AUGUST 2013

BRAZIL AS THE PIONEER IN LATIN AMERICAN INCLUSIVE GROWTH.

*THE NEXT STEP OF SOCIAL POLICY **

Robert BOYER
Economist, Institut des Amériques
60 Boulevard du Lycée, 92170 Vanves (France)

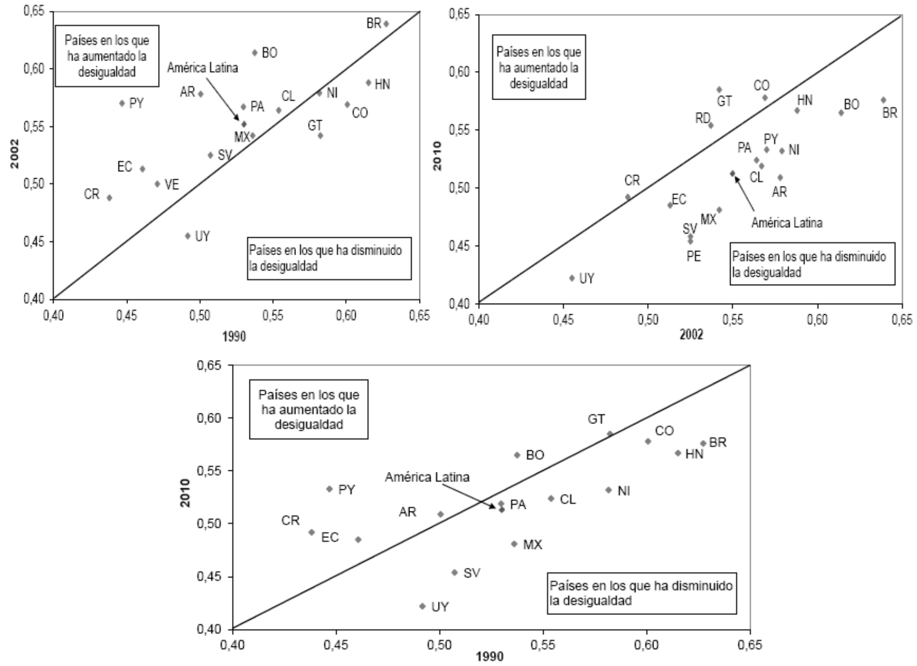
e-mail: Robert.boyer@ens.fr

Article prepared for publication by *Plataforma Politica Social,* Caderno Tematico, Eduardo Fagnani editor, 2013

1. Do we live a bifurcation in Latin American history?

The 1990 decade had actually experienced a strengthening of inequality with few exceptions but the 2000s shows an U turn in Gini coefficients for a vast majority of Latin America economies: Brazil, Argentina, Mexico are good examples of this change whereas Uruguay exhibits a constant improvement from period to period in the fairness of income distribution, and this is an evidence about the relative autonomy of domestic social and political processes.

Graph 1 – The evolution of Gini index for 16 Latin American countries, 1990-2010



Source: Juan Pablo Jimenez & Isabel Lopez-Azcunaga (2012), p. 3.

