

**IS AN EQUITY LED
GROWTH POSSIBLE IN A
WORLD OF RISING
INEQUALITIES?**

Robert Boyer (Institute of the America)

**Seminar “Desafios do desenvolvimento
Brasileiro”**

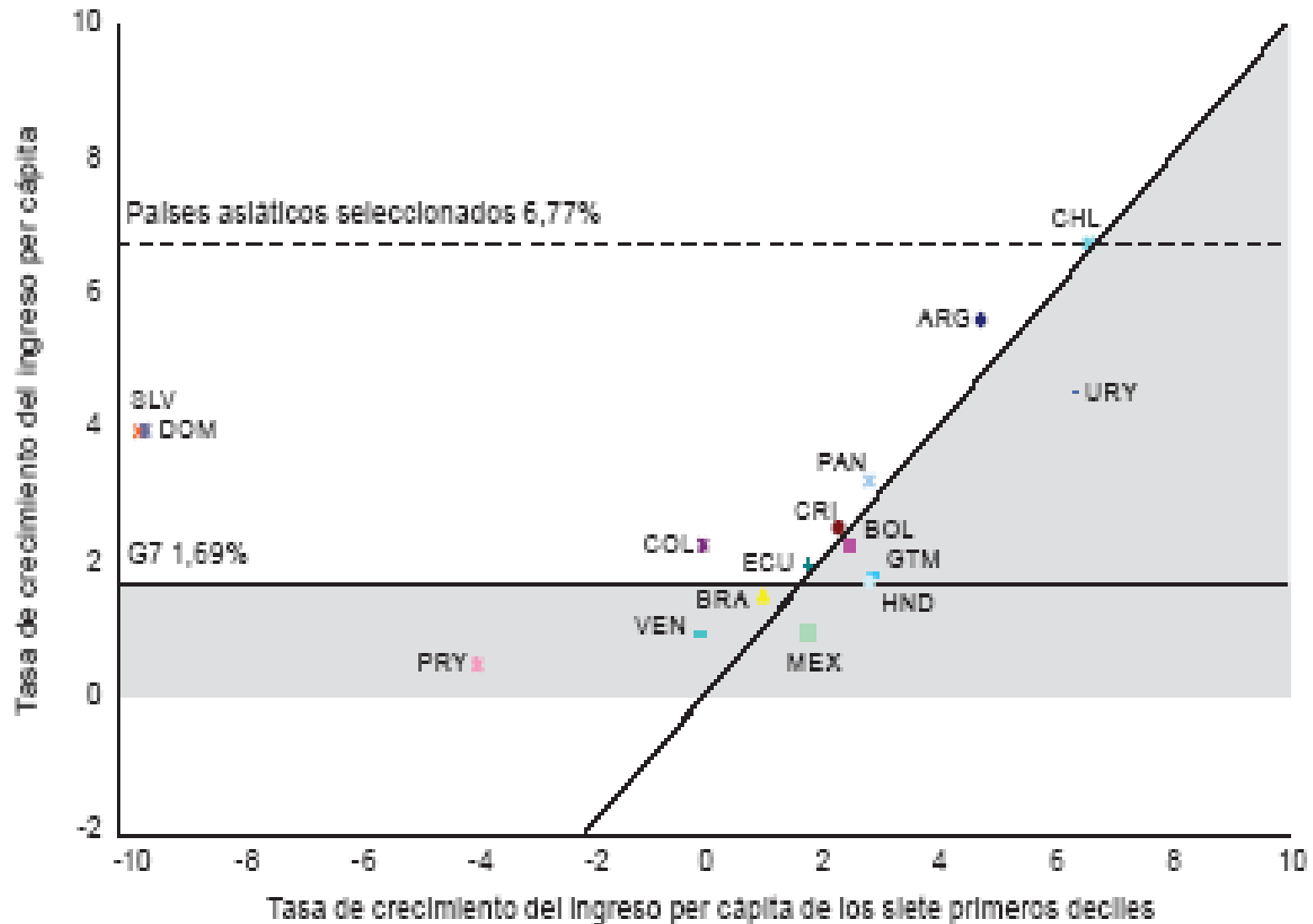
Campinas, 7-9 May 2013

INTRODUCTION

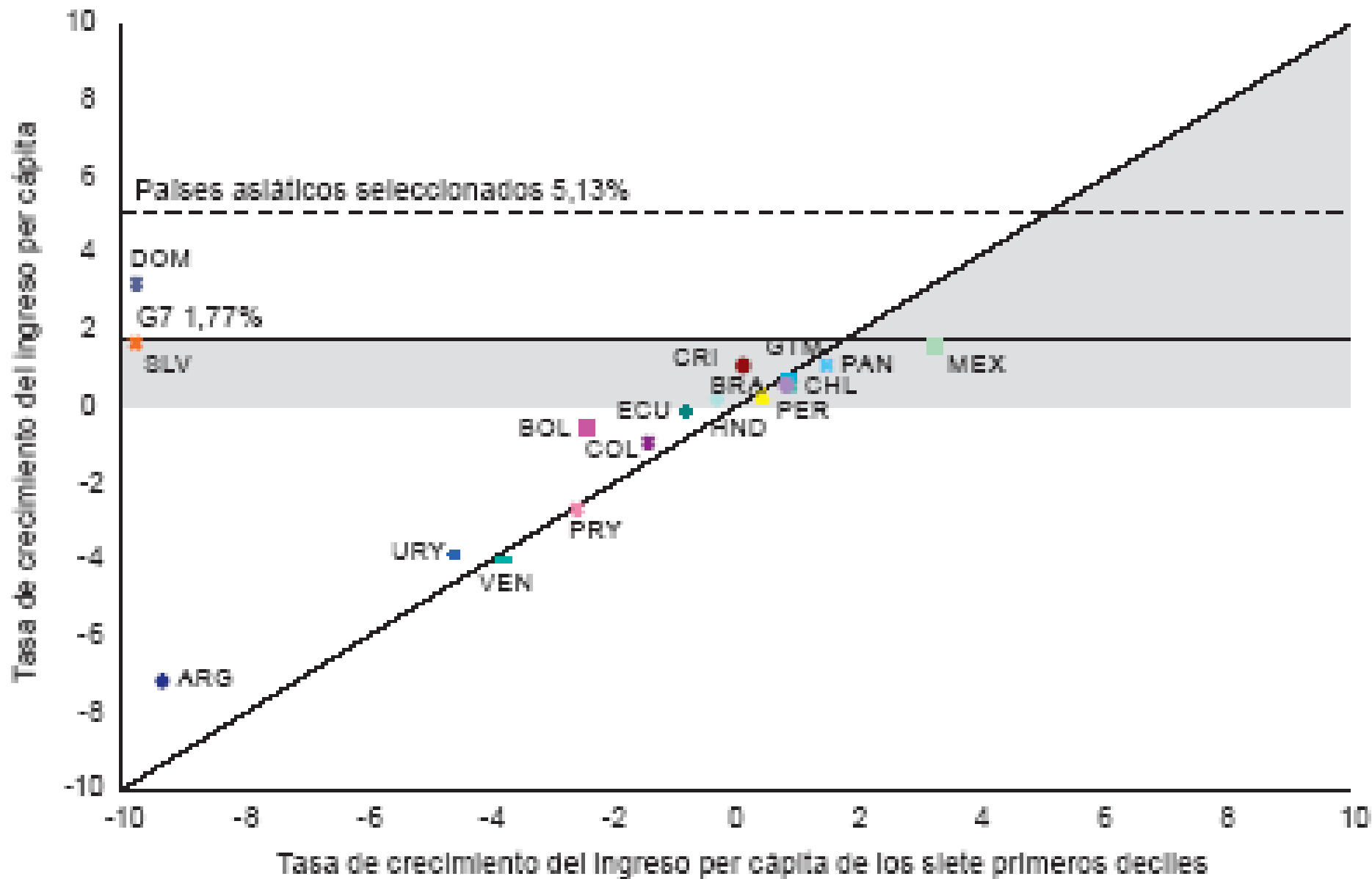
1. The 2010s: a turning point in the conceptions and policies relating welfare, inequality reduction and development?
 - ✓ *The Latin American paradox: in the era of global rising inequality, a reversal of previous trends since “crecimiento con equidad” seems achievable*

The novelty of the recent decade for Latin America

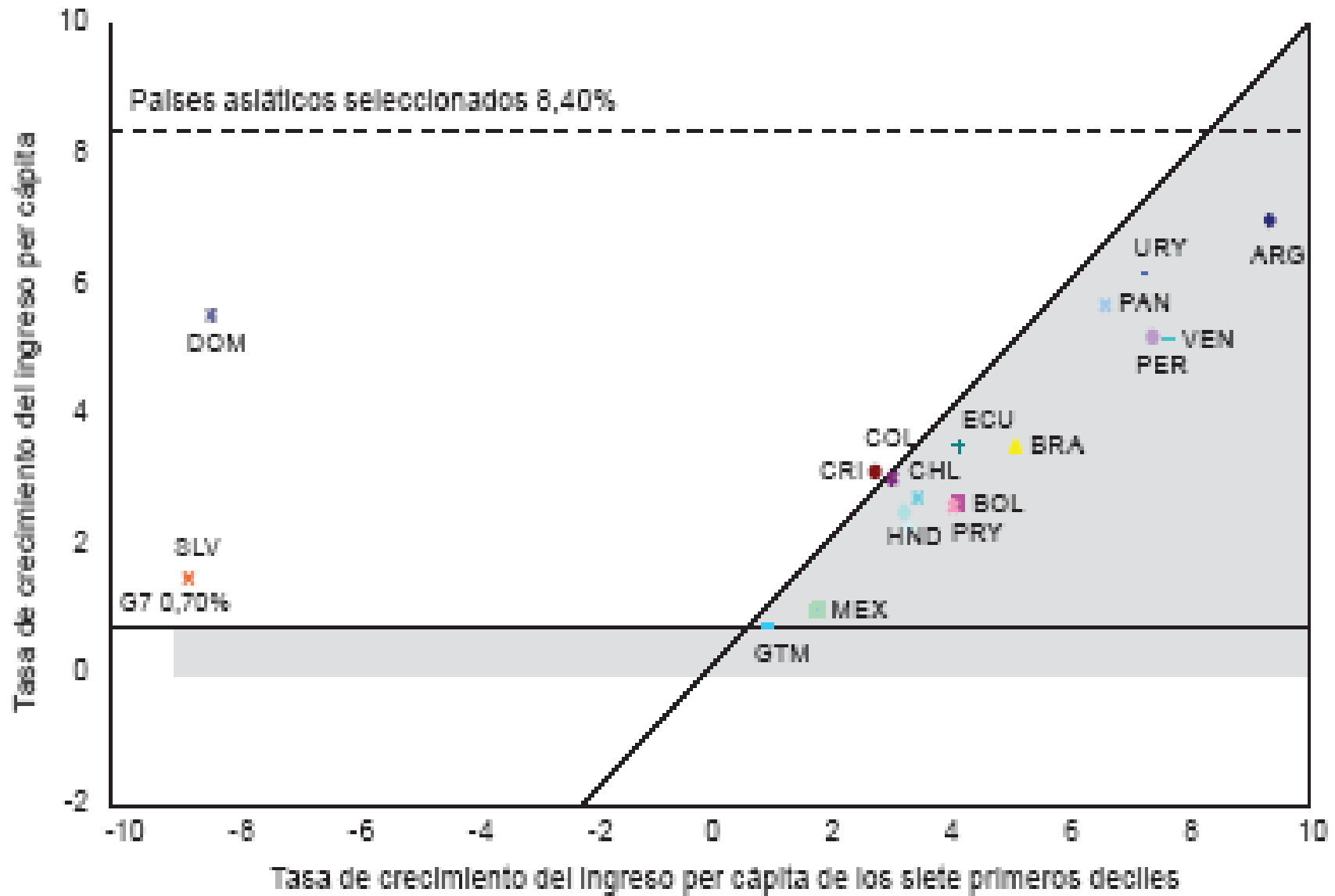
A. 1990-1997



B. 1998-2002



C. 2003-2011



Source: CEPAL (2012), *Cambio Estructural para la Igualdad. Una visión integrada del desarrollo*, The United-Nations, Santiago, Chile, p. 60.

- ✓ *An East Asian surprise: the search for welfare tools that would cope with widening inequalities and recurring social protests*
- ✓ *US and UK: a significant revaluation of residual welfares in fully liberalized societies...*
- ✓ *...A symmetric reappraisal of the merits of social democratic welfares*

The Economist

David Cameron's new pose
Booze and American purification
World trade's sudden slump
An AIDS riot in China
Why CEOs are worth every penny

Asia's next revolution

Reinventing the welfare state



The Economist

American business ▼ Mitt Romney
Cleaning up China's stockmarkets
The EADS merger with BAE crashes
Fake Pharma's golden age
The charms of Silicon Valley

True Progressivism

The new politics of capitalism and inequality

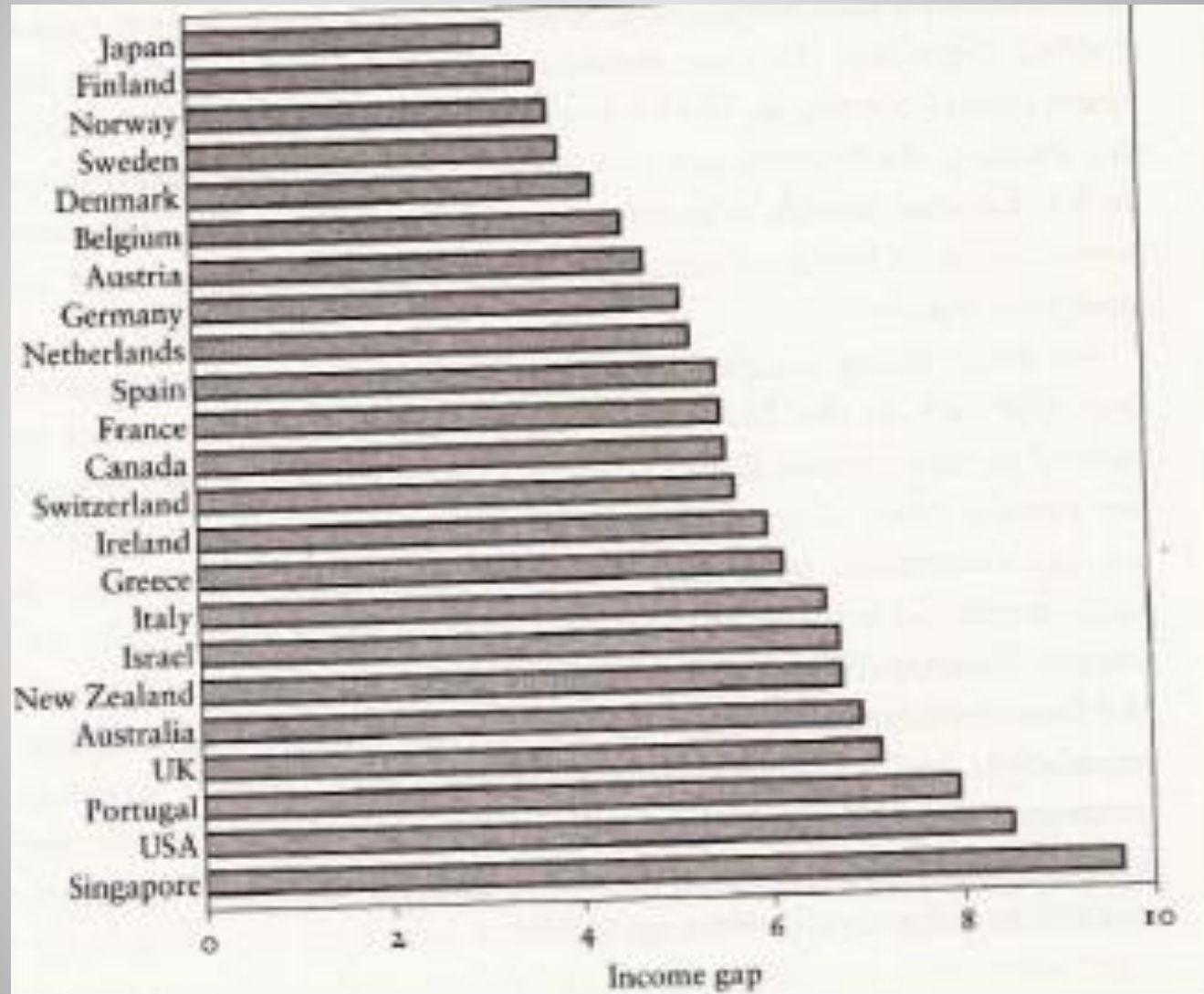


2. Putting Latin America in comparative and historical perspective

✓ *Second paradox: why are un-equalitarian capitalisms setting the tune of the world economy...*

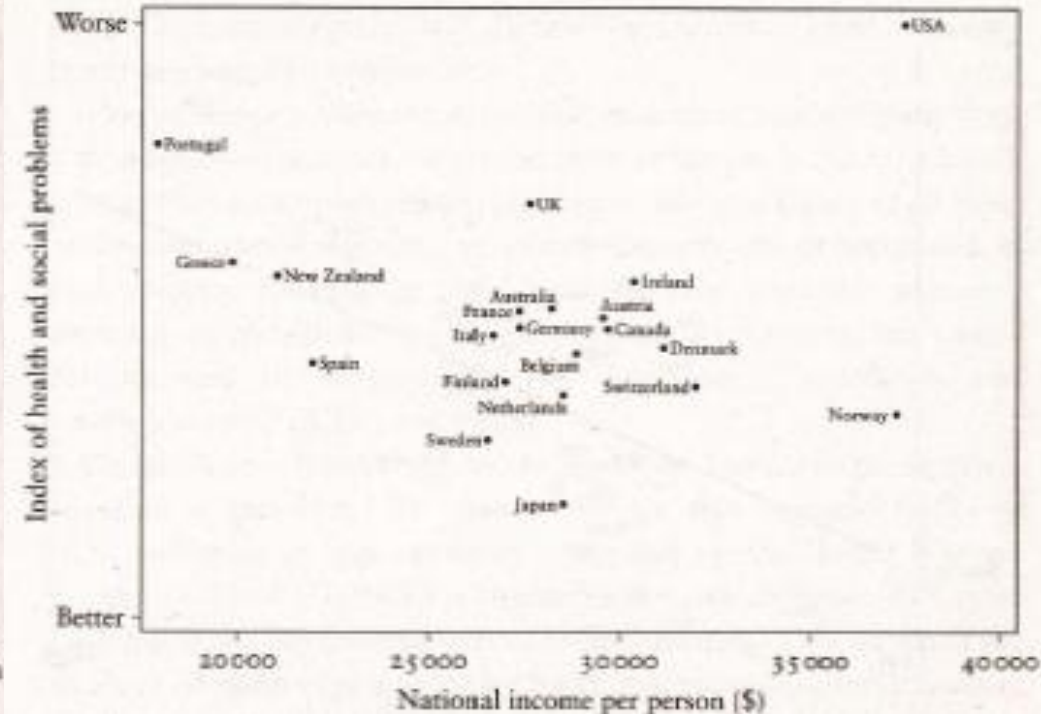
...Precisely when convergent academic research shows the social and economic costs of inequality

Second paradox: if more equal societies are so better, why is contemporary world so unequal?



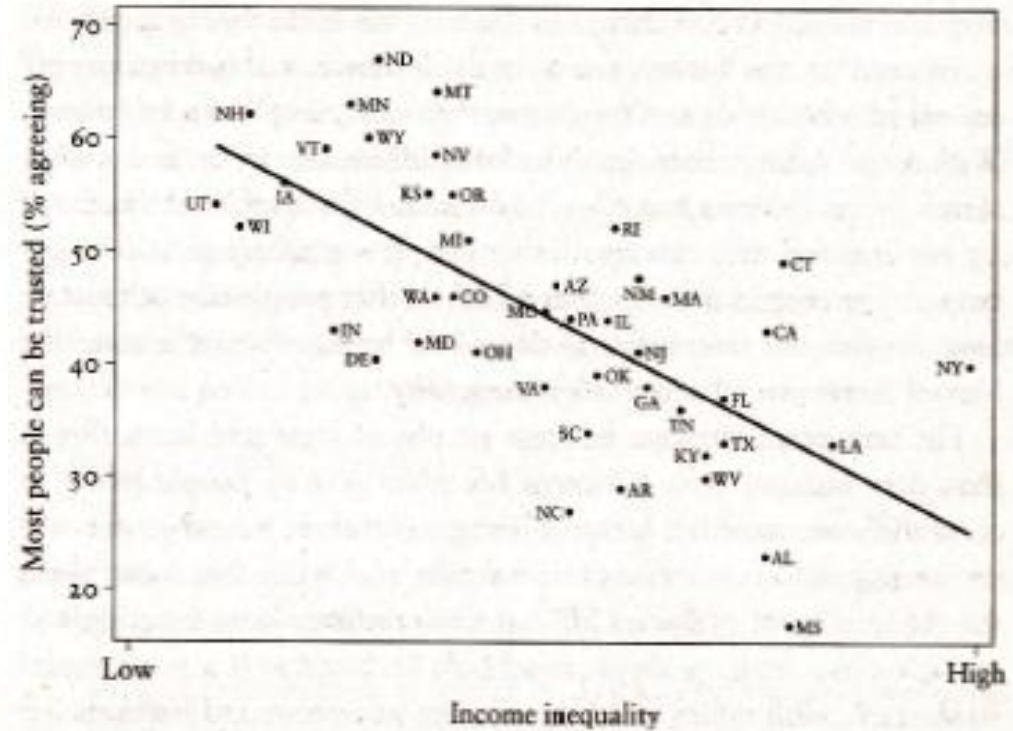
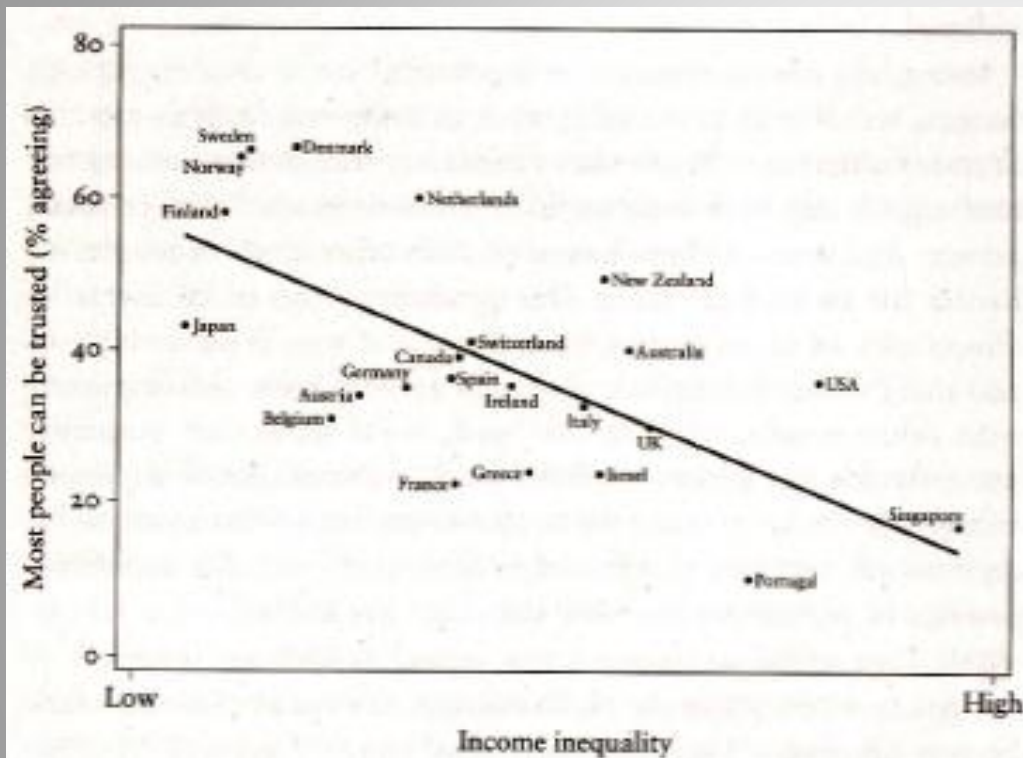
Source: Wilkinson Richard, and Kate Pickett (2010), p. 17

