

The limits of State (wage-led)
growth models in Latin America:
the case of Brazil, Argentina,
Bolivia and Ecuador (2004-2014)

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Latin America facing the commodity super-cycle.

- During the first decade and a half of the 21st century Latin America grew at rates and income distribution not seen since the “glorious thirties” of the 50-70’s.
- Behind the apparent homogeneity of the way this boom affected Latin America, there were significant differences. Some countries grew mainly based on the export of commodities, others with a combination of exports and internal market expansion through redistribution, others still, assembling manufactured products to be exported.
- On the other hand, some countries were basing growth mainly on market dynamics, with little State intervention, betting on the fact that the profits of the private sector would be reinvested in the economy (**profit growth model**), while others centered on strong State investment and redistribution of part of the exceptional profits of the export of commodities, in order to expand the internal market (**wage growth model**).
- The two distinct growth models, that one could also name **redistributive and liberal capitalisms**, depend, on the last resort, on the alliance the State build around the growth model, and especially on the influence and strength of organized civil society.

The *International outsourcing capitalism*

- is a productive platform for the last stage of the production process. It depends entirely on the demand of parent companies that are situated in the United States or other central countries, and that **assembles imported spare parts**. It produces manufactures, which can be of relatively high technological content, although as the main process that occurs in this country is the assembly of spare parts that come from all over the world, **the aggregate value added is very low**. Production is disconnected from the rest of the productive structure, there are few, if any, backwards linkages to national producers.
- The socio-political situation that favors this situation is one of **weak social actors**, a social alliance made up of financial capital, large domestic and international companies. **The State is unable/unwilling to impulse a developmentist industrial policy** like the one it implemented in Korea and Taiwan that resulted in the upgrading of industry on the basis of national suppliers of industrial enterprises.
- The wage relation is based upon the repression of wages and extensive use of labor in the assembly, low productivity, sector of the economy..

Socio-developmentism

- is a capitalistic form that produces **both commodities for the external market and manufactures for the internal one**. The State is a **central economic actor** that tries to arbitrate between the external dependence of a peripheral commodities producing economy and industrial production destined to the internal market. The mode of consumption is also a compromise between both: the search for foreign markets and attraction of foreign capitals and the inducement of both domestic industry and internal demand through increasing wages and a generous social protection system; **it is thus a fragile balance between a wage growth model and a profit led model**. It is a capitalist form that depends on both the exports of commodities and the input of financial capital as well as internal market growth.
- The **dominant social alliance is based on a strong civil society**, that exerts pressure on the State to redistribute. The wage relation is characterized by **sprawling wage policies and an expansive social protection system** oriented to universality which tends to reduce inequality and expands internal demand.

Rentier economies

- 3. *liberal rentier capitalism* is dependent on the export of commodities. It is an extremely **open economy**, with a very **weak State**, **weak unions**, deregulation of the labor market and a reduced, assistance oriented, social security system. The dominant social alliance is formed by foreign and domestic large companies, **the popular sectors are excluded from the alliance as society** and its organizations are weak. The mode of consumption is **oriented towards profits, it is a profit led growth**. Wages grow below productivity gains.
- 4. *Redistributive rentier capitalism* is equally dependent on the international commodities market, but has with an **interventionist State** and **strong social actors** that exert pressure on the State to expand its intervention and redistribute the rent that arises from the export of commodities. In Bolivia and Ecuador there exists a relatively strong State, which owns or gives out concessions in exchange for royalties and taxes.