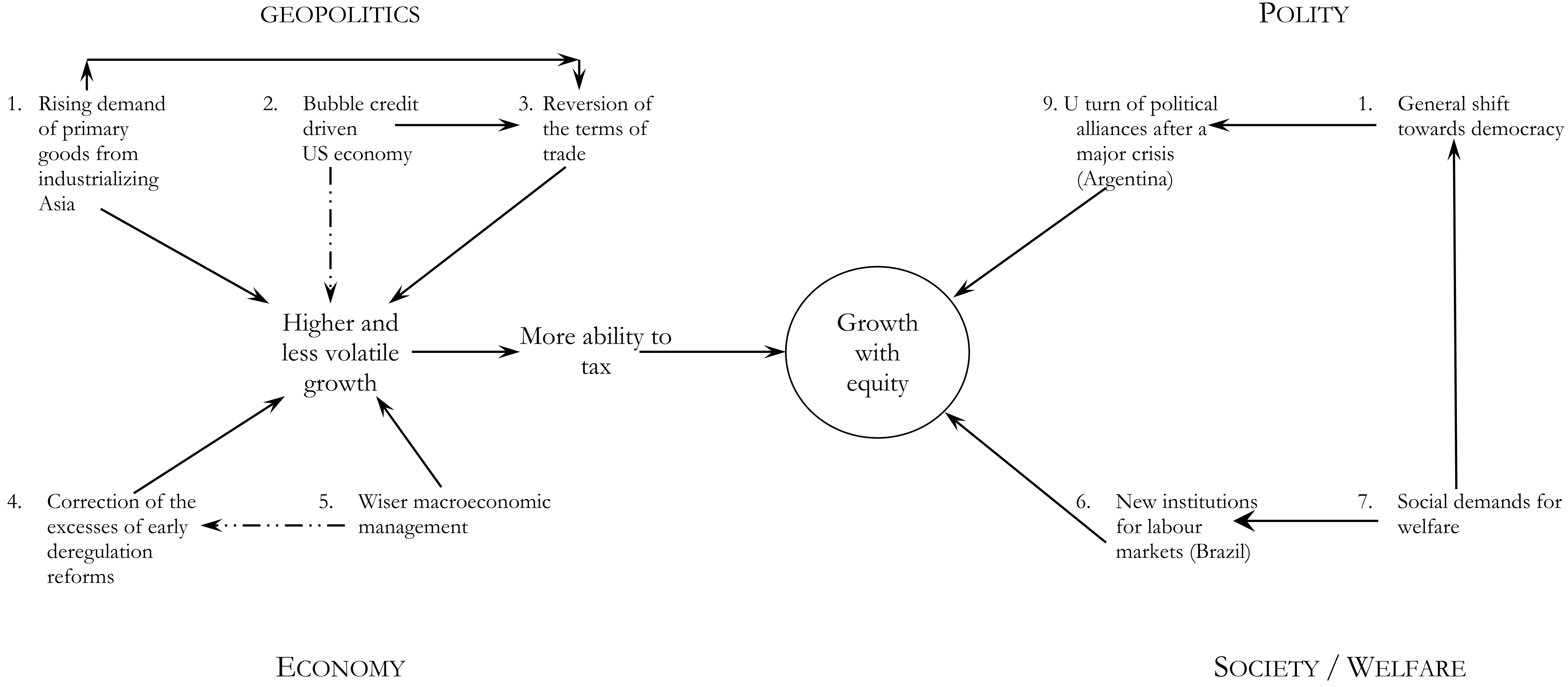
Nevertheless, are there common factors that propel this reversal and will they persist and create a major historical bifurcation in the history of the region? Are they related to a common insertion into the world economy or to more internal transformations, for instance a better response to financial crises and the invention of new policies aiming at social inclusion?

2. Not a single cause but a combination of geopolitical, economic, social, political factors.

A review of the vast literature suggests that at least four major changes have allowed the reversal of a long history of large and persisting inequality:

- Firstly, an *integration into the world economy*, mainly via the export of primary commodities, was detrimental when their terms of trade were declining during the post WWII period with the domination of Fordism in advanced economies but it became a trump when China and Asia have been industrializing and importing massively the natural resources required by their fast and steady take off.

Figure 1– A systemic approach to the factors contributing to a reduction in Latin American inequality



Source: Freely inspired among others by Juan Pablo Jiménez and Isabel Lopez Azcunaga (2012); Luis Miotti, Carlos Quenan, Edgardo Torija Zane (2012)

- Secondly, whereas *democratic institutions* are well established in Europe and North America, they are quite recent in most Latin American societies and de facto this political shift has entitled the expression of demands for social protection that, at last, have been taken seriously and partially fulfilled.