Inequalities more than national average income explain divergences in health and social problems



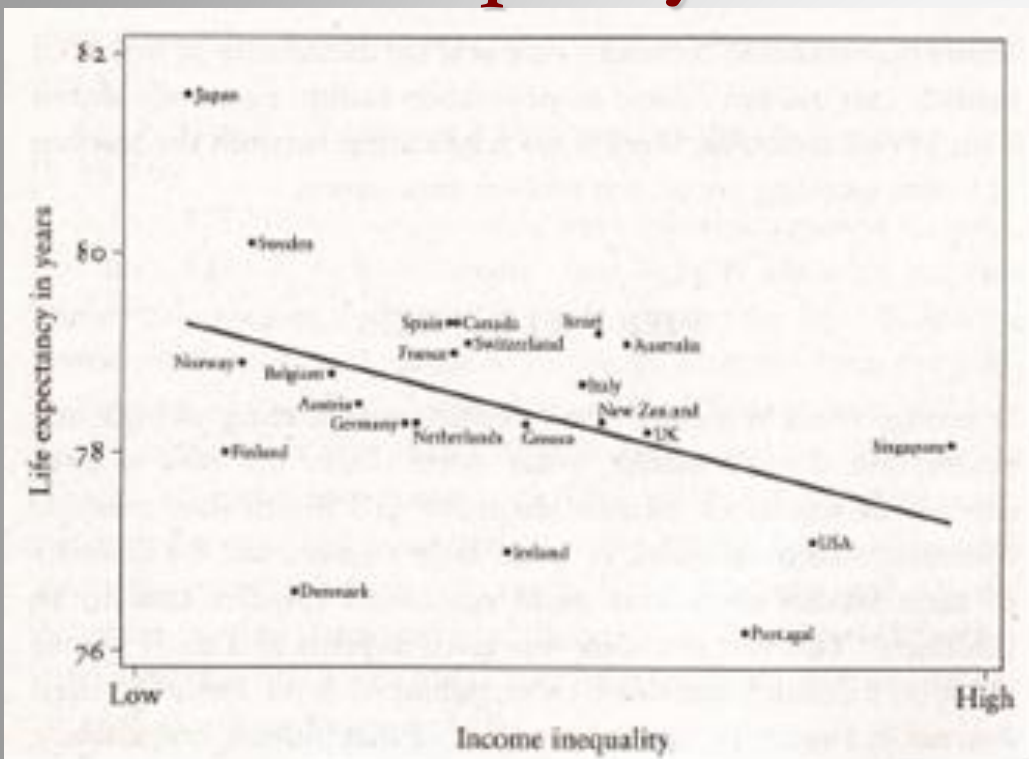
Source: Wilkinson Richard, and Kate Pickett (2010), p. 20-21

Less inequality, more trust

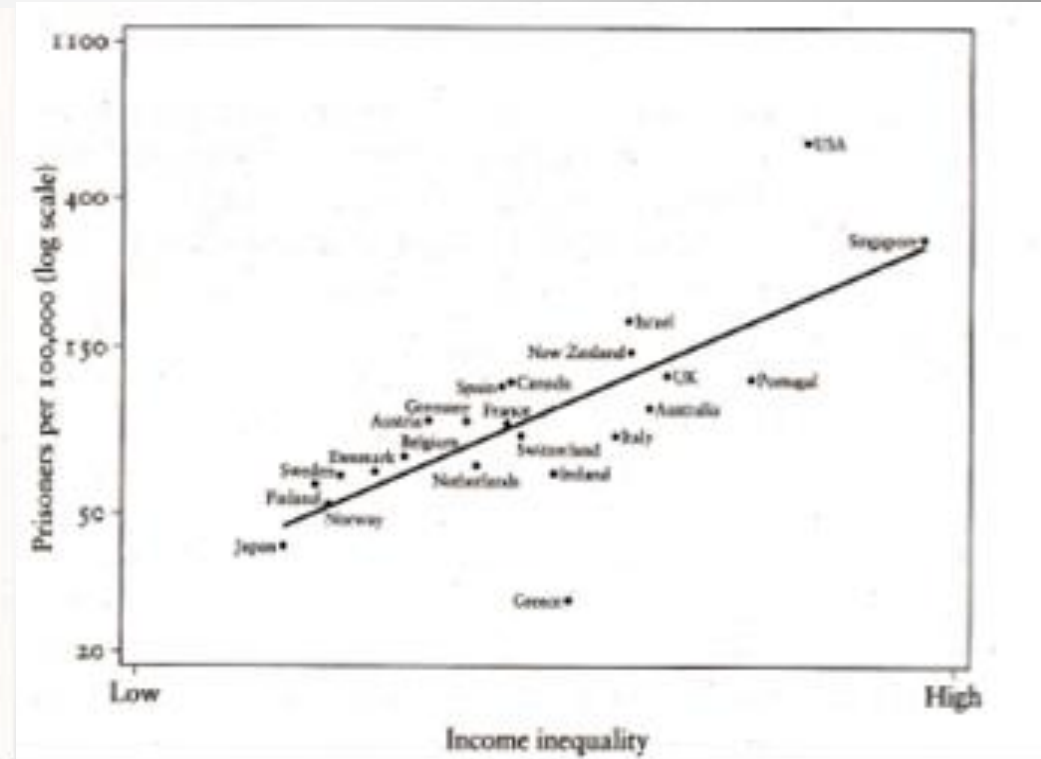


Source: Wilkinson Richard, and Kate Pickett (2010), p. 52-53

Life expectancy: not linked to health expenditures per person but to income inequality



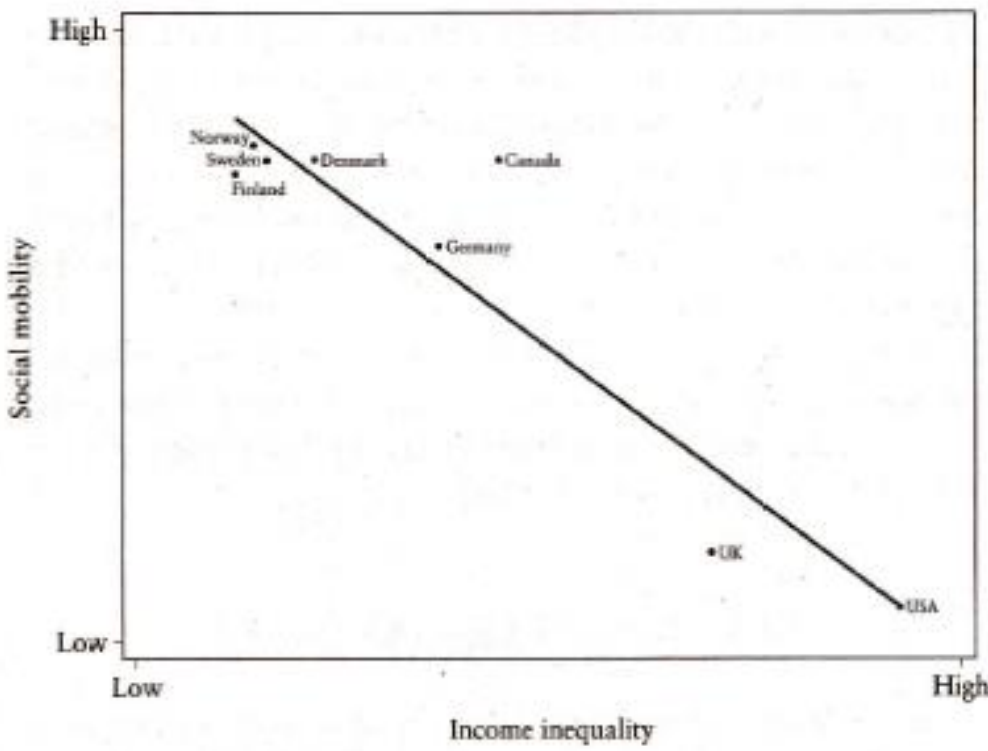
Imprisonment is linked to inequality



Source: Wilkinson Richard, and Kate Pickett (2010), p. 82

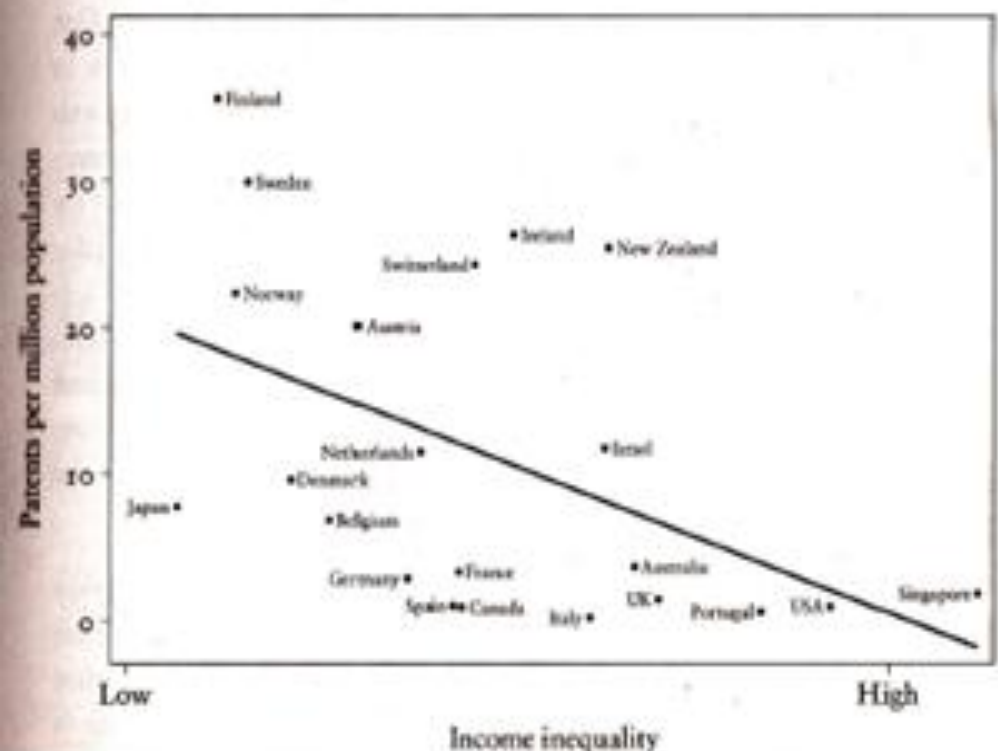
Source: Wilkinson Richard, and Kate Pickett (2010), p. 148

Social mobility is higher in less unequal countries



Source: Wilkinson Richard, and Kate Pickett (2010), p. 160

More equality is associated with more innovations



Source: Wilkinson Richard, and Kate Pickett (2010), p. 225

THIS IS YOURS, SON
-IT'S BEEN IN THE FAMILY
FOR GENERATIONS



✓ *Third paradox – Is not the European Union crisis a counterevidence against the viability of welfare capitalism?*

- **Greece:** an under developed economy with a clientelist state joining Euro....

.....But cutting welfare is the strategy imposed to the country

- **Spain:** a major real estate bubble fuelled by private credit....

.....But labour market flexibilisation and welfare cuts are supposed to be the solution.

3. The message of this presentation in a nutshell: explaining the three paradoxes with the same analytical framework ...

....And deriving some consequences about the viability of growth with equity strategies in Latin America...

.... With a special emphasis on Brasil

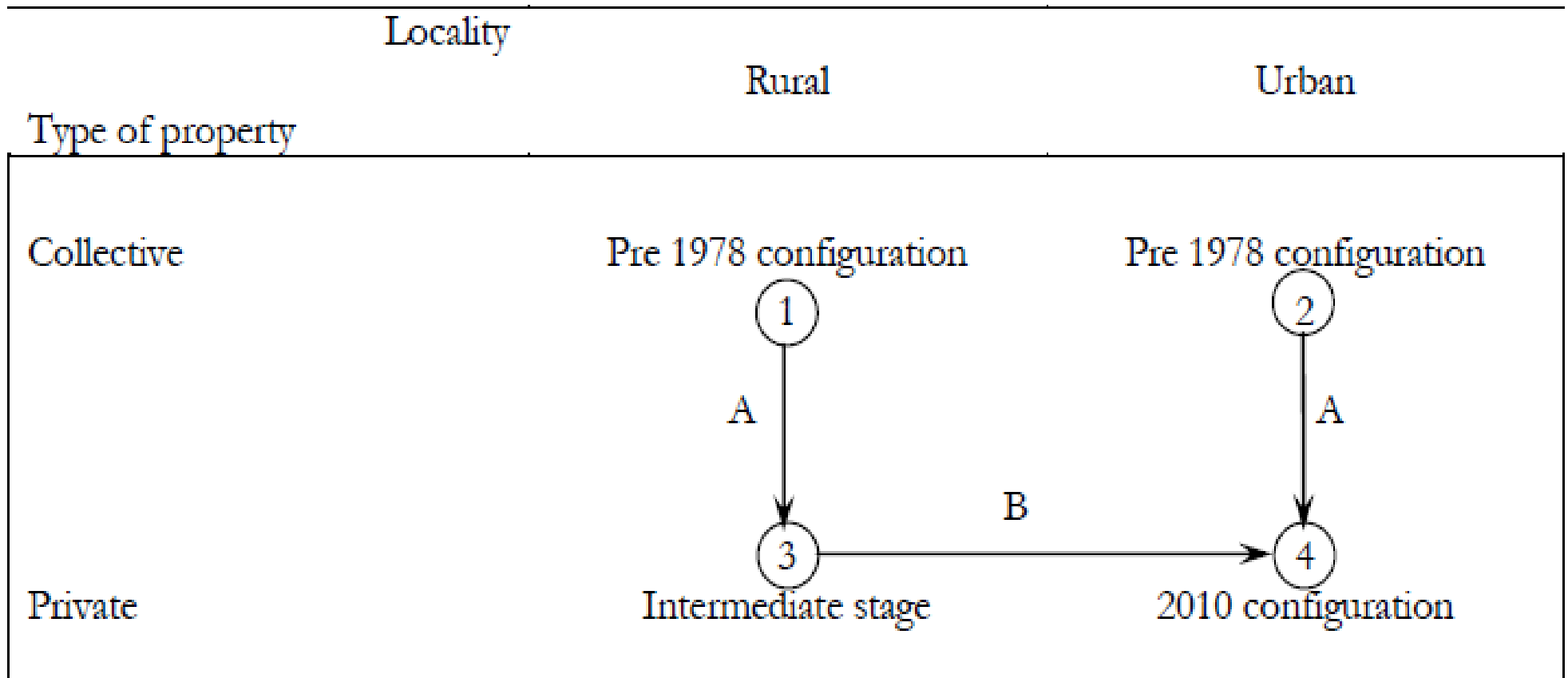
SYNOPSIS

1. **China:** explosive inequalities are the consequence of fast development or Kuznets revisited.
2. **The United States:** a finance led regime promotes a surge in inequalities, volatility and crises .
3. **Europe:** resilience of social democratic countries but crises of welfare in the South.
4. The **Latin American** exception : “crecimiento con equidad” needs an interpretation.
5. How emblematic is the **Brasilian** strategy?

I. CHINA: LESS POVERTY BUT MORE INEQUALITIES, THE DIRECT CONSEQUENCES OF FAST PRODUCTIVE MODERNISATION

- 1. The very example of the exploration of the ascending part of the Kuznets' curve**

Table 1 – The two sources of inequality in China: urban vs rural, public vs private property



A: Change in the forms of property in direction of privatization

B: Migration of labour and persistence of rural and urban *hukou*

Table 2 – The role of extreme productivity differential in the widening of inequalities (China)

	1991			2008		
	Value Added	Employment	Relative productivity	Value Added	Employment	Relative productivity
Primary	7.1	48.8	14.5	6.5	39.6	16.4
Secondary	62.8	26.8	234.3	50.6	27.2	186.0
Tertiary	30.1	24.4	123.4	46.1	33.2	138.0
	100	100	100	100	100	100

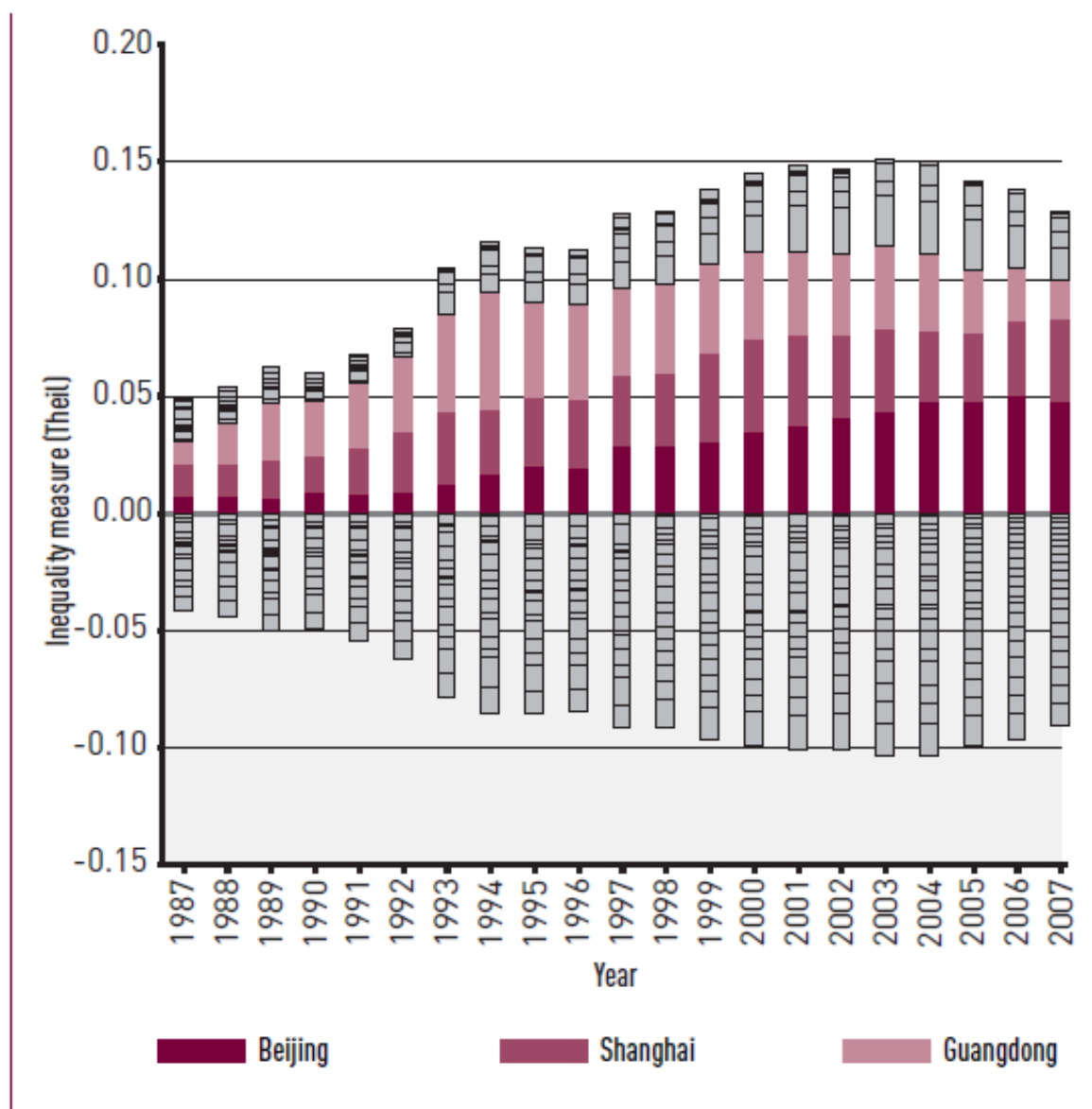
Source: China statistical year books, various years.

Table 3 – The urban/rural divide measured by average per capita income differential

1978	1991	2001	2008
2.57	2.40	2.90	3.31

Source: China statistical year books, various years.

The crucial role of regional disparities: contribution of Beijing, Shanghai, Guangdong to interprovincial inequality, 1987-2007



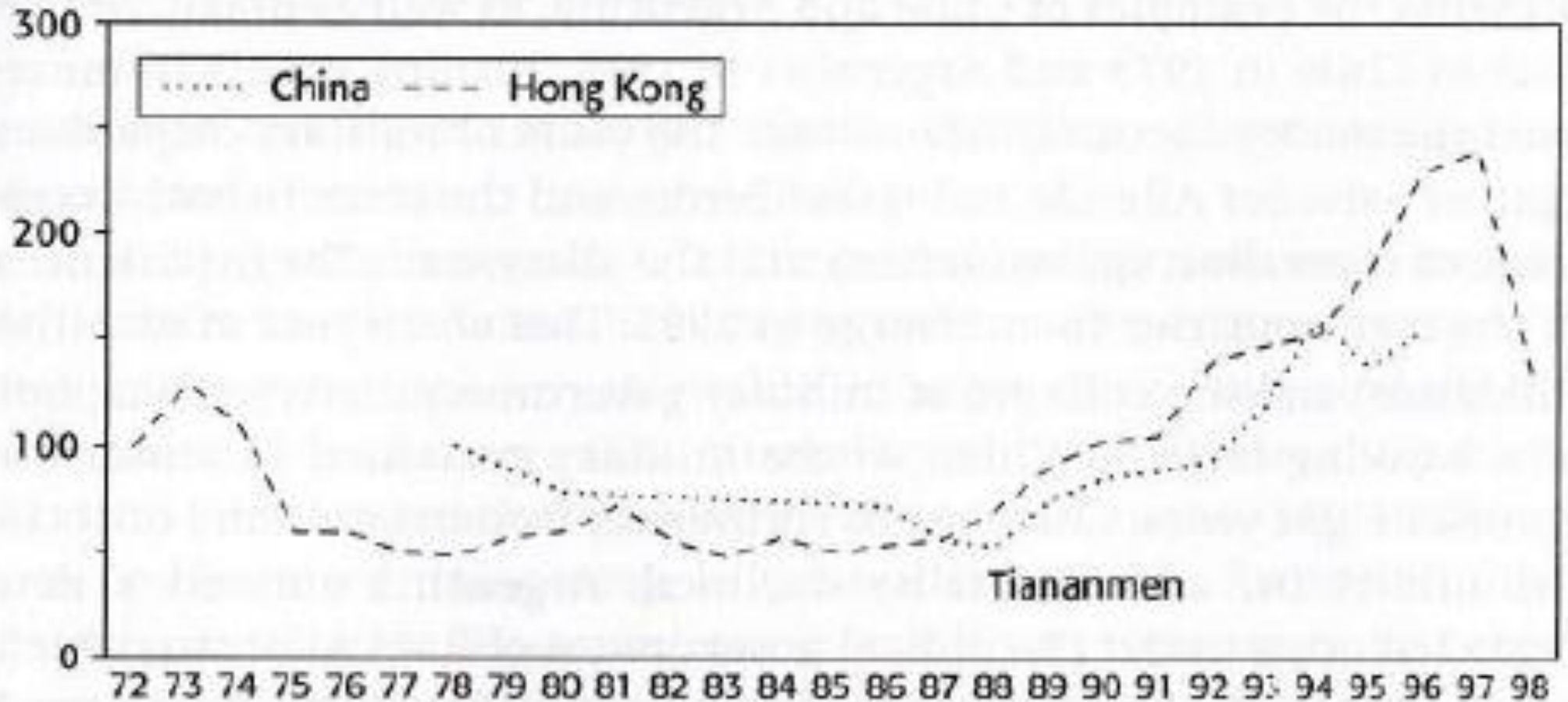
Source: taken from UNRISD (2010), p. 72

Note: The bar segments represent elements of the Theil index, specifically the population weight times the ratio of average sector pay to country pay (times the log of the same ratio). Thus above-average pay sectors show positive values, those with below-average pay show negative values. The Theil measure for each year is the sum of the bar values for that year. Source: Galbraith et al. 2008.

