

Economic Growth and Social Stagnation in Latin America

Thiago de Aragão*

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Latin America is a region characterised by consistently high potential economic and social development, but it faces serious difficulties in accomplishing this task. Throughout the last decades, we have experienced several lapses of economic growth, always followed by moments of stark recession. Such economic growth cycles have always been tremendously difficult to maintain and, most of all, to shift the positive results of Latin American economies to social development on the continent.

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1. Introduction

In a certain way, the economic history of South America has been a permanent alternation of cycles. A typical stop and go. Or, according to some, like a chicken flying. Always short and low. This problem of inconsistent economic growth inhibits long-lasting ways of implementation of social plans that are not welfarist on the part of most Latin American governments. Long-term planning becomes unfeasible to enforce whenever economic imbalances generate an environment of constant uncertainty. These uncertainties do not relate to Latin American governmental policies only, but mostly to political decisions that are always dependent on the financial possibilities offered at a given moment. Thus, it is possible to understand a little why, regardless of relatively stable phases of economic development, gov-

ernments prefer to act in a welfarist and populist way. Society, in turn, mostly intellectually underdeveloped, believes a patronising state is what they need to escape from poverty and develop socially.

Over the last four years, emerging economies in Asia have grown 7.7% per annum on average. Europe has grown 5% over the same period, whereas Latin America did not exceed 4.5%. Even though this growth rate is not sensational, it is valid due to the volatility of Latin American economies. From a collective point of view, it is a good result for Latin America. However, some disparities exist as to countries such as Chile, which has grown at almost 7%, and Brazil, which ended 2005 with a meagre 2.5% GDP growth rate. Despite being regarded as satisfactory for governments and international economic monitoring agencies, it has been very difficult to reflect this result in investment in social areas in Latin America. Nowadays, 40.6% of Latin Americans live

* Thiago de Aragão, Director Regional Sul, Arko Advice Sul, also Research Associate for the Foreign Policy Centre in London and for the Thunderbird University at the United States

under the poverty line, whereas 16.8% are in a situation of absolute poverty.

2. Economic Growth vs. Social Development

To understand this difference between economic growth and social development, we need to seek support in some historical and structural aspects. The process of colonisation on the Latin American continent was responsible for leaving traces of social relationships that have marked the forms of progress of society as a whole. The system created was not sufficiently competent to encompass every area, sector and need of society, eventually leading to the growth of isolated groups and generating a social gap.

The lack of consistency and durability in social and economic development in Latin America - mostly in South America - has political, economic and social reasons that are interconnected, replicating a model of disadjustment that feeds on itself and perpetuates, and are lost in the history of the colonisation. South America may be seen as a failed State-funded enterprise, where Creole elites have reproduced the model of servile relationship with the State marked by spoliation and unfairness towards the less favoured and politically disarticulated classes. Nowadays, we see an alliance between the State and the elites to exploit public resources: The State through corporatism and the elites by means of exemptions, subsidised credits and benefits to supply the State (which is the big economic agent in the region). The elites defend themselves from the State because the latter may punish them by way of selective taxation and non-participation in the benefits as well as by the huge power of direct (with direct investment, such as Petrobras, Furnas, PDVSA) or regulatory (rules, laws, bureaucracy etc) intervention in the economy. According to Luiz Fernando Figueiredo, former director of monetary policy of the Brazilian Central Bank under President Fernando Henrique Cardoso, "the decisions concerning pension plans, labour law, welfarist, patronizing, discouraging efficiency gains and, consequently, productivity gains, are responsible for the difficulty the State has in maintaining steady and sustainable economic growth."

State intervention in Latin America is visible. Sometimes, it is suffocating. Due to the power of

interference held by the State, its actions and decisions either harm or benefit private enterprise a lot. A relationship of dependence is established in which the State can either help or hinder. It can hardly ever be fair and balanced. For instance, according to the World Bank, you need 63 days on average to open a firm in Latin America, whereas the same task can be accomplished in 19.5 days in the OECD. The number of procedures in Latin America is 11.4, whilst there are 6.5 in the OECD. This difficulty for private enterprise to meet its potential eventually reflects in the swelling of the State machine by means of more and more civil servants. Direct interventions in economic development implemented by the State by means of companies such as Petrobras and PDVSA generate a sentiment of a patronizing State in society.

In Brazil, for instance, 40% of the GDP is directed for public expenditures, whereas emerging economies in Asia use approximately 25% to this end. These heavy expenditures by the State eventually suffocate the participation of private investment and the attraction of foreign investment, which maintains its effort in 20% of the GDP.

