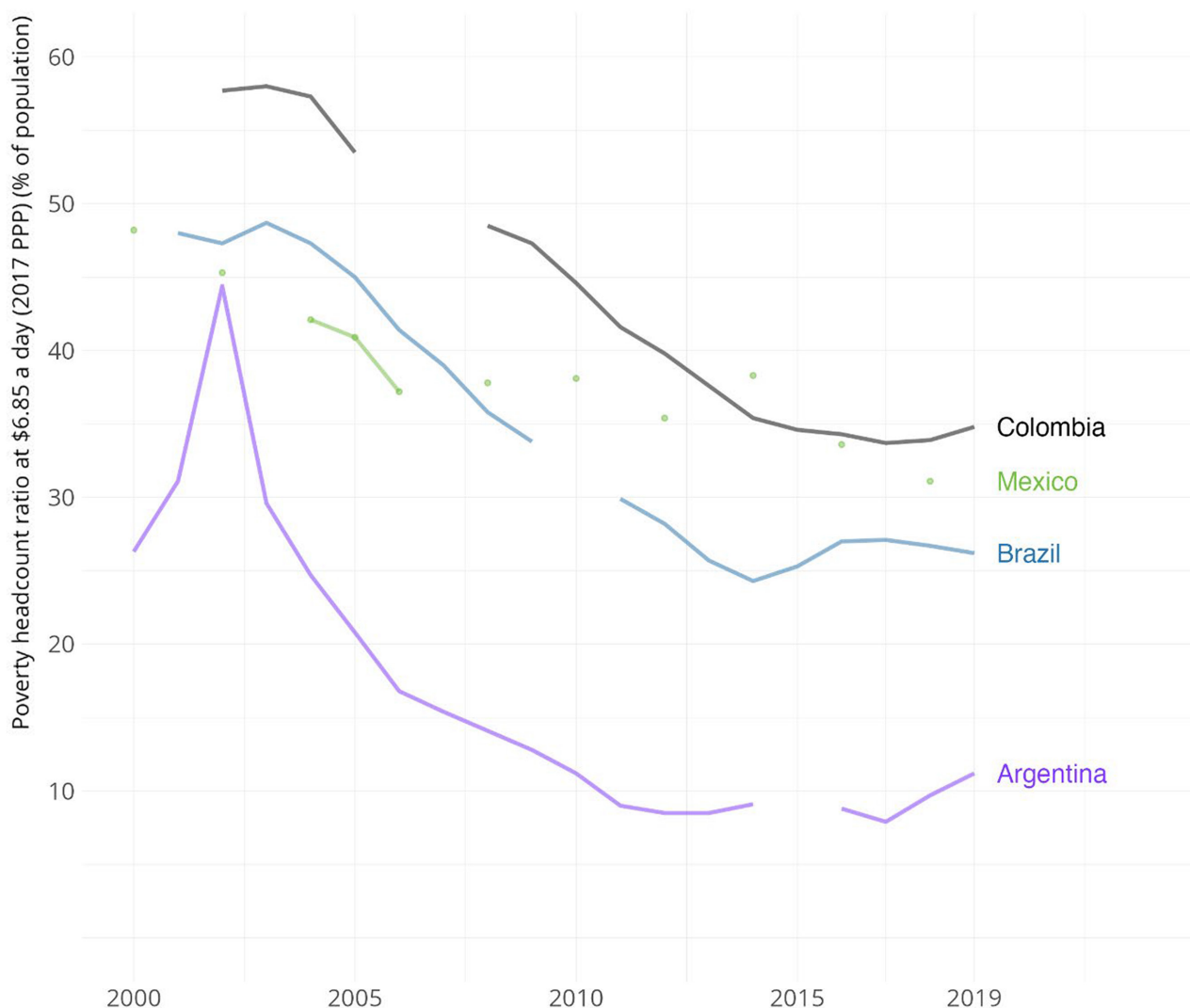


FIGURE 6 Poverty headcount in Argentina, Brazil, Colombia and Mexico, 2000–2019. Source: World Bank (2023).

TABLE 1 Informal employment in selected Latin American countries (% of employed workers).

Peru	80.0
Mexico	69.9
Colombia	63.0
Argentina	51.6
Brazil	36.3
Chile	31.9
Costa Rica	29.8
Uruguay	24.3

Note: Informal workers defined as not contributing to the pension system.

Source: OECD (2019).

will affect large Latin American countries. Notably, as of mid-2023, all five of the countries in this article are led by left or centre-left governments. Given this, will there be new moves towards boosting economic ties with each other and asserting independence from great power competition? If it does take place, will regional integration and greater domestic investment in state capacity yield the benefits needed in terms of public goods? And will the resilience shown thus far by four of the five democracies be enough to withstand authoritarian currents? The future of the large Latin American countries hinges on the outcomes of these questions, and while outright optimism is not warranted, neither is despair.

to be seen how the ongoing 'New Pink Tide,' which brought Petro to the presidency in Colombia in 2022 and Lula back in Brazil in January 2023, among others,

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CONFLICT OF INTEREST STATEMENT

No conflicts of interest.

DATA AVAILABILITY STATEMENT

The data that support the findings of this study are openly available at <https://governance.luskin.ucla.edu/datasets/>.

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ENDNOTES

¹ The Berggruen Governance Index is a collaborative project between the UCLA Luskin School of Public Affairs and the Berggruen Institute examining, as of 2022, the performance of 134 countries in key areas over a 20-year period to advance understanding of why some countries are governed more effectively and enjoy a higher quality of life than others. See the article 'Introducing the Berggruen Governance Index: I. Conceptual and Methodological Framework' by Anheier, Lang, and Knudsen in this special issue. The full dataset is available for download in various formats at <https://governance.luskin.ucla.edu/datasets/>. A data exploration tool offers readers a variety of ways to examine the data; available at <https://governance.luskin.ucla.edu/index/>.

² While the World Bank stopped publishing Venezuelan GDP statistics in 2014, other sources like Statista continue to report it (Statista, 2023).

³ The lack of territorial control is particularly notable and has been the source of political tensions with the United States <https://www.aljazeera.com/news/2023/3/24/lopez-obrador-denies-us-claim-cartels-control-parts-of-mexico>

⁴ But none to the same high level as is estimated for India. See Yang's article, 'India: Developmental Challenges Faced by a Dual Economy', in this special issue.

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