**Social
inequality
within the
same urban
space:
Shanghai**



Evolution of inequality in China and Hong-Kong (1972-1998) Theil index

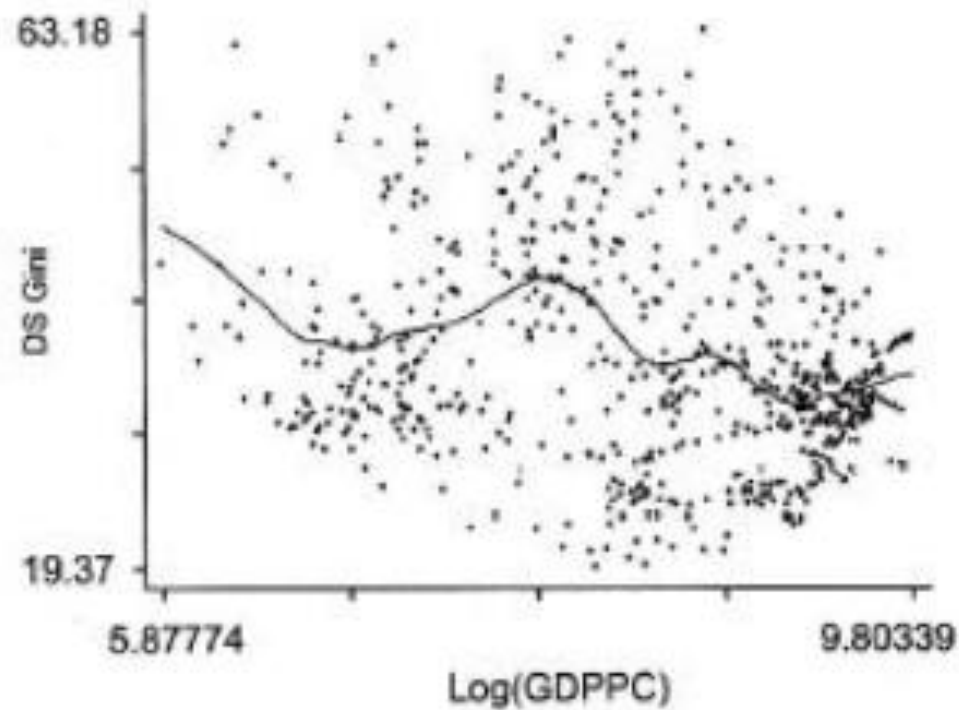
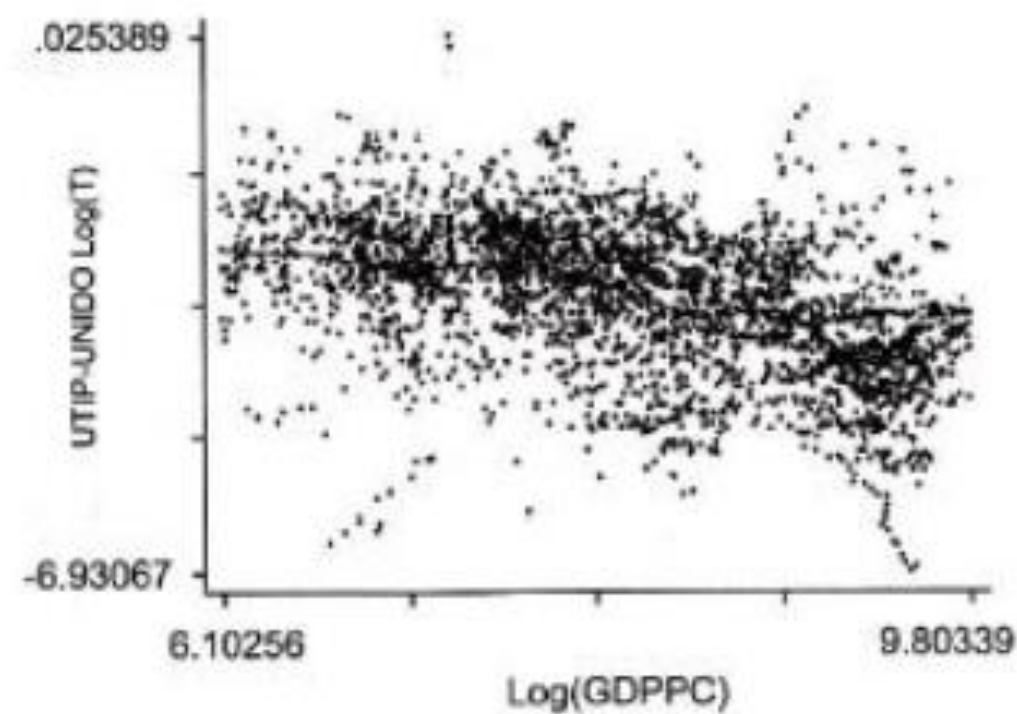


Source: James K. Galbraith (2007), p.153.

2. This is not the same pattern across the contemporary world

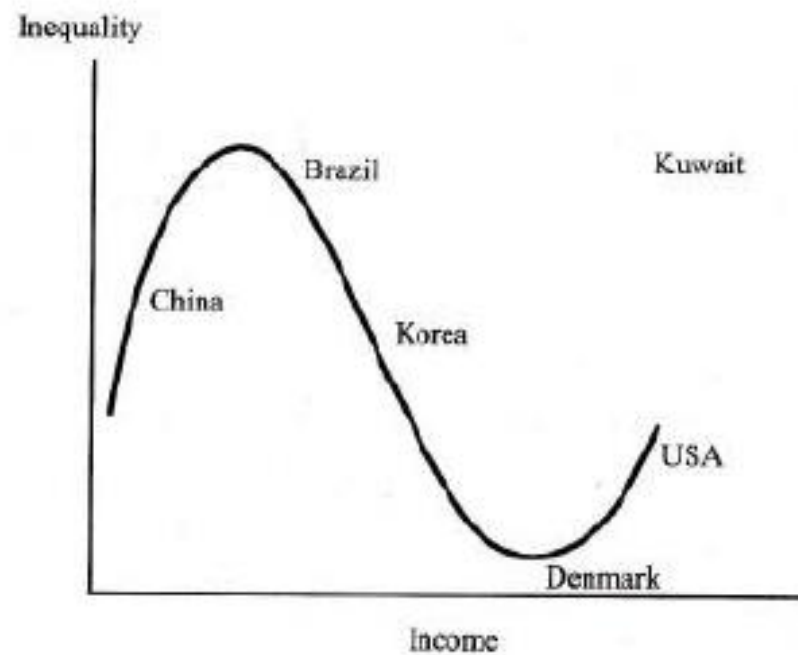
- ✓ *The new productive paradigms imply a new phase of un-equalitarian growth*
- ✓ *This structural change is associated with the vanishing of most institutions coordinating income distribution*
- ✓ *The impact of financial liberalisation, innovation and globalisation upon the explosion of top incomes.*

Graph 7 – GDP and Inequality: non parametric regression



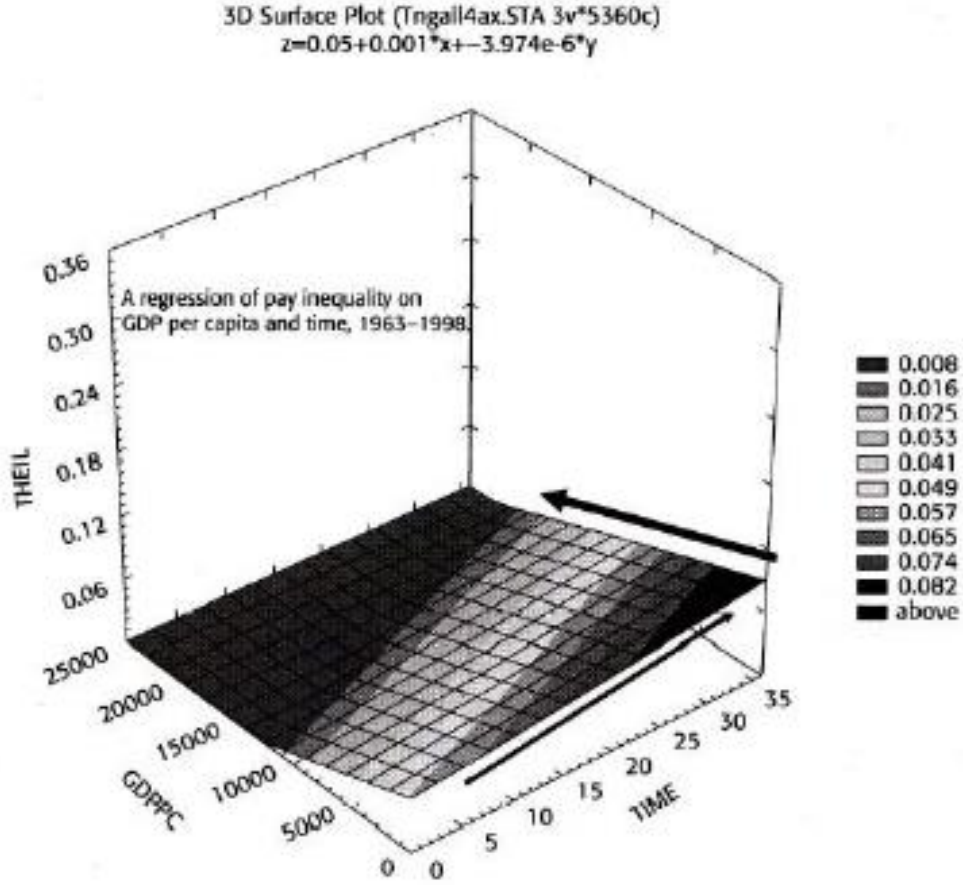
Source: Galbraith (2012), p. 65.

Graph 8 – A stylized augmented Kuznets curve, with selected countries in illustrative positions.



Source: Galbraith (2012), p.53

Graph 9 – Still the downward sloping income inequality relations, but an upward shift over time

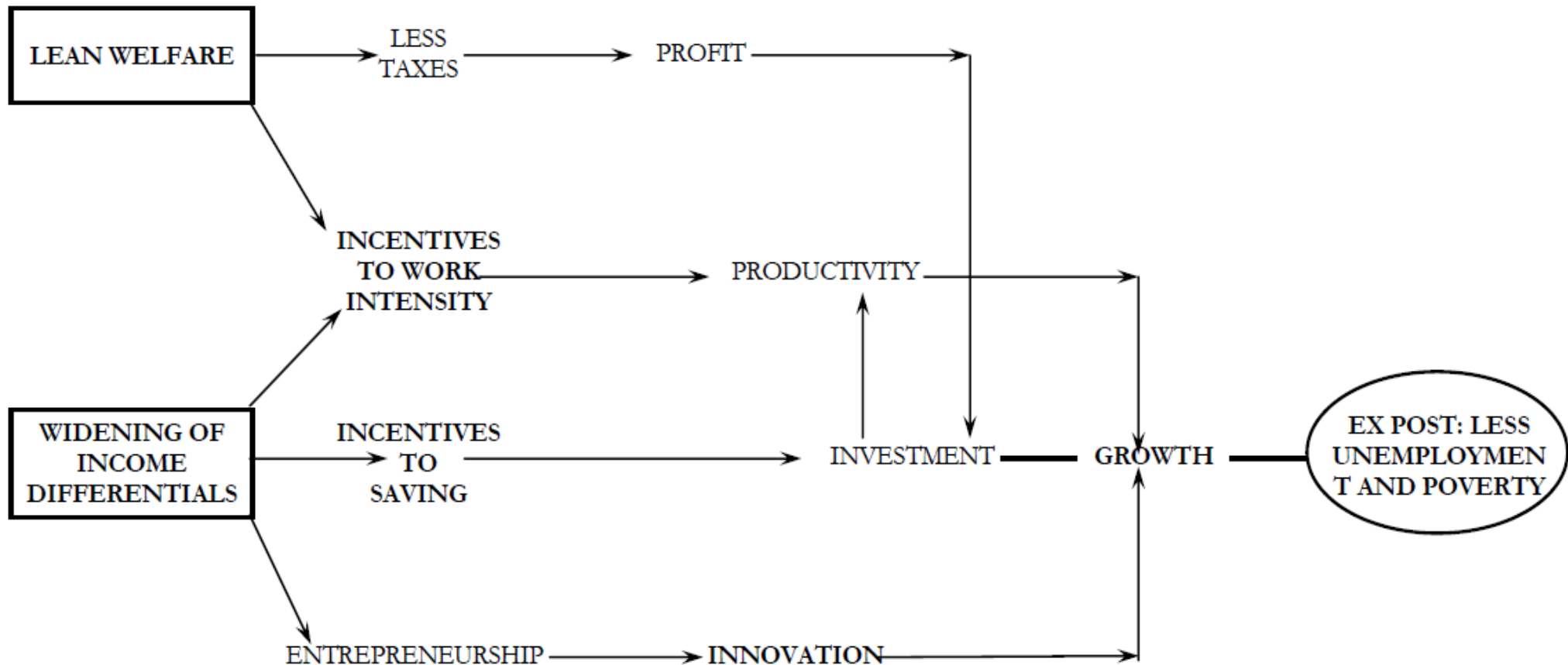


Source: Galbraith (2007), p. 170.

**II. THE UNITED STATES: A FINANCE
LED REGIME PROMOTES A SURGE IN
INEQUALITIES, VOLATILITY AND
CRISES**

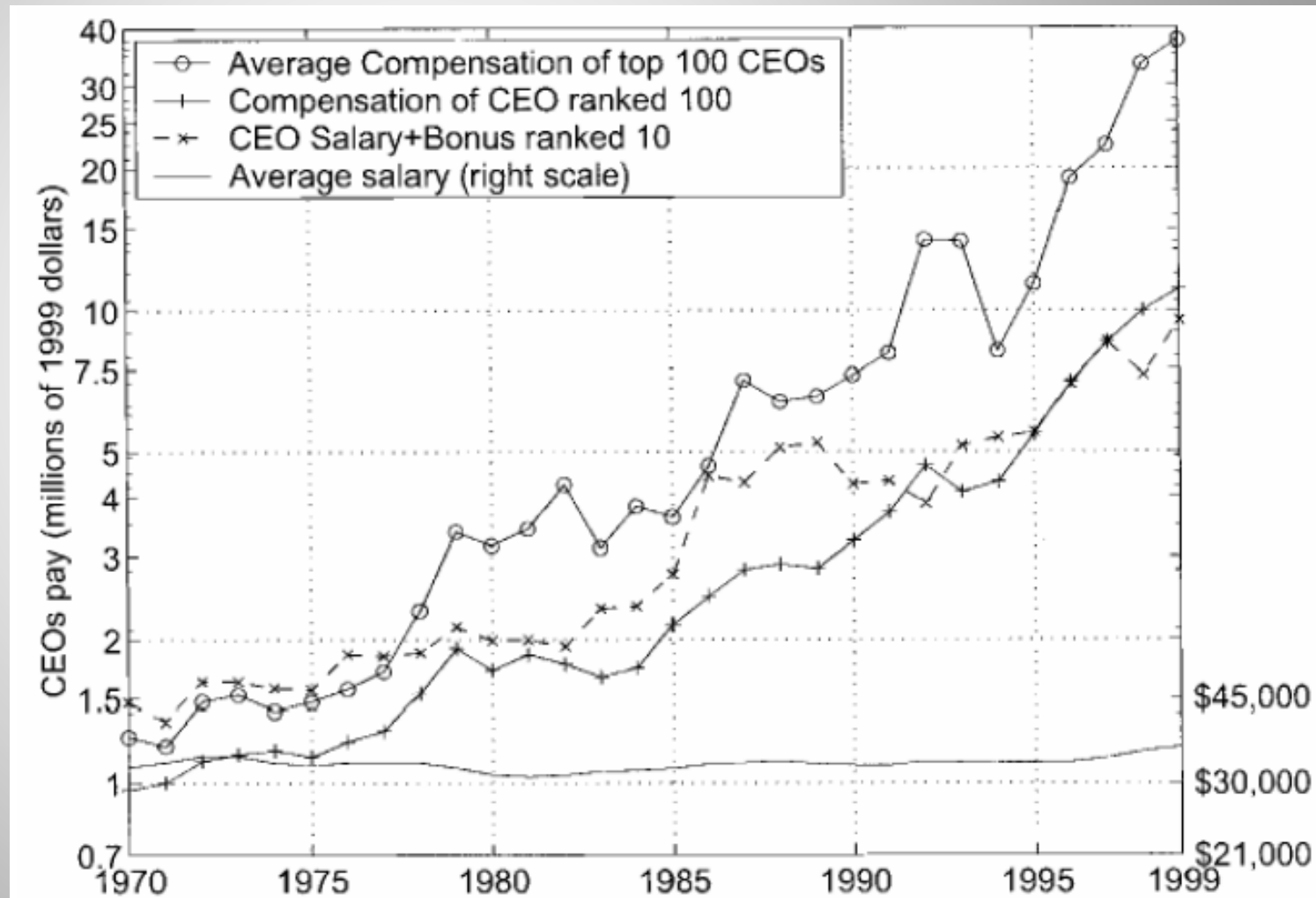
1. The new liberal doxa: increasing inequalities are necessary for growth recovery and domestic competitiveness

The anti-egalitarian paradigm shift of the 90s



2. The rise of finance: the third and massive source of explosive income inequalities

Quasi-stagnation of average real salary versus the explosion of CEOs remunerations



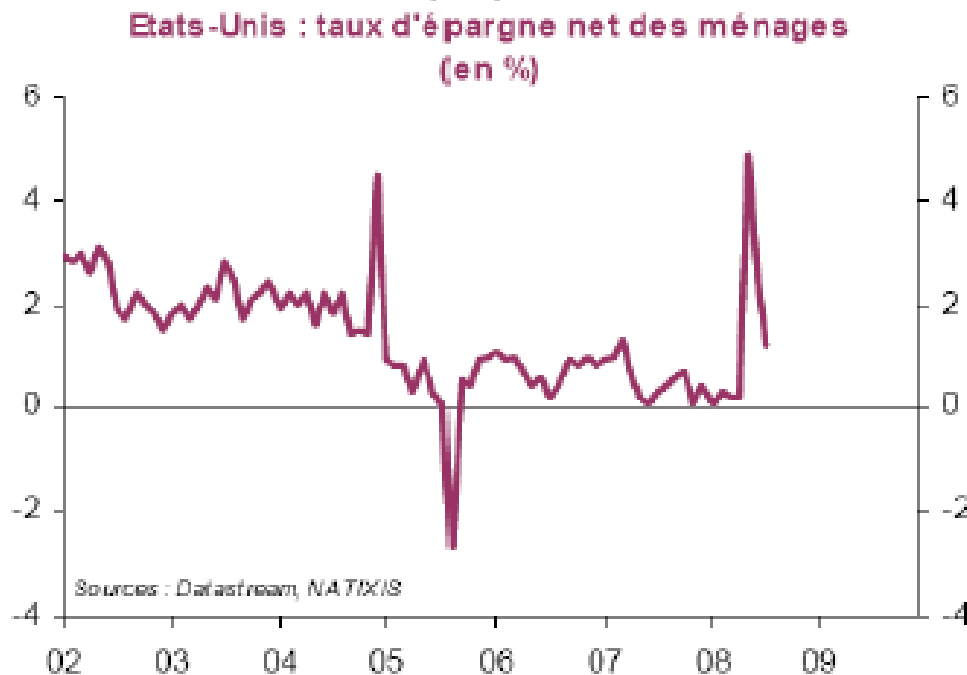
Source: Piketty & Saez, 2003, p. 33, figure 11.



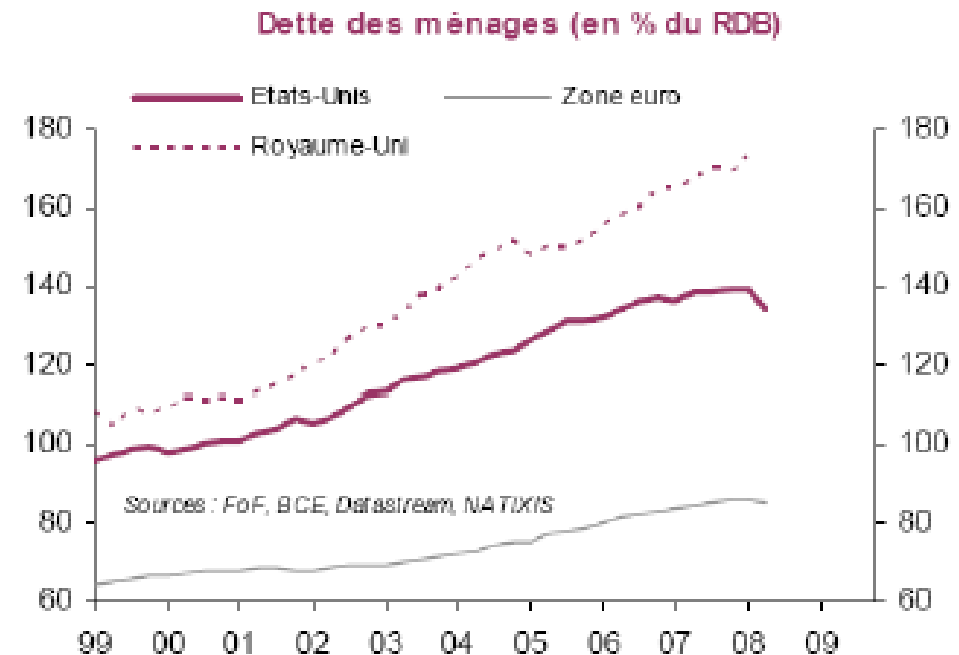
"The salary is unimportant—I'll just siphon off what I need."