- Thirdly, the *succession of economic crises*, largely generated by a fast liberalisation and opening to international capital flows, has promoted the emergence of pragmatic policies and reforms, correcting the adverse effects of the adhesion to the belief that market mechanisms were sufficient to propel development. The constitution of a modicum welfare system has been perceived as a condition for long term social sustainability and political legitimacy.

- Last but not least, the *limits of an export led development* were clearly perceived by experts and governments. In this context, the constitution of a welfare system and a labour policy synchronizing wage along with growth or productivity appear as key drivers in the direction of a more inward looking strategy (Saboia, 2010). This is a clear opportunity for large size economies, such as Brazil, whereas it should be an incentive for others to join projects of regional economic integration in order to organise at the relevant level, the synchronisation of welfare and production systems.

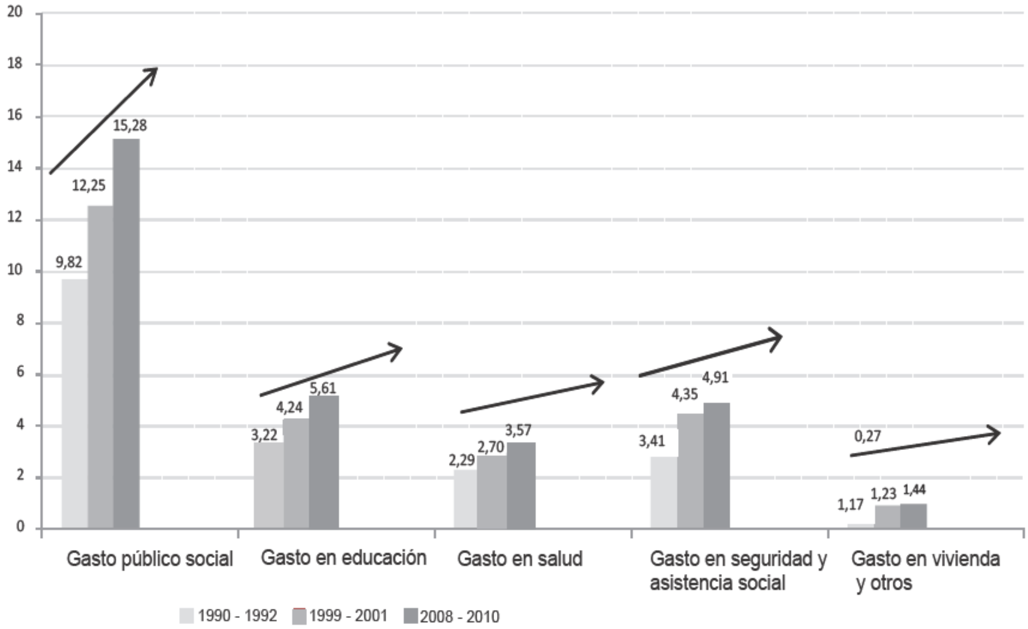
These four transformations shed some lights on the Latin American paradox pointed by the introduction: the most unequal continent is exploring a "growth with equity" strategy that is replicating neither the US nor the European experiences, because of a genuine economic, social and political history. Nevertheless a major issue arises: how autonomous and resilient is this model of growth with social inclusion?

3. An unfinished agenda: cash transfers but poor social public services

Many statistical and econometric investigations show that high macroeconomic volatility and financial crises reduce wellbeing and generally widen the pool of poverty and thus deepen inequality from below, whereas bubbles augment them from above. This applies to Latin America (Panigo, 2008). Since Mexico and many other Latin American economies have been the first to endure modern financial crises generated by large capital inflows and sudden stops, the successive governments have painfully learnt not to repeat again and again the same mistakes (Boyer & ali., 2004). Clearly Latin America has been faring far better during the post 2008 financial turmoil than during the 1980s and 1990s crises. No IMF type adjustment was necessary and, however difficult to quantify, this better macro- economic management- moderate public debt, large currency reserves, better anticipation and so on- has mitigated the impact of the world crisis, and consequently kept active transfer policies.