According to Luiz Fernando Figueiredo, "most Latin American states opt for adopting a model closer to European welfare than to macroeconomic liberalism, as adopted by Asian countries that are growth leaders in the modern world." This growth model, which is already under crisis in Europe, works very precariously in Latin America, since we do not have enough funds to promote efficient and comprehensive welfare. The social gap is widened by this failed process that leads whoever has financial conditions to invest in private education and healthcare, whereas most of the population, who cannot afford such things, is dependent on public investments in health, education and security, for instance.

Such difference between economic growth and social development results also from the lack of articulation between intellectuals and politicians, with rare confluences between them. We also often see an archaic intellectual direction within Latin American academic circles. The ideological pattern of education, due to historical reasons, is aimed at the intensive use of the State to solve economic and social development issues and, given the State's relevance and society's dependence thereon, the centre of eco-

conomic and social development is the State rather than free enterprise. It is as if free enterprise complemented the State's efforts in promoting wealth, rather than the opposite.

The ability to link up the economic development of a country to its social development is the responsibility of governments and of the society that elects them. However, in Brazil, for instance, the State attracts and demobilises society by means of cheap welfarist schemes such as *Bolsa Família* (a monthly allowance given by the federal government to families earning less than the minimum wage) and expensive welfarism with subsidised credits and specific tax exemptions.

3. The Role of Intellectual Capital

Curiously, in this part of the world, intellectual capital shifted to economic growth is much more advanced than any other capital. Perhaps intellectual capital aimed at the arts is the only one to have such a distinction. This is not enough to bring prosperity and put the continent on the track of the expected growth. We have brilliant economists, old-fashioned social thinkers and mediocre governors who are, in many cases, corruptible. This combination represents what Latin America is. We have realised that the application of sustainable development is not assigned to the economic area only, because it is necessary that intellectual development specialise in the management of society, something that is paramount.

The elites do not want to engage in direct administration of power, but rather to deal with the State by means of other instruments: campaign financing and corruption. The State rewards them by offering different types of welfarism: *Bolsa Família*, subsidised credit, tax exemptions, licenses, authorizations etc.

What one sees is lack of articulation among three sectors that should be working towards both economic and social development: the political sector, by means of the State machine and political institutions; the economic sector, with the private sector starting to invest in science and technology and investing in human resource, like major firms in first world countries do to obtain qualified human re-

sources; and the university sector, which is supposed to graduate people able to enter the job market with a curriculum in line with contemporary world needs.

The first piece of criticism often made is saying that such type of directing would prioritise the formation of technicians only, lagging behind in terms of scientific formation and basic research. Many times the Brazilian 70's case is cited, when there was investment in education in the areas of engineering, but little in humanities, encompassing philosophy, sociology, political science, anthropology, history, human geography and other derived disciplines, besides lagging behind in basic research. This is a clear mistake. What one sees is that, in developed countries, companies need people that are more and more specialised and, most of all capable of producing knowledge and developing technology, something that is possible only at universities with the necessary infrastructure, or in high-capacity laboratories. What one identifies is the investment of these large companies to ensure high level, qualified personnel, unlike what might be said.

Concerning the Brazilian example, it is not applicable. There was investment within some planning, conceived by the military regime, which was tied to objectives of fast economic development, by prioritising specific sectors to ensure an economic leap. There was no thought of articulation between State, private enterprise and society.

As such, we realise that these universes are more and more distant and do not allow an intellectual elite to appear with the ability to understand private enterprise and act within it, besides being able to control and participate in the political process. The most relevant aspect is in the impossibility of building bridges between the State and the society so as to allow resources resulting from economic growth periods to be appropriately transferred to society, by means of feasible plans that configure real social needs.

Although we have potentially brilliant intellectual elite, it is outdated or stagnated, with few sectors as exceptions. Therefore, we eventually limit ourselves to not enhancing a suitable discourse claiming people's needs, even because one cannot configure what structural solutions are correct for Latin American societies. Thus, there is no public

opinion formed, resulting in the inability to choose leaders and control them, let alone to introduce via the relevant channels alternatives to any proposals they present.

What one sees are leaders who are indifferent or incapable of going beyond their power needs, as well as peoples that are impotent to recognise their paths and fight on a democratic basis for their needs.

4. Conclusion

Unfortunately, this is a reality that will only be changed by means of structural reforms that will need a relatively long time to be able to configure elites that are aware of their social role and fight for it. The neural point is the institutional aspect, something one cannot see in the horizon for the short term. Bridges need to be built, and working to promote the awareness of our academic sector is one of the most urgent missions. ■

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