✓ More working hours, more sources of income within the same household and finally an explosion of credit

Graph 13 – A very low saving rate of American households

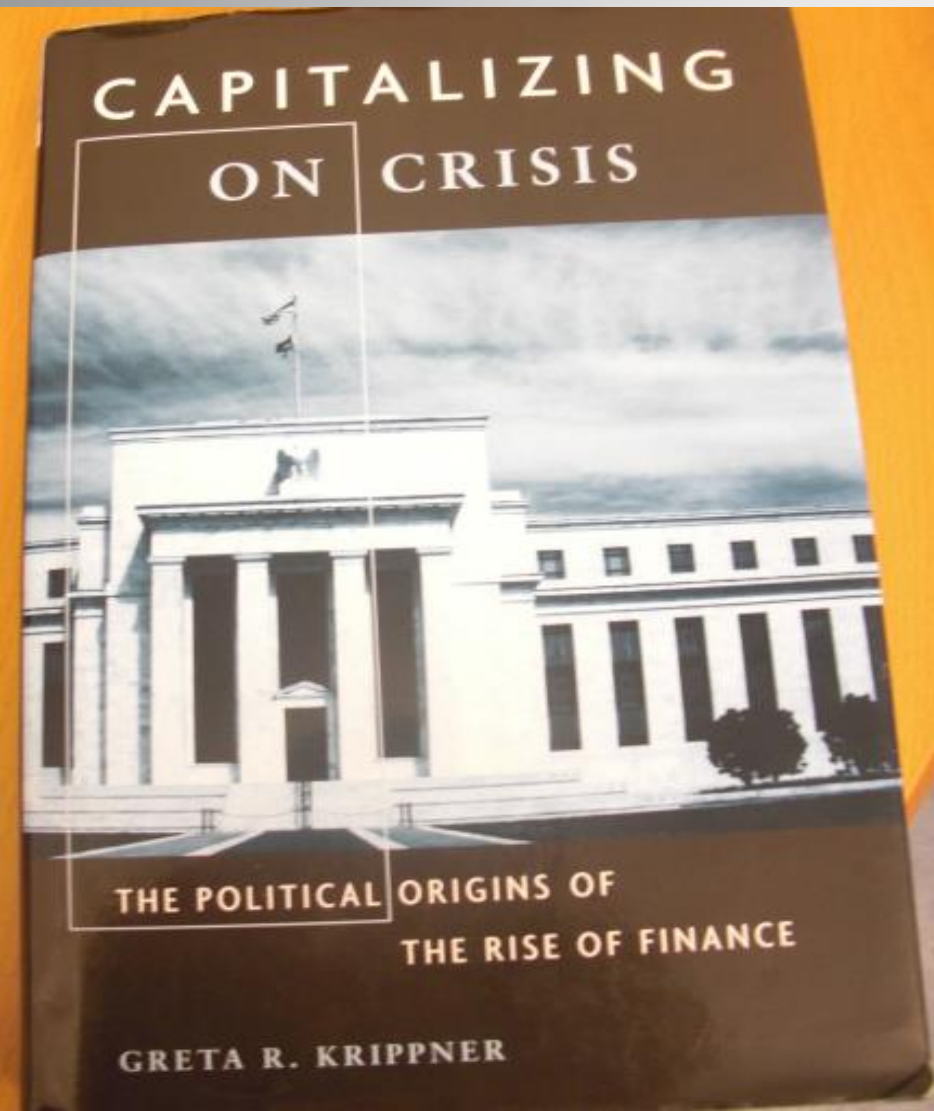


Graph 14 – A cumulative debt/Income



Source : Artus Patrick (2008c), « Trois méthodes pour réduire le levier d'endettement », *Flash économie*, n° 414, 23 Septembre, Natixis, Paris, p. 2.

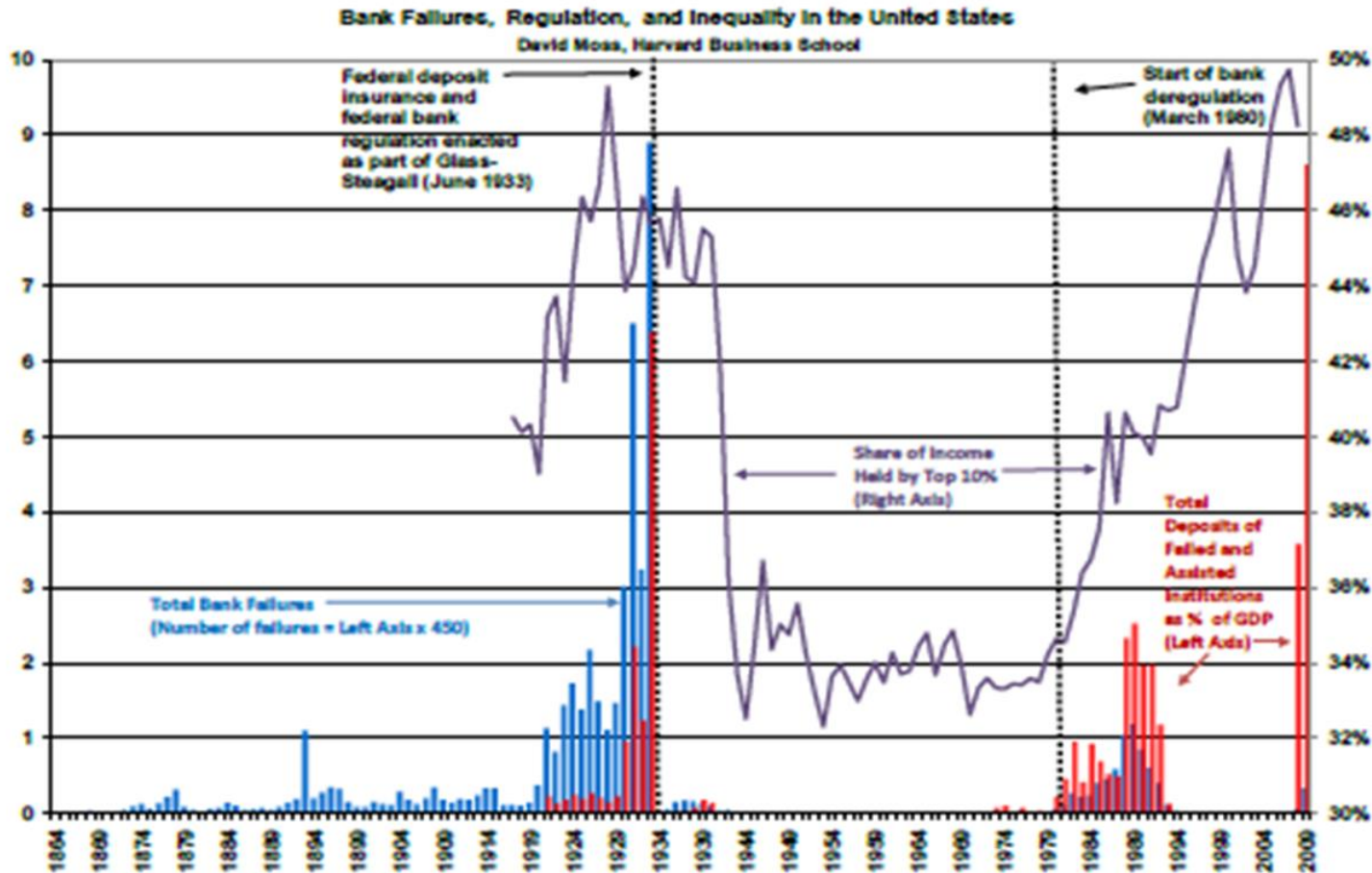
3. **Financial liberalisation** has removed the inter-temporal income constraint and led to a crisis that could not happen in the static neoclassical model



- In response to the exhaustion of the Fordist model of growth in the United States, facing incompatible social demands, successive governments decided to transfer the allocation of capital to markets in order to make anonymous the related choices... but financial innovations have instead led to a credit boom, along an unsustainable path long-term.

15 September 2008 is the **Day of Reckoning**

✓ Increasing inequalities and financial fragility and crisis go hand on hand

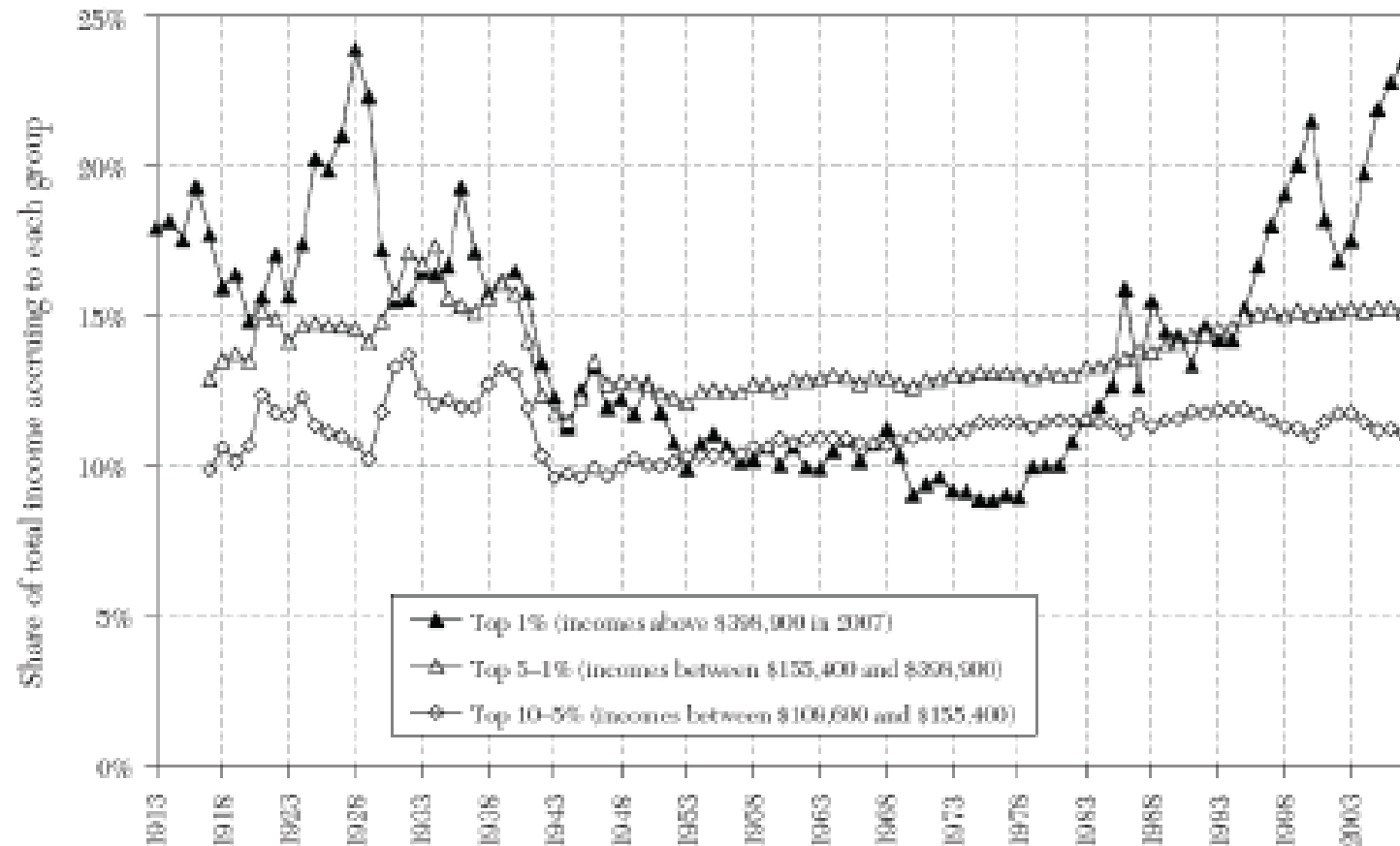


Source: David Moss (2010) Comments on Bank Failure/Regulation/Inequality Chart, August.

Source: Historical Statistics of the United States: Colonial Times to 1875 (Washington, D.C.: Government Printing Office, 1976), Series 2, Table 10, 1026; "Federal Deposit Insurance Corporation Failures and Assisted Institutions Throughout United States and Other Areas," Table SP-1, FDIC website <http://www2.fdic.gov/ins/ins/ins.htm>; Bureau of Economic Analysis, "Gross Domestic Product: 1990-2000," Table 1.1.5, <http://www.bea.gov/growthrates/growthrates.htm>; Thomas P. Brady and Emmanuel Saez, "Income Inequality in the United States, 1913-1992," Quarterly Journal of Economics, 114(1), 2000, pp. 1-30, with updated data available at <http://www.bostonfed.org/econ/ineq/ineq.htm>. For an earlier version of this chart, without the inequality overlay, see David Moss, "The Curve of Inequality," Harvard Magazine, September/October 2005.

4. The surge of very top incomes in the US

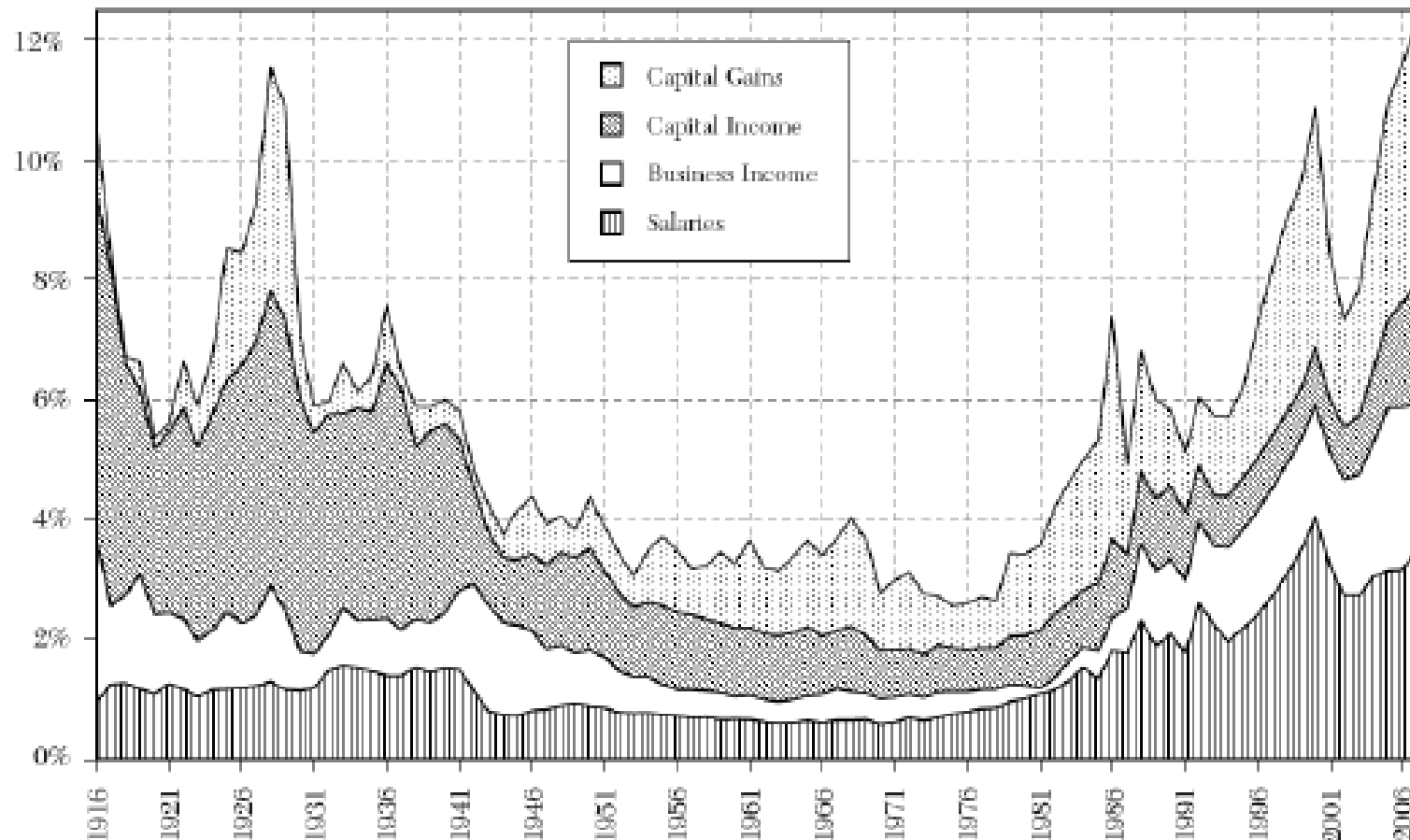
Graph 21 – Since 1980 the richest capture a larger and larger fraction of income: 1913-2007



Atkinson Anthony B., Piketty Thomas, Emmanuel Saez (2011), "Top Incomes in the Long Run of History", *Journal of Economic Literature*, Vol. 49 (1) : 7.

5. Largely the consequence of the domination of finance

Graph 22 – Capital gain and income are the main sources of the rise of inequalities from the top of the distribution



Atkinson Anthony B., Piketty Thomas, Emmanuel Saez (2011), "Top Incomes in the Long Run of History", *Journal of Economic Literature*, Vol. 49 (1) : 8.

Table 7 – Are there some general mechanisms generating rising inequalities?

Reading Stiglitz Joseph E. (2012), *The Price of Inequality. How Today's Divided Society Endangers our Future*, WW Norton & company, New York London.

Intensity	US	Europe (mainly Germany)	Latin America (Mexico – Brazil)
General mechanism			
1. Failure of markets	<ul style="list-style-type: none"> • Stronger monopolies 		<ul style="list-style-type: none"> • Domination of monopolies in key sector
	<ul style="list-style-type: none"> • Involuntary unemployment 	<ul style="list-style-type: none"> • Involuntary unemployment 	
	<ul style="list-style-type: none"> • Hidden information about quality by suppliers 	<ul style="list-style-type: none"> • Relative protection of consumers / debtors 	
2. Obscurity and complexity (financial products)	<ul style="list-style-type: none"> • Repeal of derivatives regulation 	<ul style="list-style-type: none"> • More victims from importing toxic derivatives than producing them 	<ul style="list-style-type: none"> • Differential opportunities for the richest and others
3. The winners take all	<ul style="list-style-type: none"> • Economic competition is a tournament 	<ul style="list-style-type: none"> • Important redistributive mechanisms (welfare tax, collective agreements) 	<ul style="list-style-type: none"> • Extreme concentration of wealth • Few redistribution
4. Regulatory capture	<ul style="list-style-type: none"> • SEC, FED 	<ul style="list-style-type: none"> • Exist but moderate 	<ul style="list-style-type: none"> • Present but poor implementation of regulations
5. Cognitive / imaginary captures	<ul style="list-style-type: none"> • Rich are good for society • Markets are fair 	<ul style="list-style-type: none"> • Still the ideal of a stakeholder society 	<ul style="list-style-type: none"> • National identity overcomes large inequalities
6. The most powerful set the rules of the game	<ul style="list-style-type: none"> • Seniority for derivatives products 	<ul style="list-style-type: none"> • Not easy under ordo-liberalism • Stable rules in order to contain market / failures 	<ul style="list-style-type: none"> • Unequal participation of under-privileged groups to polity
7. Lobbying of government	<ul style="list-style-type: none"> • 2.5 lobbyists / Representatives 	<ul style="list-style-type: none"> • More present in Brussels than in national capitals 	<ul style="list-style-type: none"> • Frequently corporatist governments
8. Instrumentation of State	<ul style="list-style-type: none"> • Distorted pricing Example: 0 % interest for banks to buy Treasury bonds 	<ul style="list-style-type: none"> • Present in public utilities subcontracting to the private sector 	<ul style="list-style-type: none"> • Frequent by leading economic groups

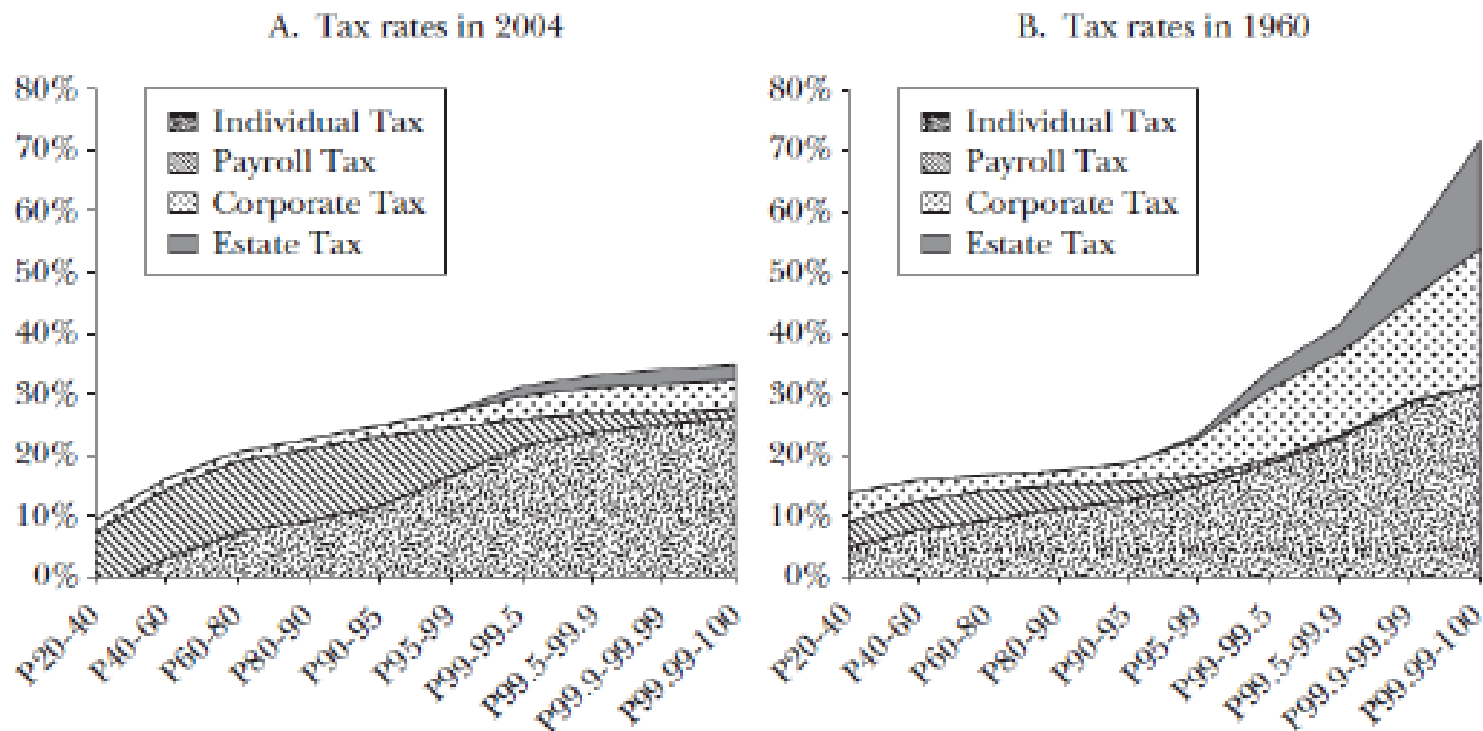
6. The general mechanisms that have generated this explosion of inequalities

✓ The leading actors in the economy used their bargaining power to extract a larger share of income and wealth... hence a first component of a new more equalitarian policy

Measure for the US
1. Curbing the power of the financial sector <ul style="list-style-type: none">- Excessive risk taking- Bank more transparent- More competition- Curb the bonus- Close offshore Banks
2. Enforce competition laws
3. Limit the power of CEOs
4. Reform of the bankruptcy law derivatives, under water homes, student loan
5. End government give a way to private interests
6. End of corporate welfare
7. Legal reform for democratizing access to justice

✓ *Some highly restricted groups use their economic power to lobby in favour of no or light regulation*

Graph 23 – The richest have got a drastic reduction of their taxation



Notes: Figures display the tax rate for each of the four federal taxes for various groups of the income distribution in 2004 (based on 2000 incomes adjusted for economic growth) and in 1960. Tax rates are stacked.