This has given more space for a modest increase of social expenditure but still limited in terms of supply of public education, health care, subsidies to housing, all factors that should contribute more to inequality reduction and long growth capability (graph 2). Actually Latin American welfares are quite limited knowing the trend towards the privatisation of these public services and goods and this puts an obstacle to further inequality reduction. Brazil is a good example of such an obstacle to further inequality reduction: the vibrant social movements during the summer 2013 were asking for more accessible public service (transports), and better quality for health care and education (see other contributions in this publication).

Graph 2 – The evolution of public spending by sectors from 1990-2012 to 2008-2010 (% GDP) 21 Latin America and Caribbean countries

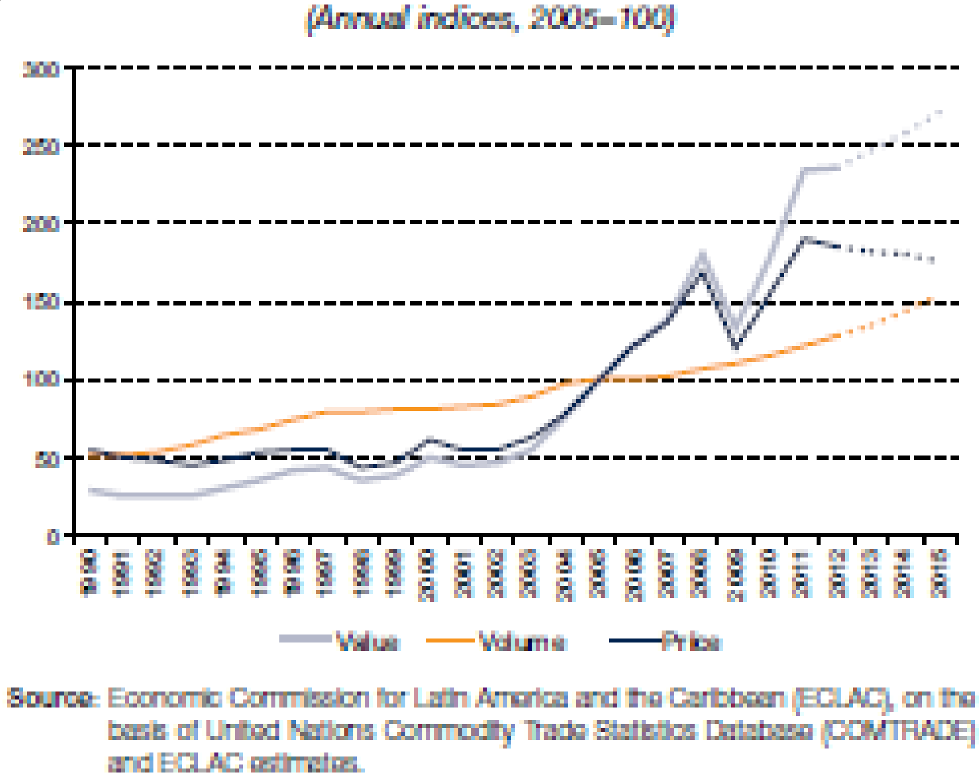


Fuente: "CEPALSTAT" (CEPAL 2012)

4. The exceptional geopolitical context of the 2000s cannot be taken as a warranted long term trend.

Whereas Latin American exports in nominal terms had been stagnating during the 1990s, from 2002 to 2007 they have tripled and this was generated by the simultaneous credit led US boom and competition led regime in China: they have triggered large price increases given the lag in adjusting capacities in the sector of commodity production (graph 2). Since most Latin American growth regimes are export led, the GDP has been expanding and provided the fuel for domestic consumption. It has thus extended the tax base, especially if some levies are attached to exports of commodities, as decided for instance by Argentina government after 2002 (Boyer & Neffa, 2004; 2007). Some of this bonanza has been channelled to fight against poverty, thus delivering political legitimacy and launching a transition towards a consumption led development as observed in Brazil (Boschi, 2009).