Source: Piketty Thomas, Saez Emmanuel (2007), “How Progressive is the U.S. Federal Tax System? A historical and International Perspective”, *Journal of Economic Perspectives*, Volume 21, Number 1, Winter, p. 12.

ERIC CANTOR AND HIS MERRY MEN...

HERE'S A LITTLE SOMETHING TO HELP WITH THE DEBT PROBLEM.

NO, NO, KEEP YOUR MONEY! WE'LL TAKE FROM THE POOR.

HORSEY
© 2011
HEARST
NEWSPAPERS

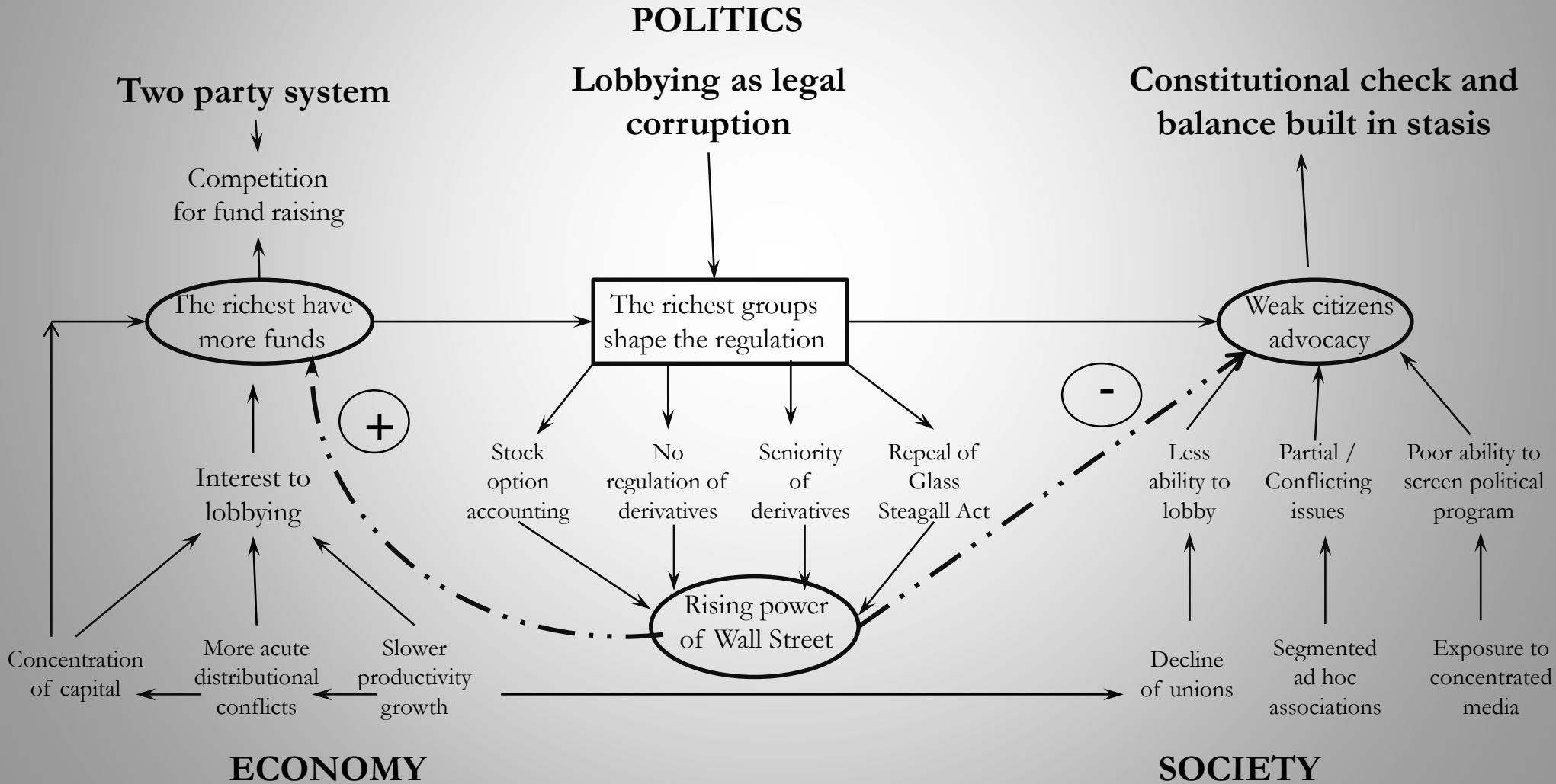


Carol★
Simpson
© 2008



"...and the winner of this week's "Race to the Bottom" is..."

7. The concentration of economic and political power is the basic explanation of rising American inequalities



THE FOUR BRANCHES OF GOVERNMENT

EXECUTIVE
BRANCH

LEGISLATIVE
BRANCH

JUDICIAL
BRANCH

SUPER
BRANCH



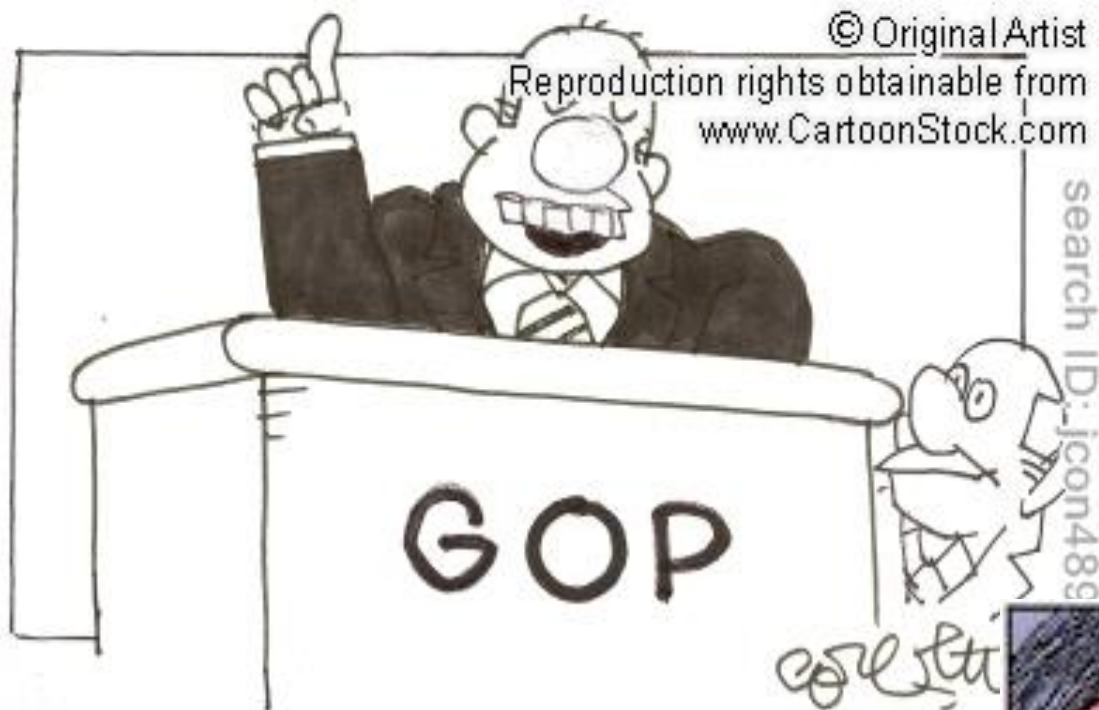
8. The reconstruction of the American democracy is a necessary condition for these new policies

Policies for the US
1. Democracy, as a public good
2. Corporations, Campaign donations limited
3. Public financing of broadcasters
4. Public money for independent think
5. Make voting compulsory
6. Change the role of parties

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"To each, according to his wealth, so be it, his greater political influen

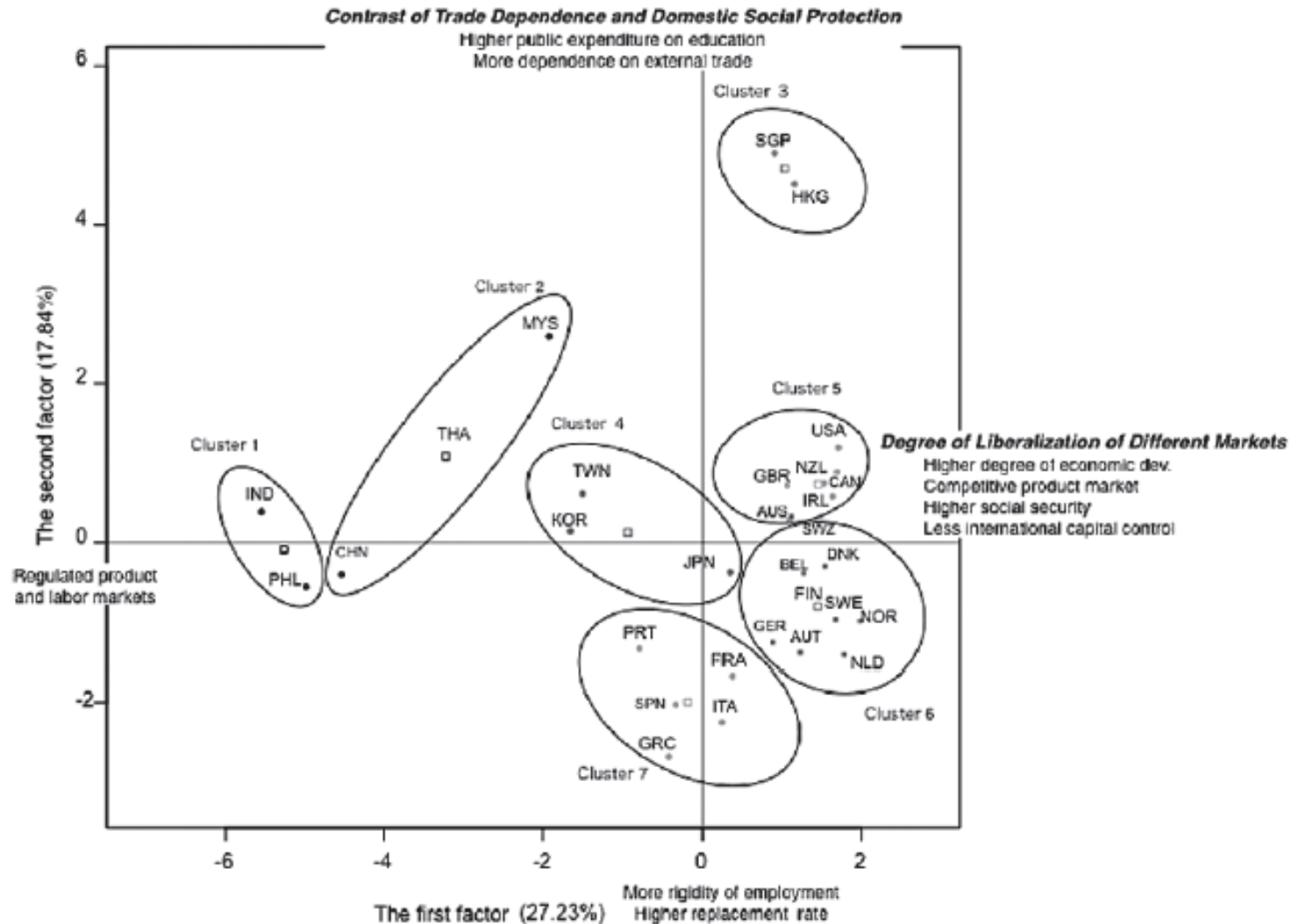


**III. EUROPE: RESILIENCE OF
SOCIAL DEMOCRATIC
COUNTRIES BUT CRISES OF
WELFARE IN THE SOUTH**

:

1. Social democratic capitalisms have maintained a better defence of social justice

✓ *A clear distinctiveness of basic institutional forms of Nordic countries*



2. Welfare as a component of social capital, enhancing innovation and growth

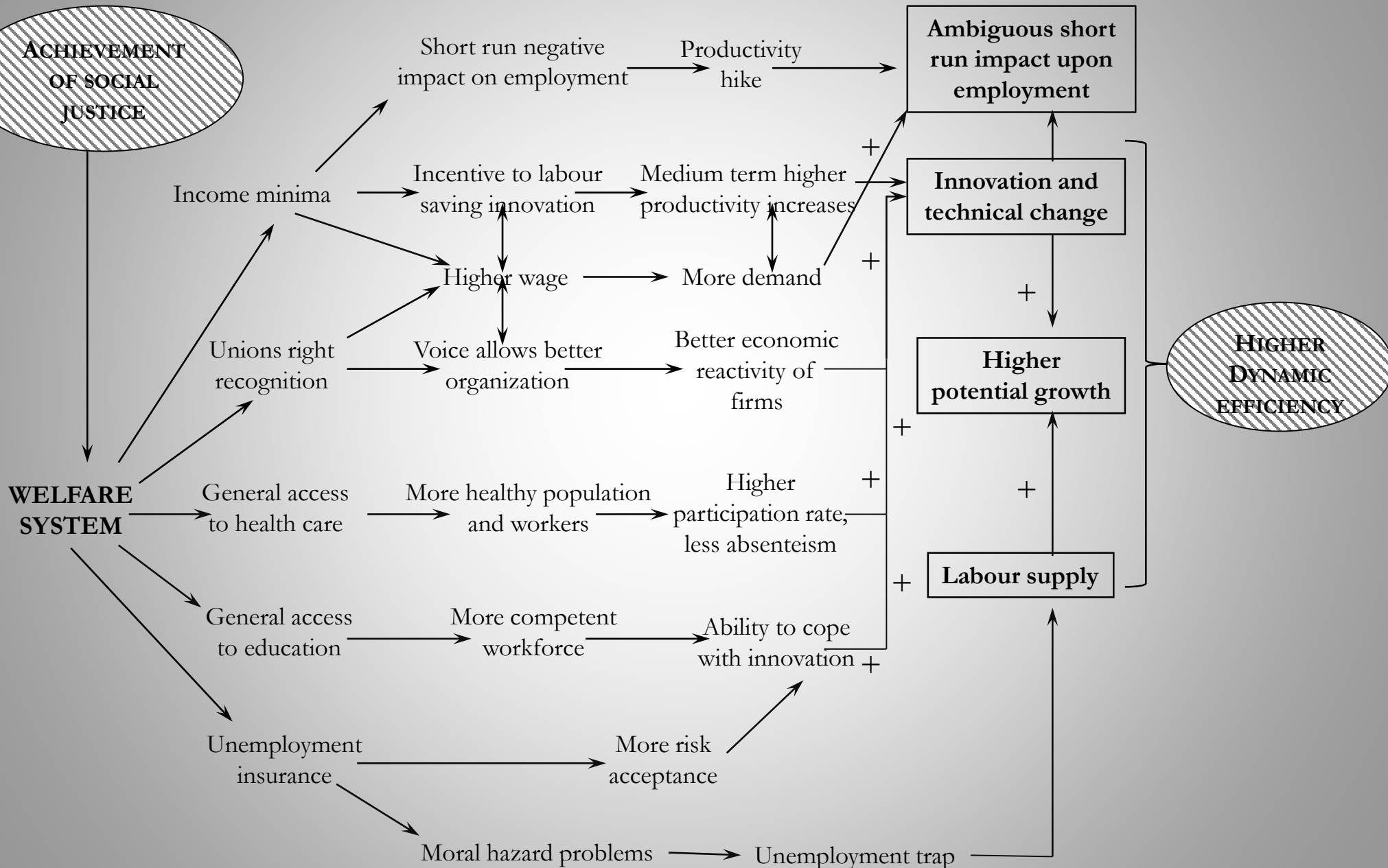
✓ *A legacy of the polder model*

VISSER J. and HEMERIJCK A. (1997), 'A Dutch Miracle' - Job Growth, Welfare Reform and Corporatism in the Netherlands, Amsterdam University Press.

✓ *A powerful analytical tool ...*

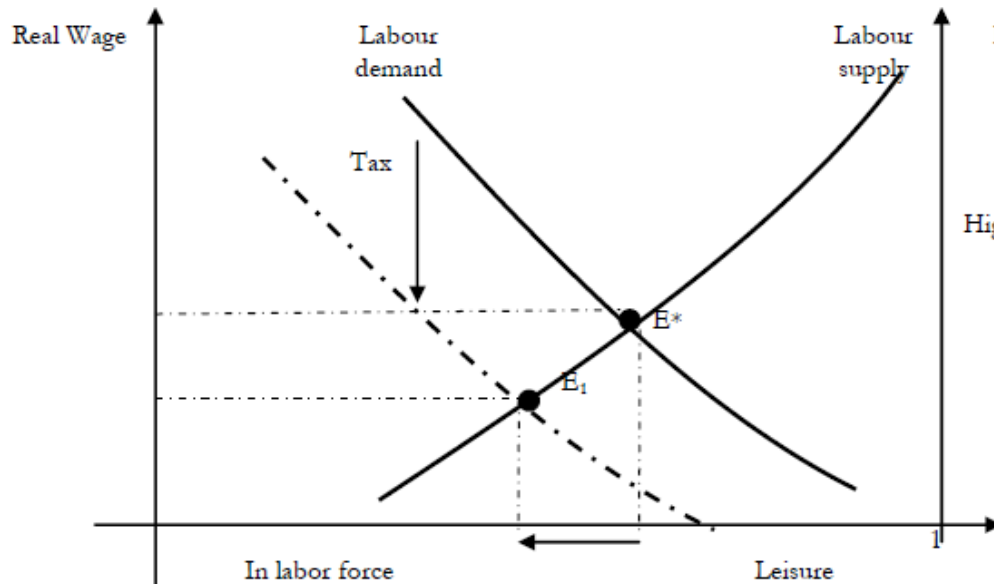
.....Alas that has not diffused within the European Union.

How some welfare systems enhance dynamic efficiency



The short term and the long term: a reconciliation of two opposite visions

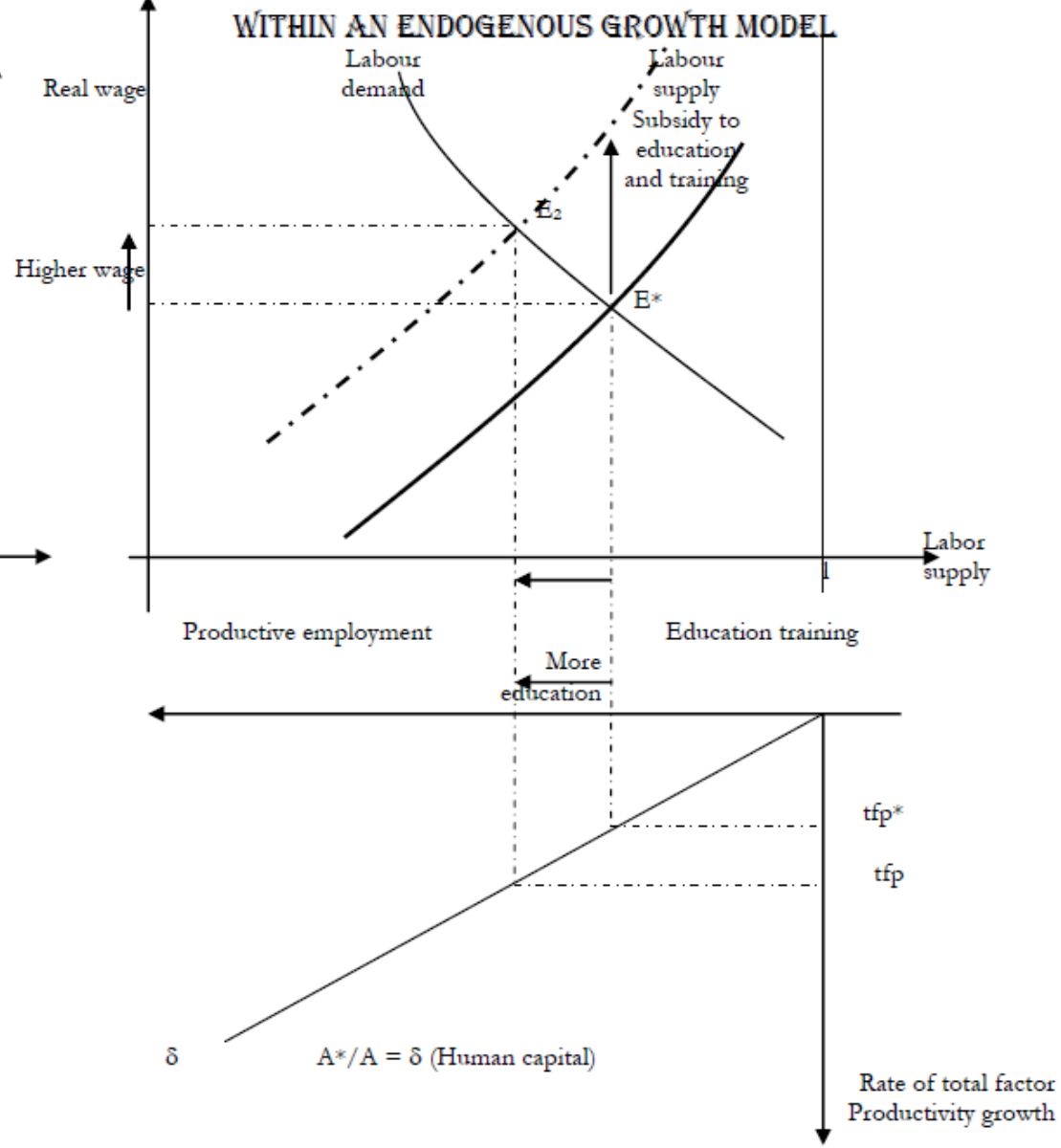
A DISTURBANCE INTO PERFECT COMPETITIVE EQUILIBRIUM



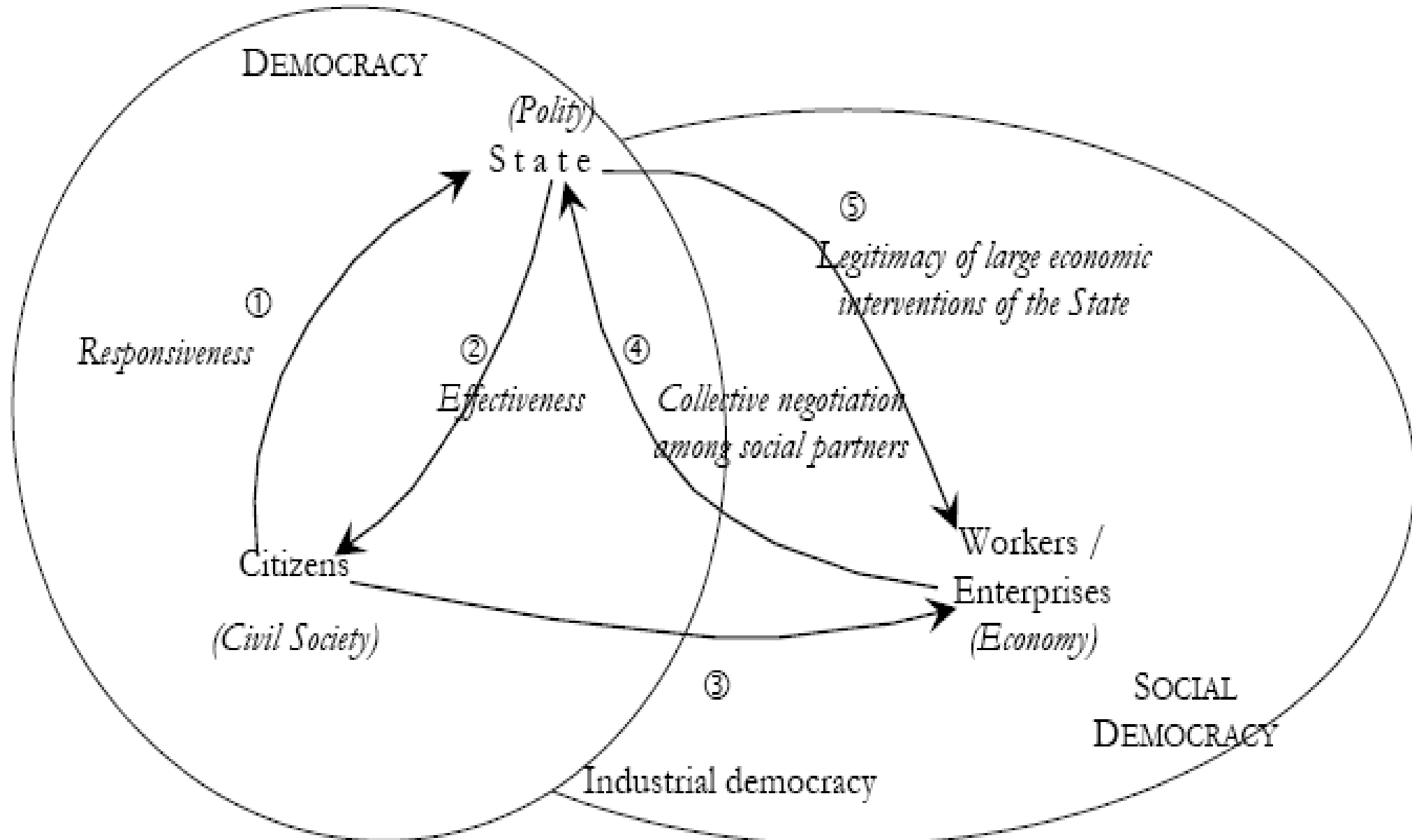
Accordingly to the *first vision*, welfare financing by a tax on firm reduces both real wage and employment...

According to the *second vision*, welfare may reduce productive employment but enhance long term productivity increases

A (POSSIBLE) CONTRIBUTION TO POSITIVE EXTERNALITIES WITHIN AN ENDOGENOUS GROWTH MODEL



✓ *The synergy between citizens' universal rights and wage-earners search for security*



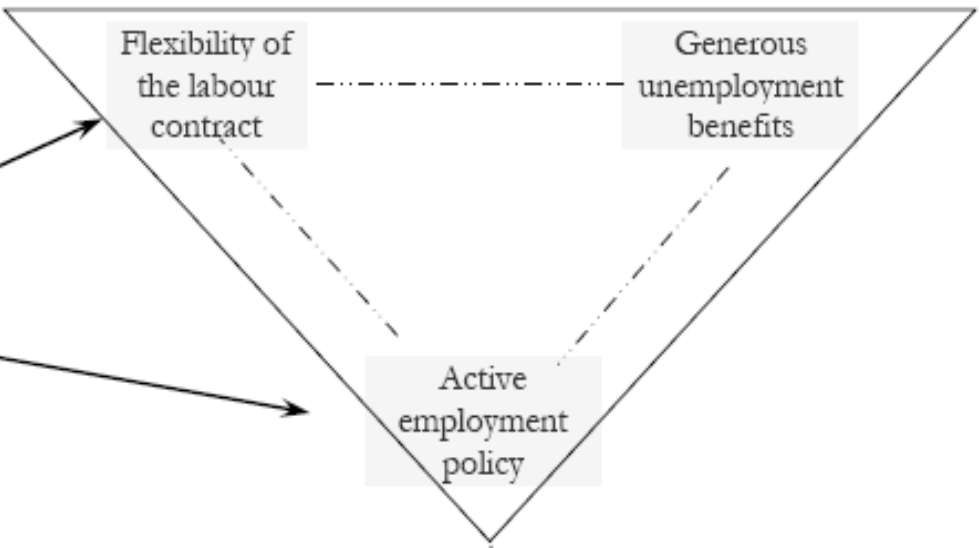
3. The **Danish flexi security** has emerged out of the open conflict between entrepreneurs and workers during a severe crisis
- ✓ *A long run trajectory: the 1899 general agreement between capital and labour*
 - ✓ *Specific sub-agreements are successively negotiated in response to recurring crisis*
 - ✓ *The unexpected outcome of a frontal conflict of two logics*

ECONOMIC TENSIONS
○ Unemployment
○ Public and trade deficits
○ Stiff international competition

Austerity and labour flexibility
Strategy of firms

blocking
reduction in
allocations
unemployment

Need for
redeployment of
employment and
competences



A common feature with workfare

A distinctive feature of Denmark

An unintended and virtuous
configuration

POTENTIALLY A GENERIC
MODEL

4. Importing foreign social models is an illusion: the failure of the Lisbon strategy

- ✓ *Genuine configurations have to emerge from the interaction of domestic collective actors*
- ✓ *Economic institutions are not the equivalent of technological systems*
- ✓ *How interests, power and ideas interact in the genesis of society wide models*

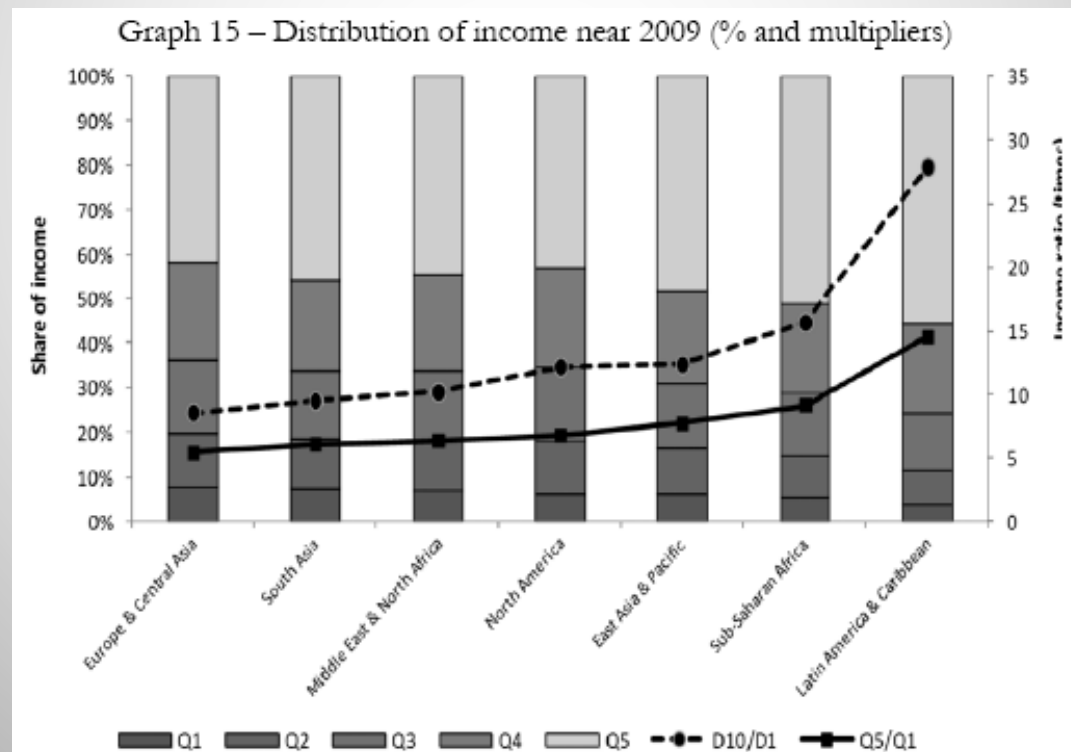
Table 4 – Welfare as a part of a social and ideational long run history: Denmark versus United States

1880-1933	Denmark	United States
1. Labour	Relatively immobility makes possible local solidarity	High expectation of mobility mutes political conflicts
2. International legacy	Guilds transformed into trade unions	Difficult construction of unions out of successive immigration waves
3. Conceptions of State / Government Society relations	<ul style="list-style-type: none"> • Quasi fusion between “Society” and “Government” • Institutional pragmatism Grundtvig enlightenment 	<ul style="list-style-type: none"> • Liberty and democracy have to be defended against the expansion of government • Social nationalism, self-regulating system, Lockean liberalism
4. Political configuration	Social Democrat as third way between Left and Right, Socialism and Liberalism	Socialism was never an option, nor a challenge for
5. Economic argument pro/against Welfare	An extension of community “help to self help” at the national level	<ul style="list-style-type: none"> • Welfare reserved to “worthy poor” • The cost of Welfare may hinder economic dynamism
6. General conception of Welfare	Continuation and updating of widely recognized principles	A threat to individual liberty and founding principles
7. Conclusion	Welfare is a part of a long tradition of mutual responsibility	Welfare may undermine personal responsibility

Source: Freely inspired from Daniel Levine (1978), Tom Knudsen, Bo Rothstein (1994), Ove Korsgaard (2000), Robert Henri Cox (2001), Margaret Somers and Fred Block (2005).

IV. THE LATIN AMERICAN PARADOX: IN SEARCH FOR AN ECLECTIC INTERPRETATION

1. Not so poor continent but the most unequal

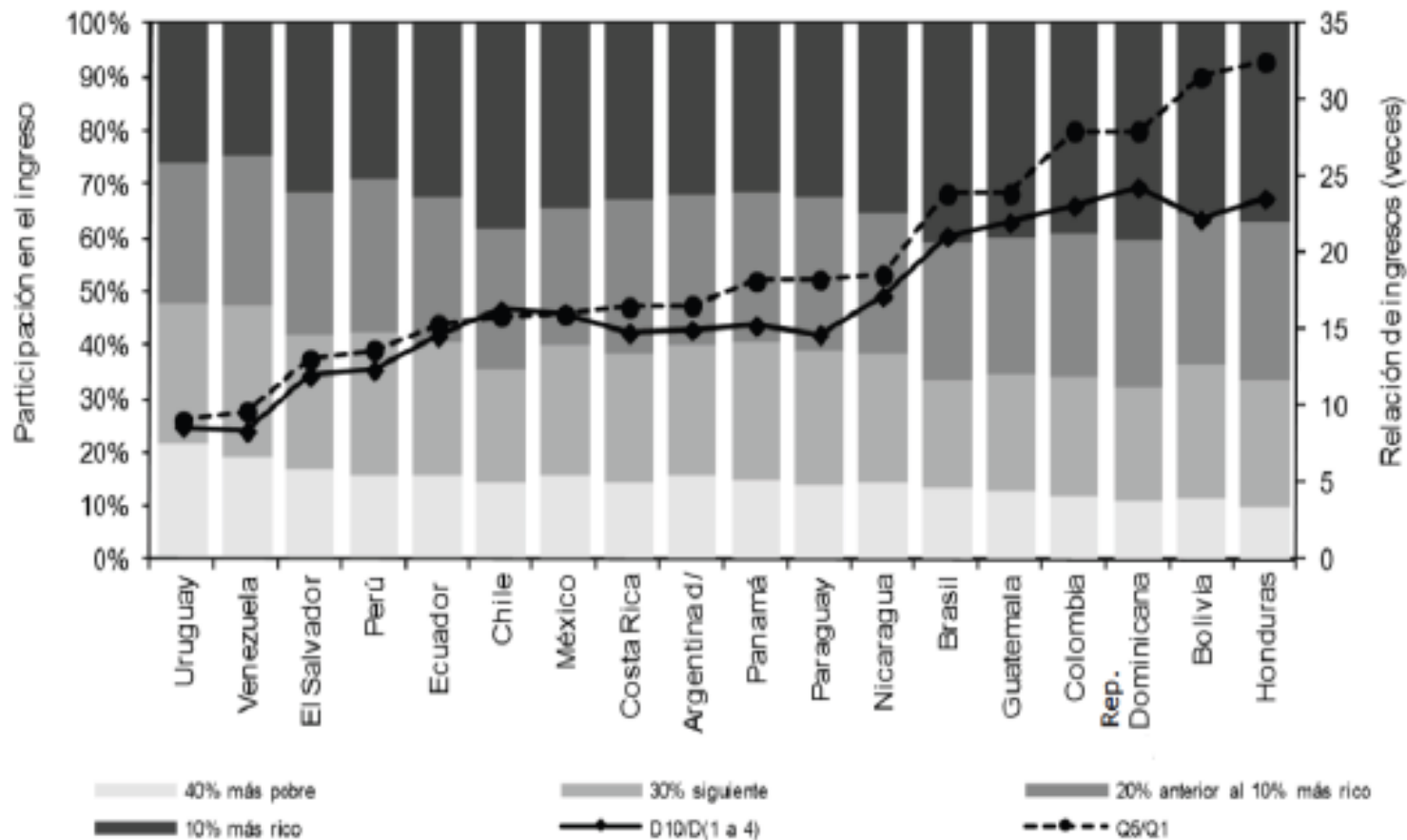


Fuente: "World Development Indicators" (Banco Mundial 2012)

Source: Juan Pablo Jimenez & Isabel Lopez-Azcunaga (2012), p. 5.

2. Large differences among Latin American societies

Graph 16 – A large diversity of income distribution by deciles within Latin America (% ans multipliers)

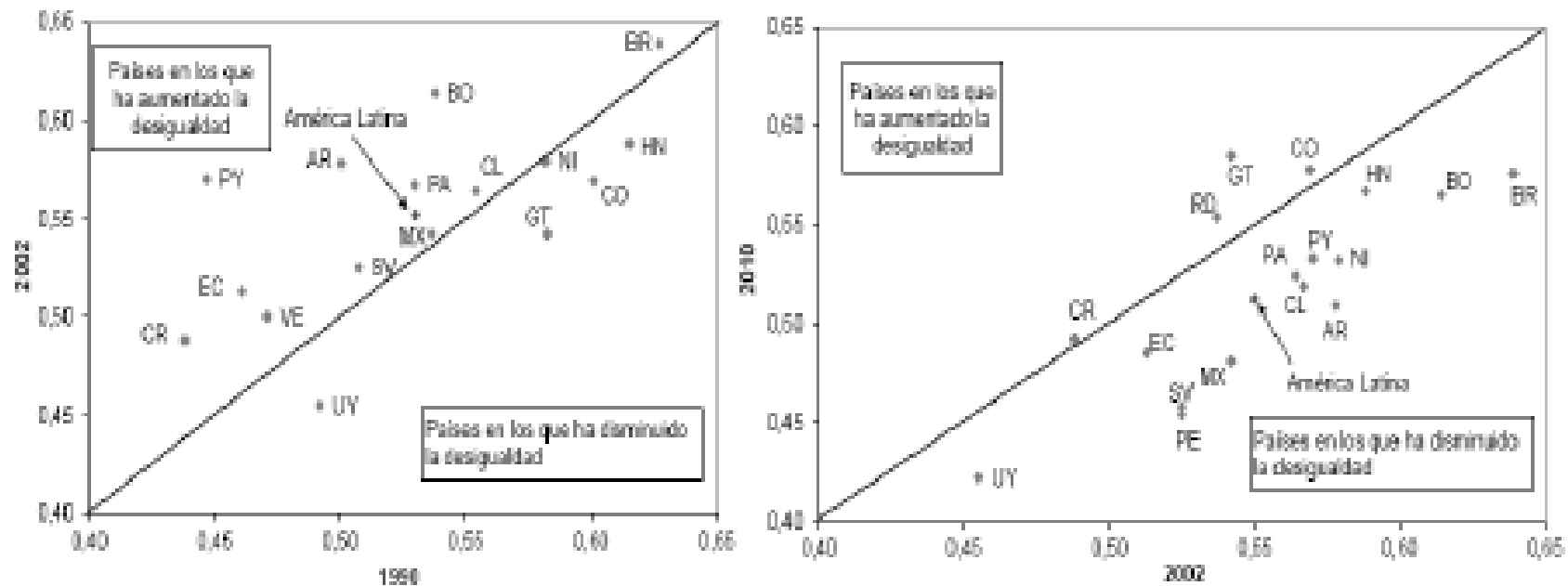


Fuente: "CEPALSTAT" (CEPAL 2012)

Source: Juan Pablo Jimenez & Isabel Lopez-Azcunaga (2012), p. 6.

3. Nevertheless a rather general and significant reduction of inequalities during the last decade

Graph 18 – The evolution of Gini index for 16 Latin American countries, 1990-2010

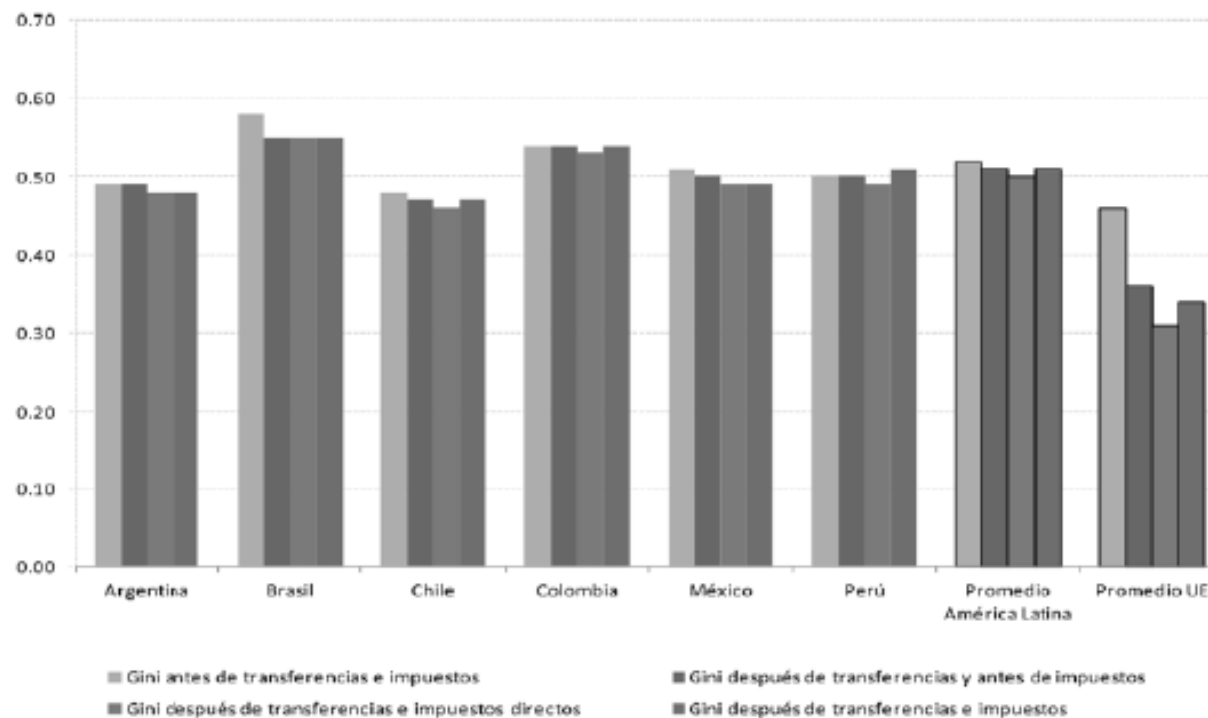


Source: Juan Pablo Jimenez & Isabel Lopez-Azcunaga (2012), p. 3.

4. No single factor but a complex web of economic, social and political processes

✓ *The fiscal and redistributive policies have a minor impact in the reduction of inequality*

Graph 19 – The major differences between Latin America and OECD: The redistributive impact of fiscal policy upon Gini index



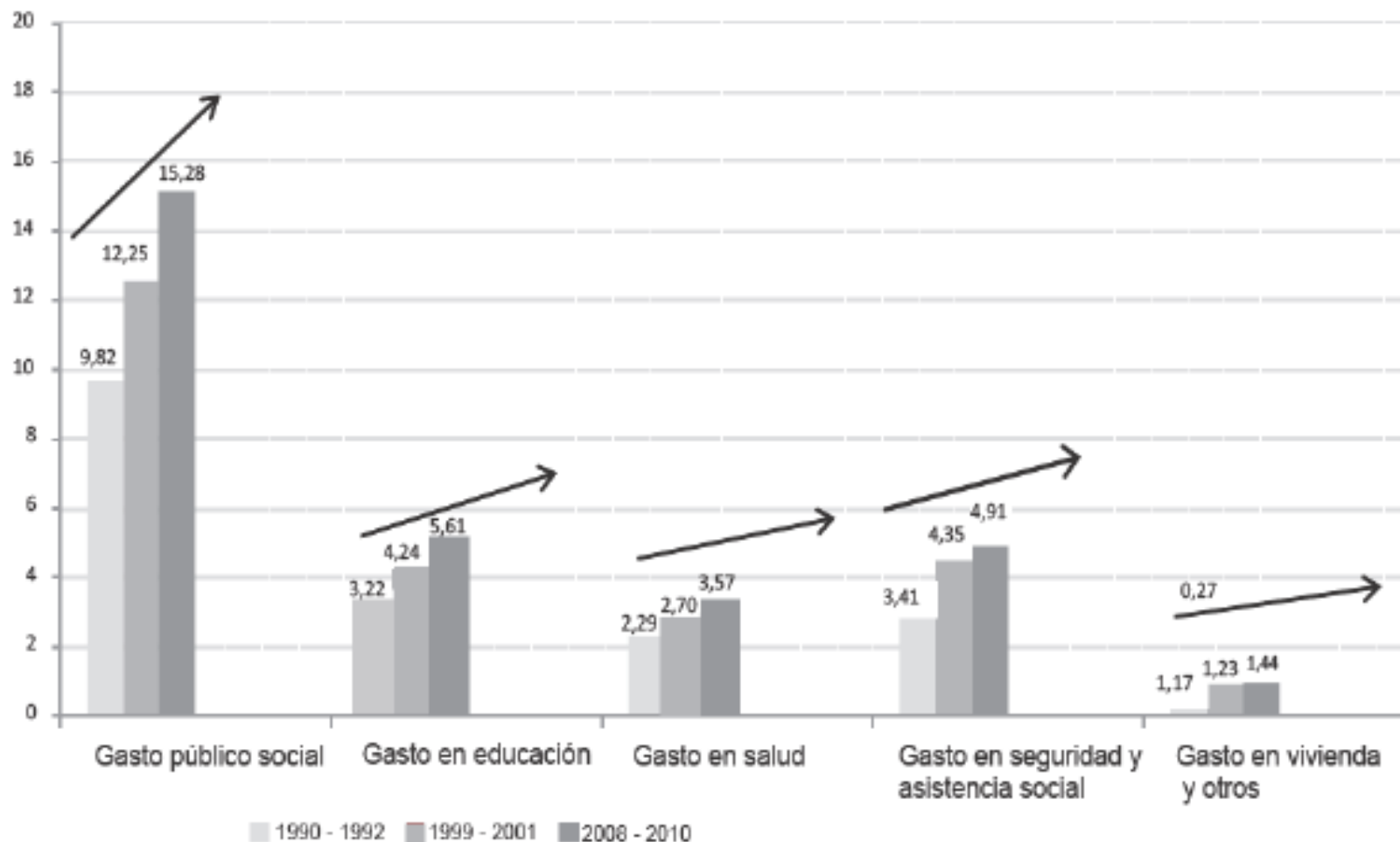
✓ *A strong contrast with respect to the European Union and even the US*

Table 5 – The role of taxation and social transfers upon Gini index: the gap between European Union and Latin America - 2006

Unión Europea (15 países)	0.46	0.31
América Latina (promedio)	0.52	0.50
Reino Unido	0.53	0.35
Irlanda	0.53	0.34
Dinamarca	0.49	0.29
España	0.47	0.35
Austria	0.38	0.27
Estados Unidos	0.47	0.34
Brasil	0.56	0.54
México	0.51	0.49
Chile	0.47	0.46

✓ *Increasing social expenditures but far less in education and health*

Graph 20 – The evolution of public spending by sectors from 1990-2012 to 2008-2010 (% GDP)
21 Latin America and Caribbean countries



Fuente: "CEPALSTAT" (CEPAL 2012)

✓ *The impact of the return to democracy and larger responsiveness to social demands*

Table 6 – The various explanations of inequality reduction and higher growth in Latin America

FACTORS	AUTHORS
1. Geopolitical - Rising demand for primary goods from industrializing Asia	Carlos Quenan, Luis Miotti, and Edgardo Torija Zane (2012)
- Reversion of past trends in terms of trade	Leonardo Gasparini, Guillermo Cruces and Leopoldo Tornarolli (2009); George Carrera (2012)
2. Economic - Better macroeconomic management	Carlos Luiz Bresser-Pereira (2009)
- Lesser volatility	Demian Panigo (2008)
- Corrections of the excesses of past reforms	Ricardo Hausmann, Rodrik Dani, and Andrés Velasco (2005)
3. Social / Welfare related reduction of wage gap between skilled and instability + Transfers to the poor	Luis Lopez-Calva and Nora Lustig (2010); CEPAL (2011)
4. Political - Generalization of democratic governments and positive responses to social demands	Juan Carlos Gomez-Sabaini, Juan pablo Jiménez and Dario Rossignolo (2011)

Table 7 – Are there some general mechanisms generating rising inequalities?