Graph 2 – An exceptional rise of prices and strong volume of international trade of commodities: Latin America and the Caribbean value, volume and price indices for the ten main commodity groups, neutral scenario, 1990-2015:



Source: ECLAC (2012) page 68 figure II.3

Most researches in political science and economic sociology traditionally focus on issues of power, conflict and organisation concerning the emergence and transformations of welfare systems. Nevertheless, they frequently forget to study how the macro-economy shapes the size of the base for redistribution : the positive and increasing sum game typical for a fast growing economy makes political compromises easier (in the America Latina 2000s) than during a depression where nobody is eager to accept to share the burden (Greek depression 2009-2013 or European 2013 recession).

A scenario exercise (CEPAL, 2012) ponders that the mere extrapolation of the 2000s trends is quite unlikely: no return to pre- crisis employment level in the US, anticipation of a possible lost decade in the European Union, and a clear deceleration of Chinese growth combine their impact and it is thus prudent to anticipate a neat decline of the stimulus generated by the dynamism of the world trade, i.e. to err on the side of the pessimistic scenario (table 1).

Table1 – Three scenarios

LATIN AMERICA AND THE CARIBBEAN: EXPORT VALUE AND VOLUME INDICES BY DESTINATION MARKET, 2013-2015

(Average annual growth rates)

Destination market	Optimistic scenario		Neutral scenario		Pessimistic scenario	
	Volume	Value	Volume	Value	Volume	Value
Latin America and the Caribbean	4.4	9.0	3.7	3.5	2.0	0.0
China	18.3	24.1	16.4	9.9	8.9	-0.9
European Union	5.5	12.6	1.1	1.7	0.8	-3.6
United States	6.2	10.4	6.2	5.7	3.4	1.9
World	**7.5**	**10.5**	**6.5**	**5.0**	**4.5**	**0.7**

Source: Economic Commission for Latin America and the Caribbean (ECLAC).

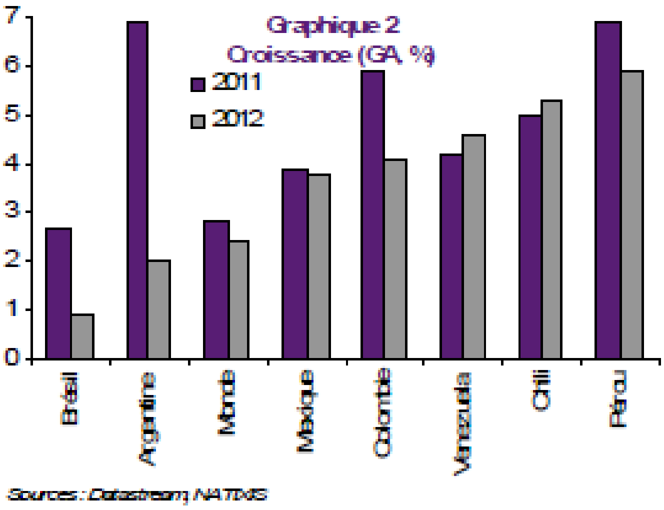
5. ***Domestic production system has to respond efficiently to the domestic demand associated to an extended welfare.***

Can domestic demand counterbalance a likely reduction in world trade trends? This is the very objective aimed at the inclusive growth strategy implemented and popularized by Brazilian authorities. It was achieved during the 2000s and the world trade collapse generated by Lehman Brothers bankruptcy was mitigated by an active public policy. Nevertheless the Brazilian recovery has been very partial and the countries are nowadays the slowest growing Latin America country (graph 3). Basically Brazil seems to have lost the source of its past growth (graph 4): neither foreign trade nor consumption are leading the recovery.

One of the reason is clear: post Keynesian models show than in open economies, growth is limited by the competitiveness, i.e. the ability of domestic producers to respond to demand. Given the legacy of past appreciation of the real, since 2008 the extra demand has been associated to a stagnant industrial production (graph 5). Thus the previous virtuous circle (redistribution- more consumption- investment- production-employment- larger tax and social contribution base) is no more operating. This would be a major threat upon the future of inclusive growth in the absence of a relevant and innovative policy.

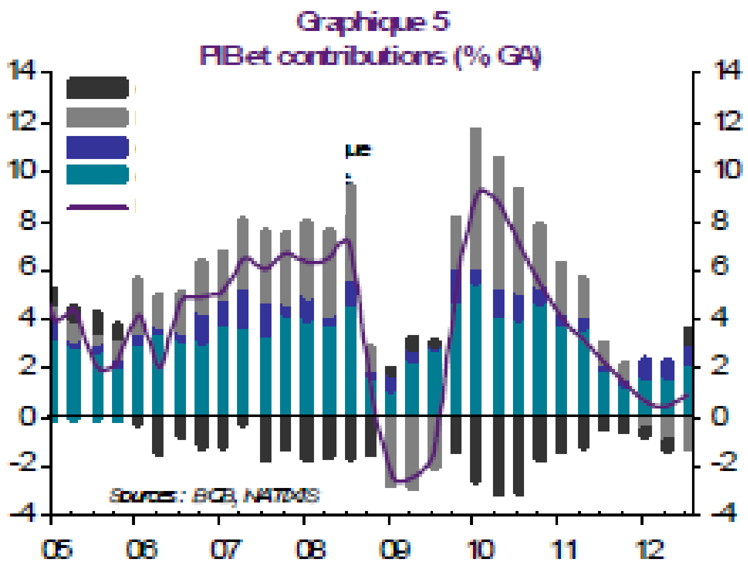
In other words, the issue at stake is clear: enhance production capacity in line with the extension of welfare. This is precisely the central finding of a comparative research on the emergence, maturation and viability of modern welfare (Boyer, 2014).

Graph 3 - Annual rate of Growth (%)

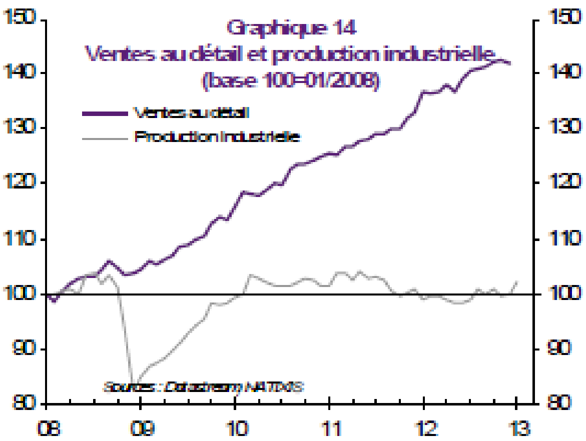


Graph 4 - Contribution to GDP growth

Foreign trade
Investment
Public spending
Private consumption



Graph 5 - Domestic demand dynamism but industrial production stagnation: Brazil since 2008



Retail sales

Industrial production

Source: Artus Patrick (2013), p.2, 3 et 5.