Reading Stiglitz Joseph E. (2012), *The Price of Inequality. How Today's Divided Society Endangers our Future*, WW Norton & company, New York London.

Intensity General mechanism	US	Europe (mainly Germany)	Latin America (Mexico – Brazil)
1. Failure of markets	<ul style="list-style-type: none"> • Stronger monopolies 		<ul style="list-style-type: none"> • Domination of monopolies in key sector
	<ul style="list-style-type: none"> • Involuntary unemployment 	<ul style="list-style-type: none"> • Involuntary unemployment 	
	<ul style="list-style-type: none"> • Hidden information about quality by suppliers 	<ul style="list-style-type: none"> • Relative protection of consumers / debtors 	
2. Obscurity and complexity (financial products)	<ul style="list-style-type: none"> • Repeal of derivatives regulation 	<ul style="list-style-type: none"> • More victims from importing toxic derivatives than producing them 	<ul style="list-style-type: none"> • Differential opportunities for the richest and others
3. The winners take all	<ul style="list-style-type: none"> • Economic competition is a tournament 	<ul style="list-style-type: none"> • Important redistributive mechanisms (welfare tax, collective agreements) 	<ul style="list-style-type: none"> • Extreme concentration of wealth • Few redistribution
4. Regulatory capture	<ul style="list-style-type: none"> • SEC, FED 	<ul style="list-style-type: none"> • Exist but moderate 	<ul style="list-style-type: none"> • Present but poor implementation of regulations
5. Cognitive / imaginary captures	<ul style="list-style-type: none"> • Rich are good for society • Markets are fair 	<ul style="list-style-type: none"> • Still the ideal of a stakeholder society 	<ul style="list-style-type: none"> • National identity overcomes large inequalities
6. The most powerful set the rules of the game	<ul style="list-style-type: none"> • Seniority for derivatives products 	<ul style="list-style-type: none"> • Not easy under ordo-liberalism • Stable rules in order to contain market / failures 	<ul style="list-style-type: none"> • Unequal participation of under-privileged groups to polity
7. Lobbying of government	<ul style="list-style-type: none"> • 2.5 lobbyists / Representatives 	<ul style="list-style-type: none"> • More present in Brussels than in national capitals 	<ul style="list-style-type: none"> • Frequently corporatist governments
8. Instrumentation of State	<ul style="list-style-type: none"> • Distorted pricing Example: 0 % interest for banks to buy Treasury bonds 	<ul style="list-style-type: none"> • Present in public utilities subcontracting to the private sector 	<ul style="list-style-type: none"> • Frequent by leading economic groups

5. Different nexus of social relations and integration into the world economy

✓ *The political processes are significantly different*

Table 10 – What policies in favour of a more equal society?

Reading Stiglitz Joseph E. (2012), *The Price of Inequality. How Today's Divided Society Endangers our Future*, WW Norton & company, New York London.

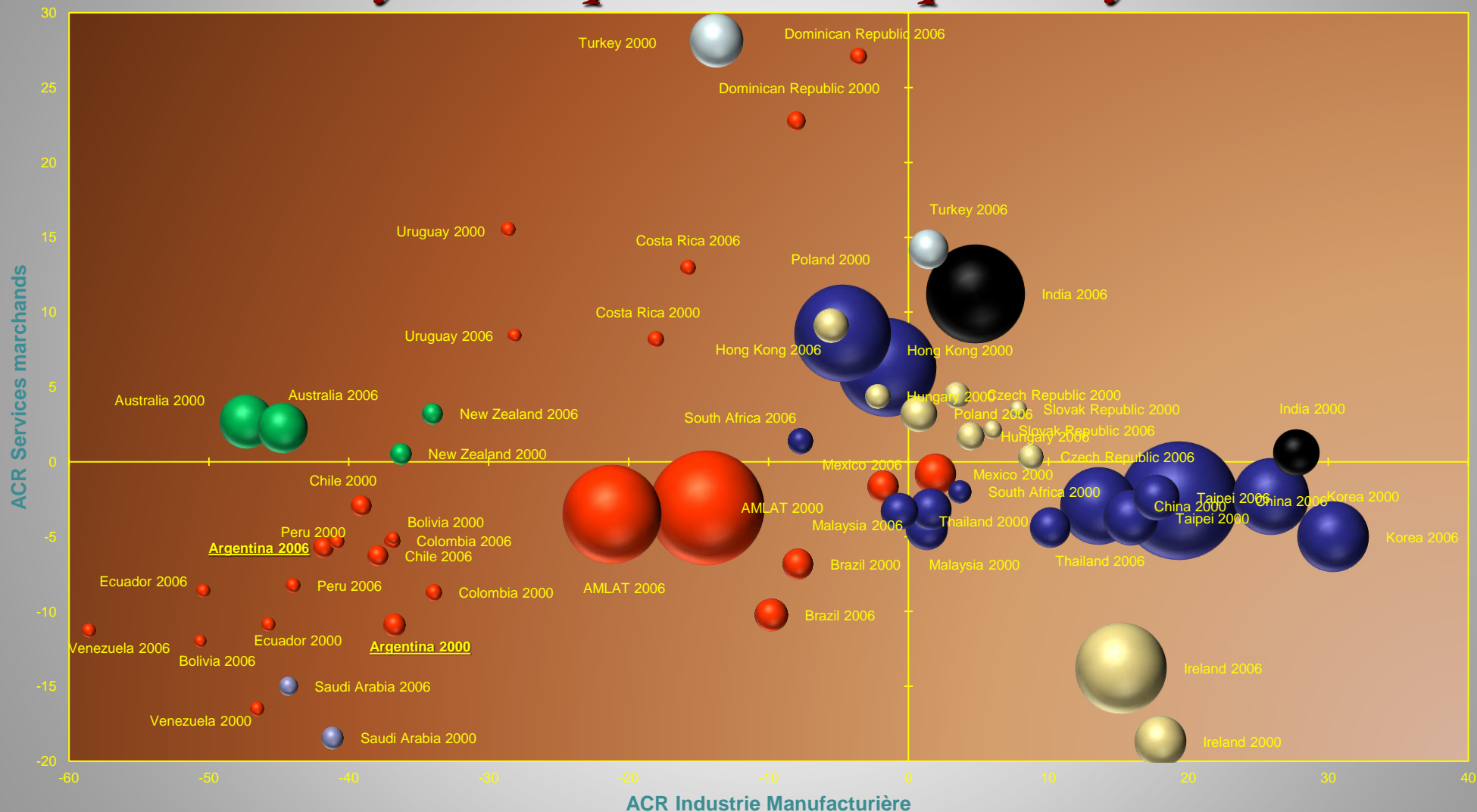
1. The core argument “*Market forces are ultimately shaped by policies*”, Stiglitz (2012: 287)

2. The political reform agenda

Policies for the US	Adequacy to Latin America
1. Democracy, as a public good	Large, given the past positive impact of democratization
2. Corporations, Campaign donations limited	Problem of clientelism and buying votes (Mexico)
3. Public financing of broadcasters	A major issue in many countries (Mexico)
4. Public money for independent think	Large dependence from foreign financed or based think tanks
5. Make voting compulsory	Problematic
6. Change the role or parties	Few tools available to influence them

Source: Synthesis from Stiglitz (2012: 285-290)

✓ *The integration into the world economy remains dominated by the exportation of primary commodities*

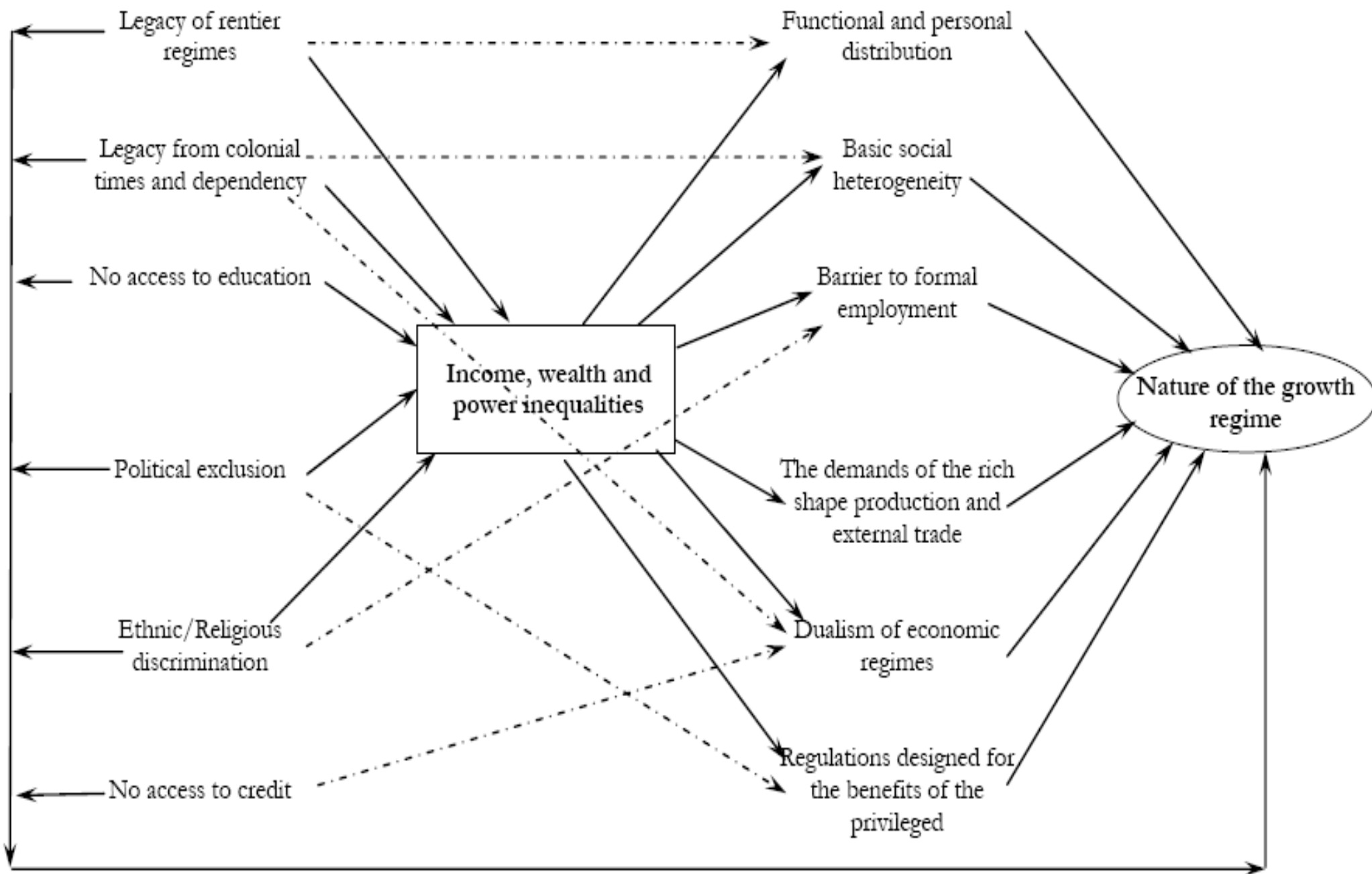


Source: Miotti, Quenan, Torija Zane (2012)

6. Many more sources of inequality than the rise of finance in most Latin-American countries

- ✓ *Chile: some striking similarities with the North American configuration: privatization of welfare and dynamism of credit....*
- ✓ *....But Latin American societies do exhibit still different structural sources of inequality*

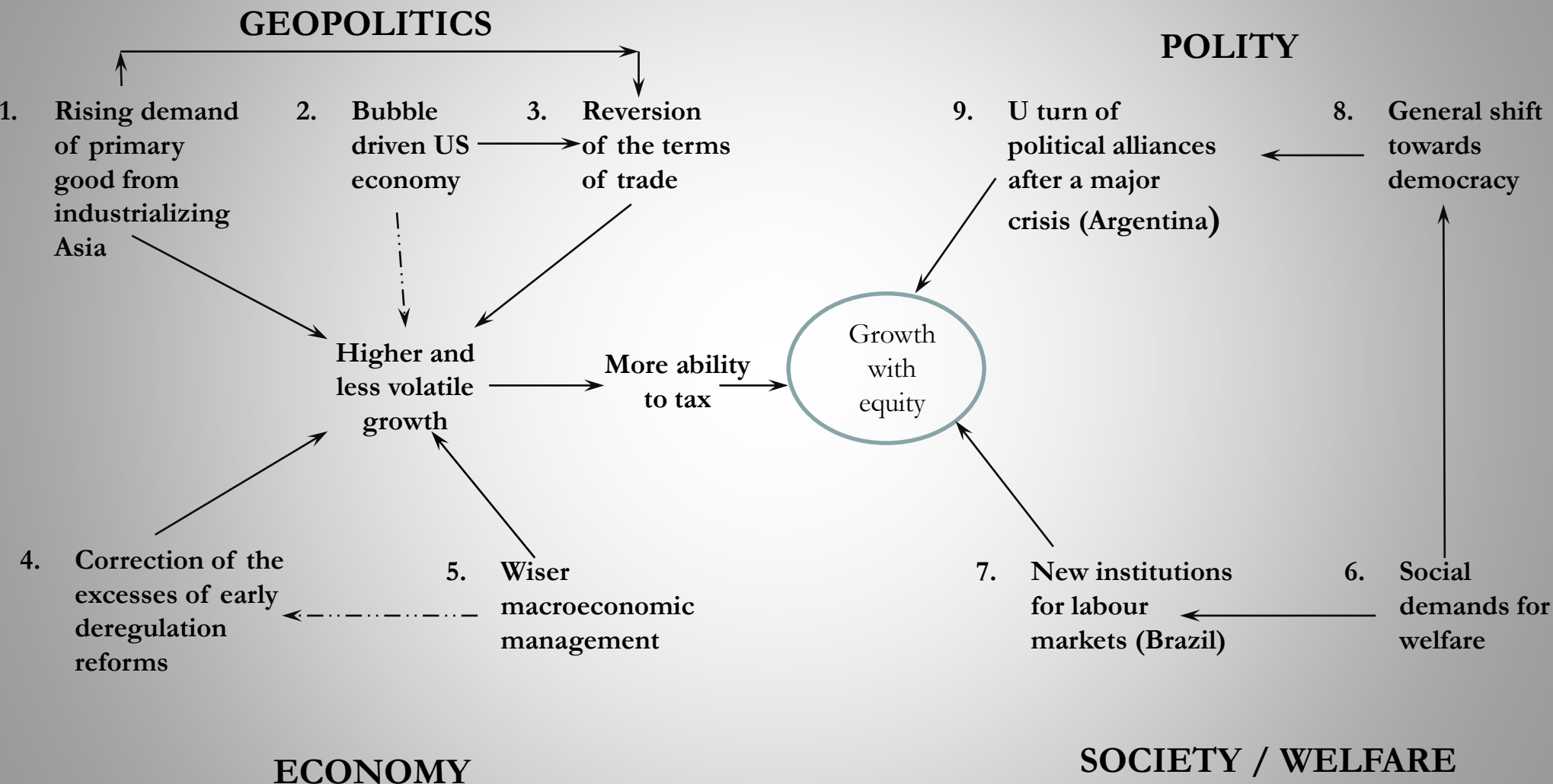
Figure 12 – A synthetic view of the various links between inequalities and growth



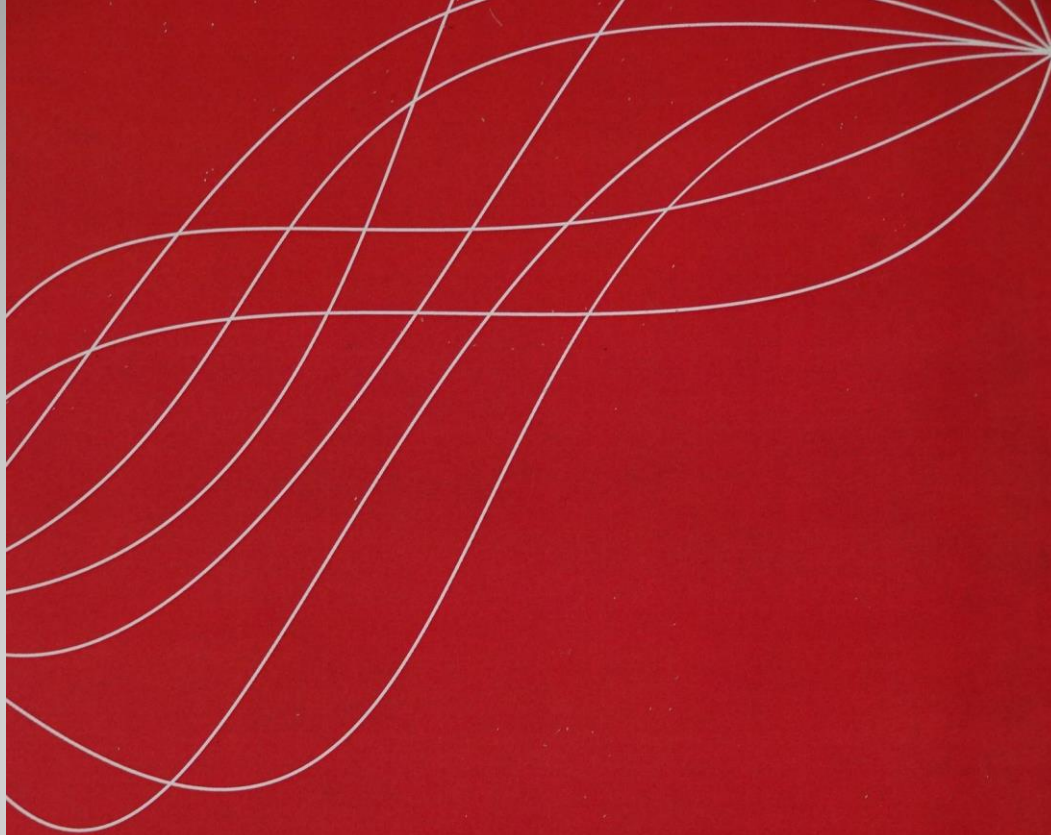
**Emblematic
modernity
along with
informality**



✓ *All these factors have been interwint into a complex set of interacting processes*



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



**CAMBIO
ESTRUCTURAL
PARA LA IGUALDAD**



ACIONES UNIDAS

EPAL

*Una visión integrada
del desarrollo*

V. IS THE CURRENT BRAZILIAN STRATEGY EXPLORING A DEVELOPMENT MODE RECONCILING INEQUALITY REDUCTION AND GROWTH?

- ✓ *The targeted social programs (bolsa familia) have a role but a limited one at the macroeconomic level*

Table – The proportion of poor population by nature of income

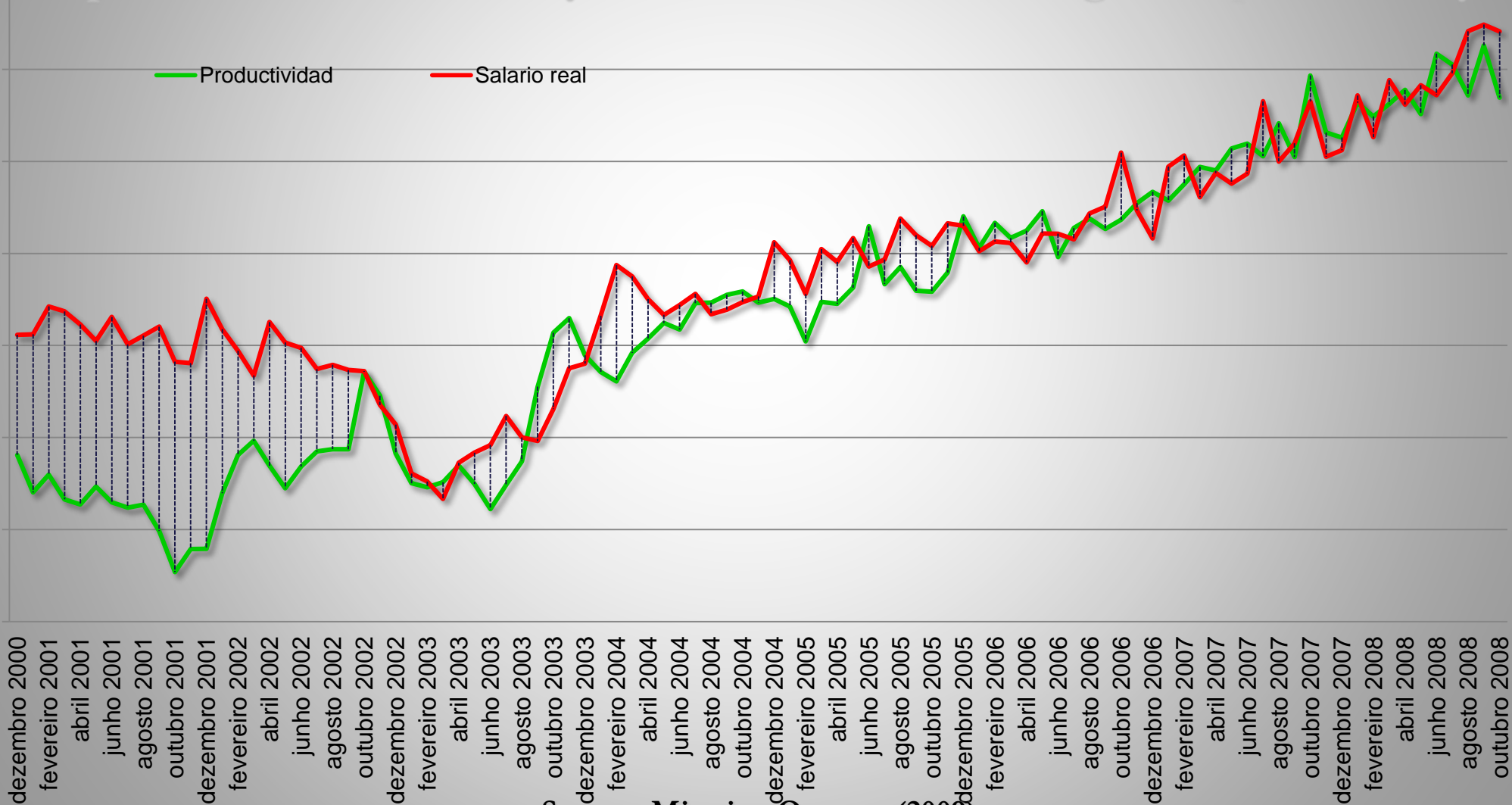
BRASIL						
	2001	2003	2005	2007	2009	2011
Pobres						
Todos os Rendimentos (inclui outras fontes)	35.75%	27.68%	20.32%	17.69%	15.49%	10.98%
Rendimentos do Trabalho + Aposent e Pensões	37.01%	29.28%	23.37%	20.51%	18.82%	14.80%
Apenas Rendimento do Trabalho	47.90%	41.69%	35.16%	32.47%	30.64%	26.34%
Indigentes						
Todos os Rendimentos (inclui outras fontes)	15.83%	10.79%	6.69%	6.20%	5.36%	4.37%
Rendimentos do Trabalho + Aposent e Pensões	17.28%	12.84%	9.67%	8.92%	8.28%	6.90%
Apenas Rendimento do Trabalho	28.28%	24.11%	19.73%	18.96%	18.32%	16.99%

Fonte: PNAD-IBGE, para os anos enunciados, usando a linha de pobreza e indigência do BF

Source: Lena Lavinias (2012), Na contramão dos direitos universais, Mimeograph.