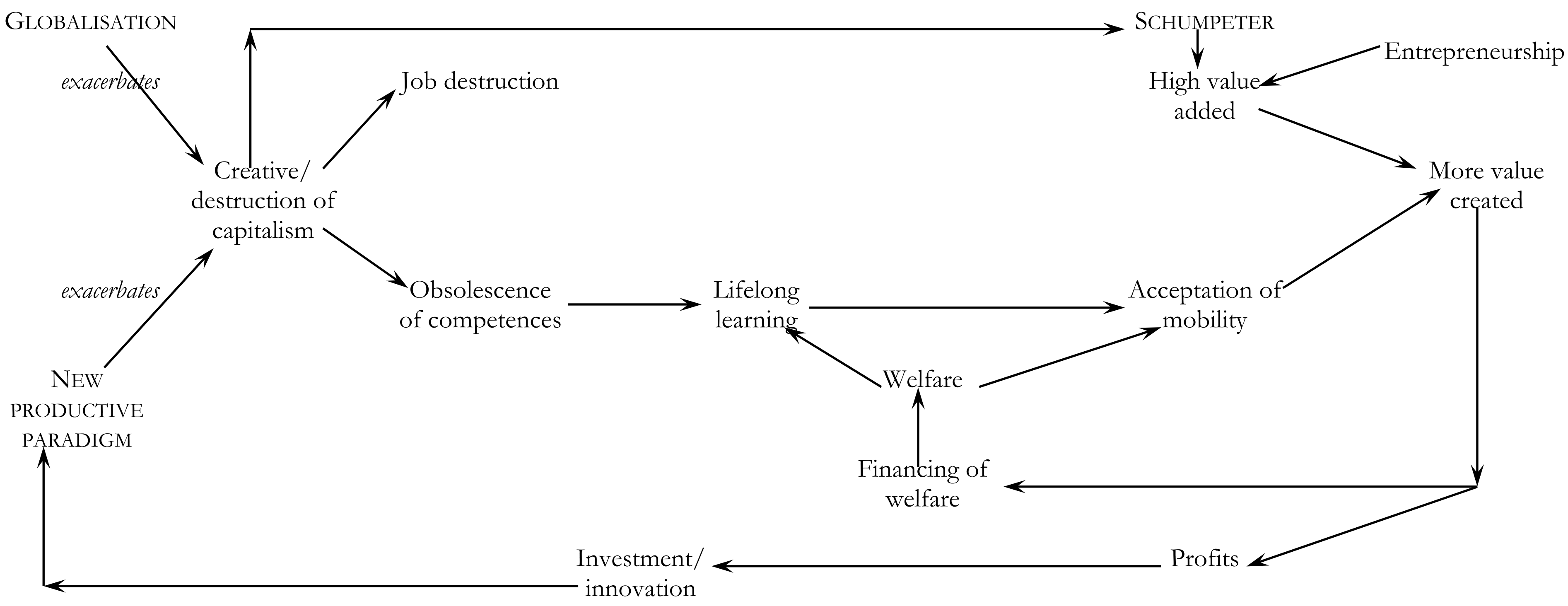
6. *The secret of Nordic welfare capitalism: a permanent modernization of the innovation and productive system.*

Creative destruction is recognized as a fact of life in capitalist economies that can only be blocked at the expense lower standards of living in the long run. The name of the game is then to accept job destruction in firms that cannot create a sufficient level of value added per employee, given the evolution of the world economy and productive paradigms. It is detrimental to follow the low value added, low wage path and thus generous replacement ratio for the unemployed is a good incentive that blocks partially the downward adjustment of wage. The retraining of wage earners becomes crucial in order to prevent the formation of a dual labour market of low skills – low wage sector. In a sense, the Nordic countries share a neo-Schumpeterian conception of welfare based upon a key objective: try to redesign the welfare and all the components of economic policy in order to foster technological and organisational innovations that could sustain high and possibly increasing standards of living. In such new welfare systems (Jessop, 2002), intense public transfers are compatible with the dynamism of innovation. The bumblebee can flee, smartly and this falsifies the predictions of conventional neoclassical theory that only considers static efficiency in a world dominated by price completion on standardized goods without permanent and endogenous innovation in order to capture oligopolistic rents (figure 2).

In Nordic countries, this representation of the economy is shared by the majority of the actors – firms, wage earners, citizens, high civil servants and politicians – and thus it plays an active role in their coordination in every day decisions.

Can this model be an inspiration for Latin America and Brazil? Broadly speaking, yes in the following meaning: welfare advances have to be coherent with domestic productive capacity and competitiveness; this principle should help in designing economically viable social programs. Nevertheless, two major differences makes unrealistic a pure transposition of the social democratic welfare. On one side, the export of primary commodities has not the same potential for continuous productivity increases as an innovation led manufacturing sector. On the other side, the extensive income redistribution via welfare and taxes is easier in small homogeneous societies than in a continental and quite heterogeneous economy, such as Brazil. One measures the distance between these social democratic welfares and those dominant in Latin American that are conceived as a modicum safety net and not the founding stone of a development mode, built upon the nurturing of human capabilities.

Figure 2 – The core complementarity between welfare and innovation: the Nordic configuration



7. Some steps ahead for Brazil

How to respond to the summer 2013 demonstrations and social demands? It is crucial to carry out a careful diagnosis of the present configuration of society, economy and geo-polity, then discuss and elaborate a syncretic policy program with the objective of synchronizing social advances with a restored dynamism of the productive sector . Thus, the recent inequality reduction could be converted into a sustainable development model, to be emulated everywhere in Latin America.

The benefits and perils for Latin America of riding China's dynamism

Source : Financial Times,August 1, 2013

References

ARTUS Patrick (2013), "Une analyse macroéconomique de la sous performance du Bovespa, *Flash Marchés*, n° 209,13 Mars, Natixis, p.2, 3 et 5.

BOSCHI Renato (2009), "Estado desarrollista en Brasil: Crisis, continuidad, incertidumbres", IUPERJ

BOYER Robert (2014), "How has institutional competitiveness emerged out of the complementarity between Nordic welfare and innovation system", in *Sources of National Institutional Competitiveness. Sense-making and institutional change*, Edited by Susana Borras and Leonard Seebrooke, Forthcoming

BOYER Robert and Neffa Julio Cesar (eds) (2004), *La crisis argentina (1976-2001): una vision desde la theorias institucionalistas y regulacionistas*, Editorial Mino y Davila, Madrid, Buenos Aires.

BOYER Robert and Julio Cesar Neffa (eds) (2007), *Salida de crisis y estrategias alternativas de desarollo. La experiencia argentina*, Mikno y Davila Madrid et Buenos Aires,

BOYER Robert, DEHOVE Mario, Dominique PLIHON (2004), *Les crises financières*, Rapport du Conseil d'Analyse Economique n° 50, La documentation française, Paris.

CEPAL (2012), *Cambio Estructural para la Igualdad. Una visión integrada del desarrollo*, Nations Unies, Santiago, Chile.

ECLAC (2012), *Continuing crisis in the centre and new opportunities for developing economies*, United Nation, Santiago de Chile, November.

JESSOP Bob (2002), *The Future of the Capitalist State*, Cambridge: Polity

JIMENEZ Juan Pablo & Isabel LOPEZ-AZCUNAGA (2012), De la desigualdad en America Latina? El rol de la política fiscal, *Working Paper Series* n° 33, desiguALdades.net Frei Universität, Berlin.

MIOTTI Luis, QUENAN Carlos, and Edgardo TORIJA ZANE (2012), « Continuités et ruptures dans l'accumulation et la régulation en Amérique latine dans les années 2000 : le cas de l'Argentine, du Brésil et du Chili », *Revue de la regulation*, n° 11, premier semestre, http://regulation.revues.org

PANIGO Demian (2008), *Volatilité macroéconomique et inégalité en Amérique* Latine. Thèse EHESS et Université de Buenos Aires, Juin.

SABOIA Joao (2010), "Elasticidades de rendimentos de trabalho em relaçao ao salario minimo a esperiencia do periodo recente", *Economia y Sociedades*, vol. 19, p. 359-380.