✓ *A major change: the indexing of wage upon productivity since 2003*

Graph – Since 2003 a new synchronization of real wage and productivity

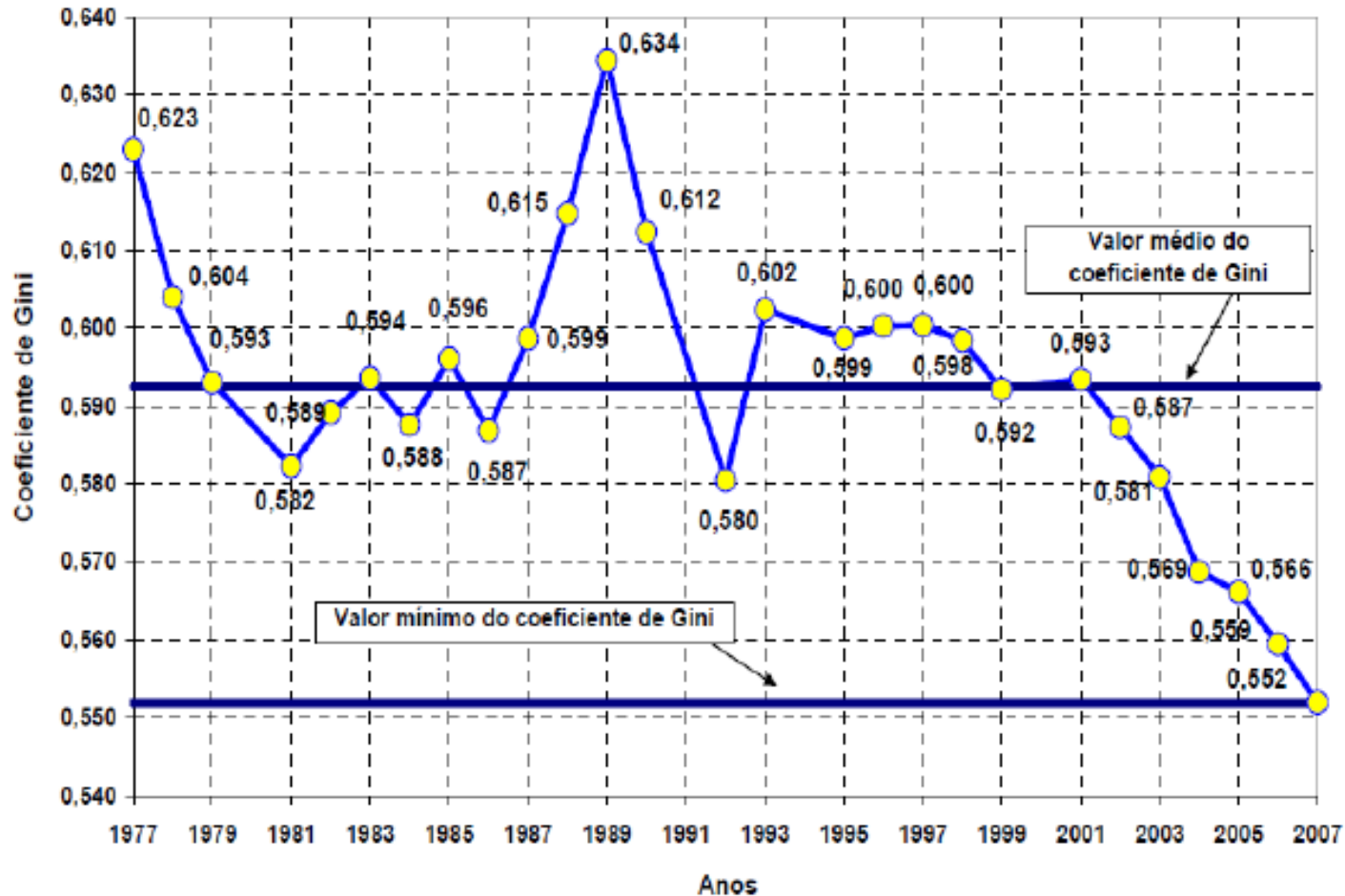


Source: Miotti et Quenan (2009)

- ✓ *Similarly, the indexation of many **social benefits** with respect to minimum wage has been crucial*
- ✓ *These **institutional mechanisms** counteract pure market mechanisms*
- ✓ *A **public investment bank** may partially correct the risk aversion of private banks and the procyclicality of credit*

✓ A significant but still modest reduction in inequalities

Graph 28 – A significant but still modest improvement in inequality (Gini index)



Fonte: Estimativas produzidas com base na Pesquisa Nacional por Amostra de Domicílios (PNAD) de 1977 a 2007.

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

✓ Is this pattern of development sustainable and viable in the long run: the jury is still out

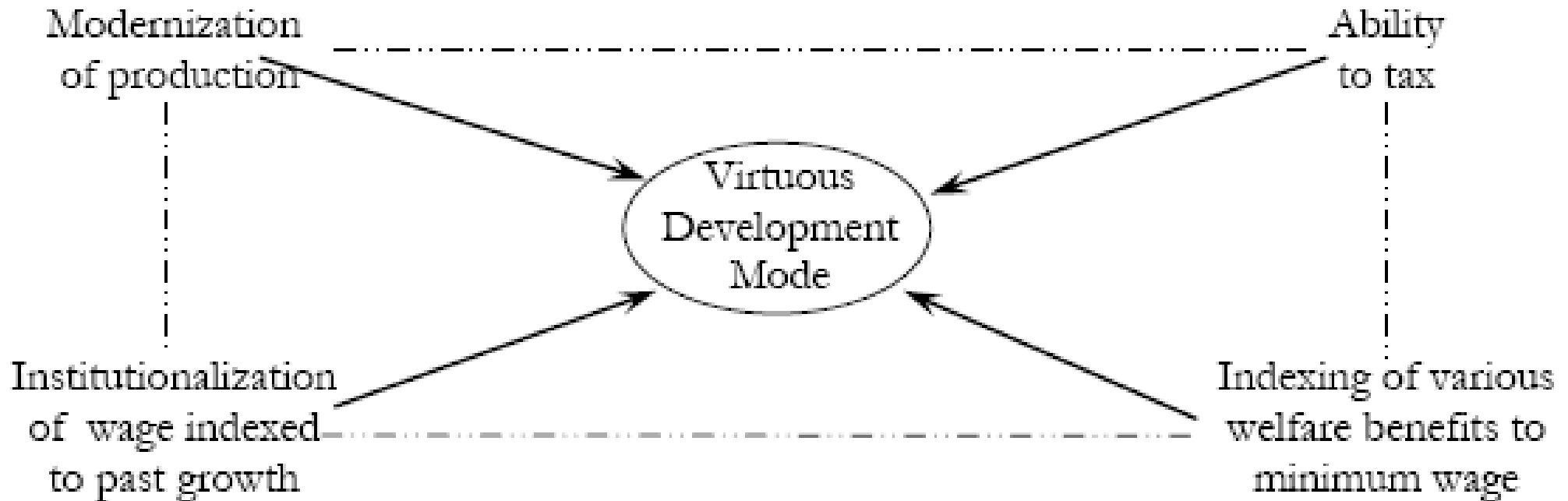
Table 12 – The strengths and limits of Brazilian strategy

STRENGTHS	LIMITS
Continental size of potential domestic market	Rather weak National Innovation System
Future self-sufficiency for energy	Growing risk of re-primarisation and Dutch disease
Stability of a core compromise, through the succession of various governments	Adverse trends concerning external trade equilibrium

✓ *The régulationist approach: try to detect emerging institutional complementarities*

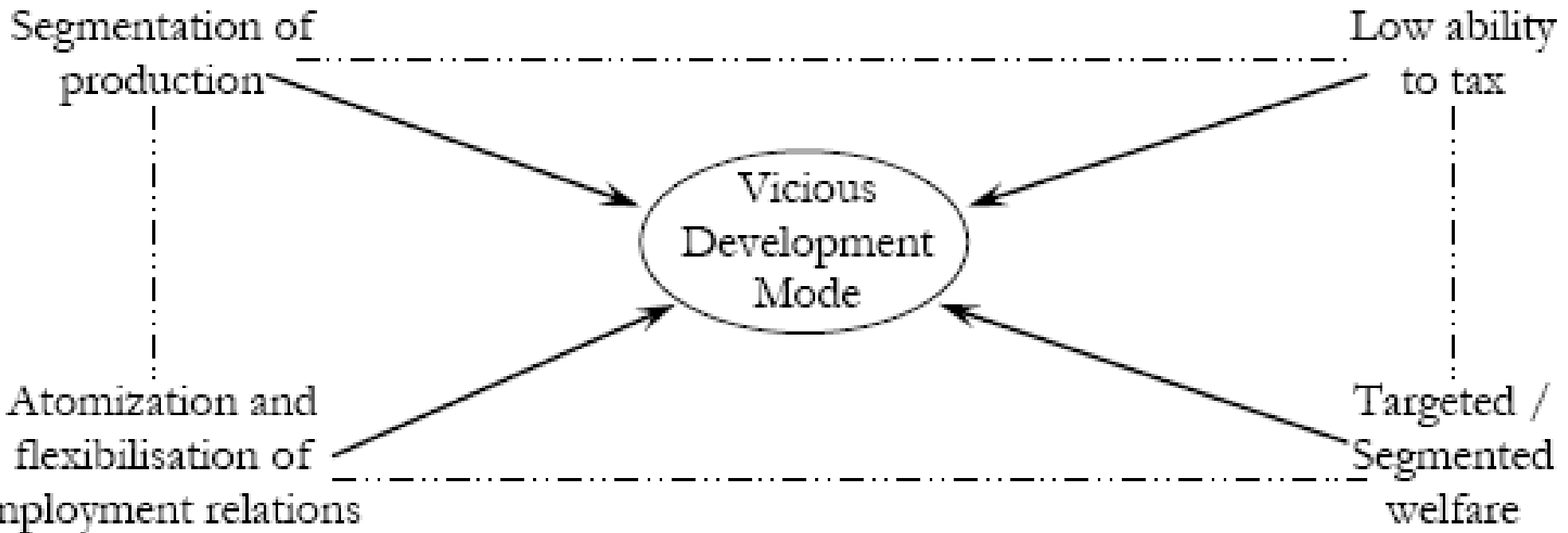
Figure 14 – Virtuous or vicious circle? A matter of institutional complementarity

A. BRAZIL

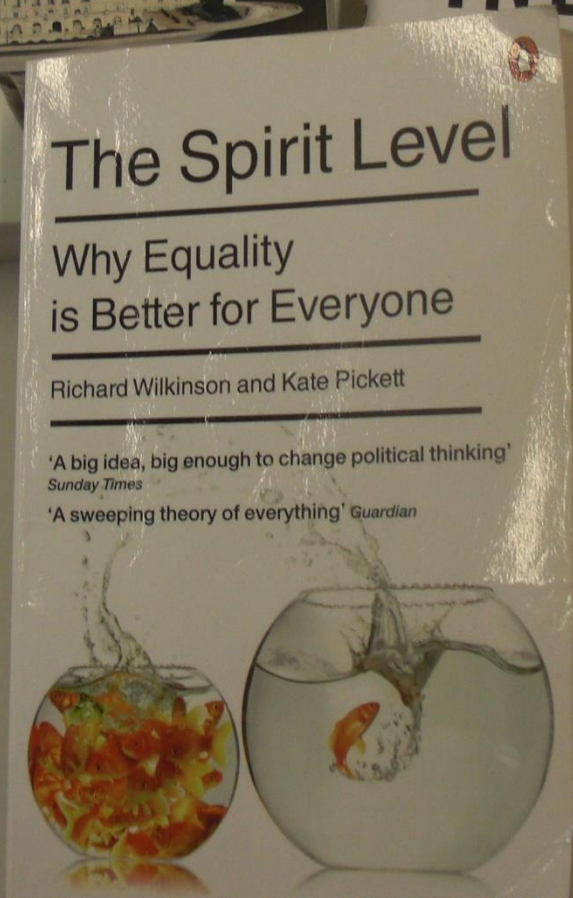
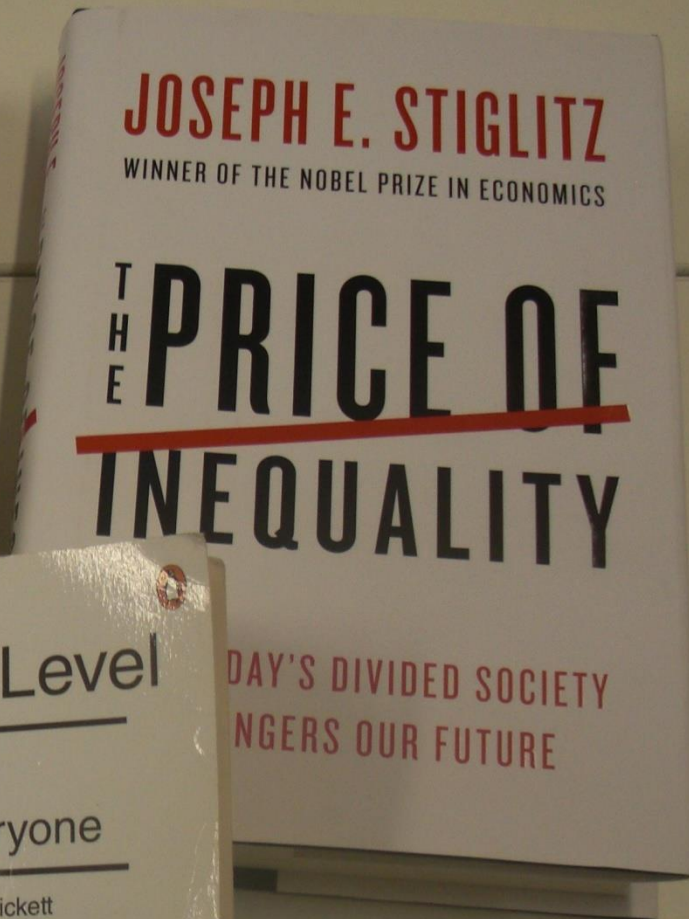
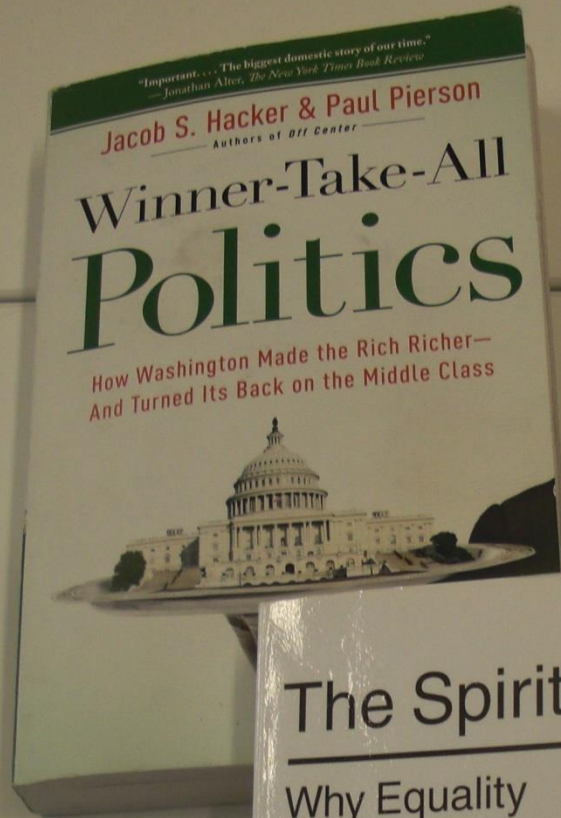


✓ The large diversity within Latin-America remains: Brazil versus Mexico

B. MEXICO



**VI. A WORLD OF
CONTRASTED AND
INTERDEPENDENT
INEQUALITY REGIMES**



The three paradoxes are the outcomes of four entangled processes

	Academia Neo-Walrasian macroeconomics	Economy Asymmetric power from imperfect market	Polity Capture of the State by dominant economic interest	Geopolity Changing world system
Paradox 1 Large cost of inequalities but they are rising	Triumph of ideology over scientific results	Privatisation of utilities, appropriation of rents, obscurity of financial products	A minority (exporters, rentiers, financiers) imposes its socioeconomic regime	Larger impact of ideologies than scientific results
Paradox 2 European Union crisis: that of Welfare State	Inability to economically justify an universal Welfare State	Prevalence of market competition over social Europe building	Primacy of finance over national sovereignty, lobbying more than political deliberation	EU a second rank player, unable to conceptualize and diffuse its model
Paradox 3 Latin America: reduced inequalities in the era of global inequalities	Learning for past crises and errors, emergence of a new developmentism	More rent seeking and monopoly than entrepreneurship do limit inequality reduction	Positive role of democratization but still quite unequal access to the State	Progressive but relative autonomisation with respect to the Washington consensus

1. More than globalisation, interdependent sources of inequality at the world level

- ✓ *A rather fuzzy concept: domination of multinationals, world value chains
Americanisation, emergence of new industrialising countries....?*
- ✓ *Implicitly the hypothesis of an homogenisation and convergence of societies*
- ✓ *An argument in favour of “the same size for all” economic policies.*

LATIN AMERICA

①

Structural heterogeneity but reduced

②

More democracy, more response to social demand

③

More taxes, learning from past crises

④

Dynamism of exports of primary resource

A mild but significant reduction of inequalities

UNITED STATES

Opening to foreign competitions

①

Split in the workers / Managers alliance

Delocalization of mass production

②

Weaker bargaining power of blue collar workers

New productive paradigm

③

Employment, discrimination by schooling / Social groups

Financialisation

④

Explosion of capital remuneration

• **Rising inequalities**

• **Unbalanced credit led regime**

Mutually reinforcing diverging trajectories

• **Rising inequalities**

• **Competitive pressures on the world**

• **Help to American finance**

The crisis puts at risk European welfares

ASIA

①

Destruction of collective welfare

②

Export-led growth

③

Kuznets phase 1 inequality

④

Blocking of social demands

Marketization

Foreign Direct Investment

Productive modernization

Centralisation / Monopoly of power

Financial limits to welfare

Competitive pressures

Slower growth

Less tax basis

Large increases of top income

Single Market

Lag in new productive paradigm

Outflow of FDI

De facto financialisation

①

②

③

④

EUROPE

**VII. CONCLUSION: A
WATERSHAVE IN THE
TRAJECTORIES OF
INEQUALITY?**

C1 – **Ideas of academia** have been used to sustain the **ideologies** and strategies of **dominant economic actors**. The demise of the Beveridge and Keynes legacy has entitled a return to **neoclassical theory** and not at all the diffusion of welfare as **social capital**: the vision of a **contradiction** between economic efficiency and social justice has triumphed

C2 – The contemporary capitalisms are simultaneously confirming the **Kuznets curve (China and other emerging economies) and introducing new sources of inequality, especially linked to **financialisation** and Latin America still add many **other structural sources of inequality**.**

C3 – For **régulation approaches**, the link between inequality and growth varies **in time and space**. This is a possible explanation of the three paradoxes. **Some** institutional configurations do sustain both growth and equity, but they have their own sources of **self-destabilisation**.

C4 – More than a **globalisation** of inequality, the contemporary world exhibit the **interdependence** and possible complementarity of **different regimes** generating contrasted sources of inequality (US, China, Europe). This is both a trump and a fragility for Latin America “growth with equity” project promoted by CEPAL.

C5 – Some social scientists of various disciplines have recently converged towards **a common interpretation** of contemporary inequalities. The **concentration of economic power** upon quite imperfect market and the **lobbying capacity** of a restricted elite to design the rules of the game for their exclusive benefits are the two main forces operating in industrialized countries, especially in the **US and UK**.

C6 – This is an invitation to extend these two hypotheses by taking into account the **specificity of power concentration in Latin America both in the economic and political spheres. Along with the use of the concept of **institutional complementarity** proposed by régulation approach this would provide a method for assessing the sustainability of the current reduction of inequality in Latin America.**

C7 – Thus the most salient issues for Latin America have to be added: size and impact of the **informal** economy, nature of the conflict between **primary commodity** exporters and industrialists, imperfection and incompleteness of the process of **democratisation**. Bringing back a **social class analysis** might be a promising avenue for the emergence of an **indigenous theory** of development for Latin America, i.e a path to a less European and North American centred theories.

**Thanks for your attention
and patience**

Robert BOYER

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