**The redistributive and liberal capitalisms:
Wage led growth and profit led growth**

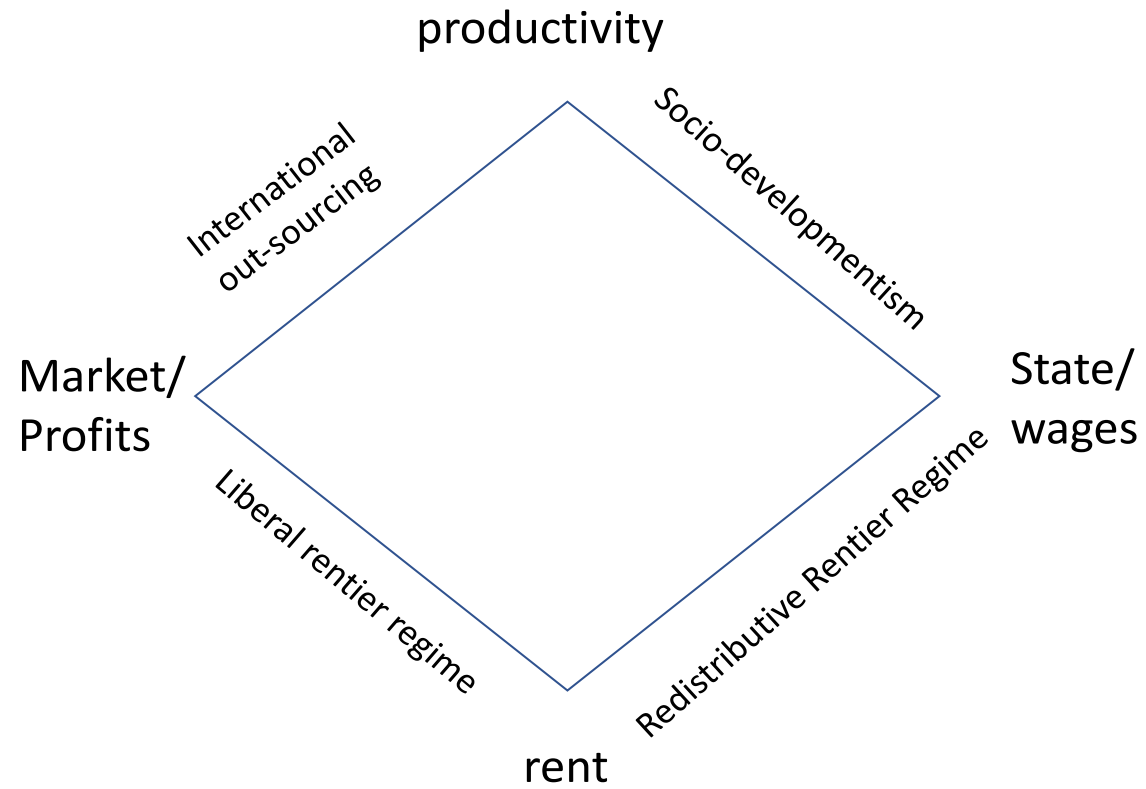


Table 1. Types of Capitalism in Latin America

| | | | | |
|--|---|---|--|--|
| | International outsourcing | Socio-developmentist | Rentier/Liberal | Rentier/Redistributive |
| Mode of Accumulation/ consumption | Extensive/profit led growth | Extensive and intensive / Profit and wage led growth | Extensive / Profit led growth | Extensive / Profit and wage led growth |
| International insertion | Subordinated | Defensive | Passive | Passive |
| State intervention | Agent of the market | Redistributive / Interventionist | Weak / Subsidiary | Redistributive / Clientelist |
| Civil Society | Weak unions and civil society | Social-corporatism | Weak unions and civil society | Active social movements |
| Dominant coalition | MNC / Big domestic groups / State / Middle classes | State / National entrepreneurs / Middle and popular classes | MNC / Big domestic groups / State / Middle classes | State / Popular classes |
| Political System | Particracy | Participative Democracy | Particracy/empty democracy | Movementist/Delegative democracy |
| Wage labor nexus | Labor market deregulation / low minimum salaries/Assistance social policy | Collective negotiation/ high minimum salaries/ Universalization of social protection | Labor market deregulation/ low minimum salaries/Assistance social policy | High minimum salaries/Universal assistance social policy |
| Country stylization | México; Central America | Brazil; Argentina (2003-2014); Uruguay | Chile; Peru; Colombia | Bolivia; Ecuador |

Macroeconomic explanation

- Since the end of the commodity boom, most of Latin America entered a period characterized by slow or negative growth. From a macroeconomic perspective, this situation has been explained as a result of the previous economic policies of the different countries. In the purely rentier countries the problems they face **when the demand and the price of commodities is reduced is directly the inability to continue growing and redistributing.**
- The failure of the socio-developmentist countries, that have a more complex economic structure, has been explained by the fact that **although this model attempted to grow with redistribution, by developing both industrial and primary activities, they finally rested more on the same activities as the other rentier models,** and ended up basically **redistributing resources from the export** of commodities, with the result that not only they did not re-industrialize but, on the contrary, de-industrialized

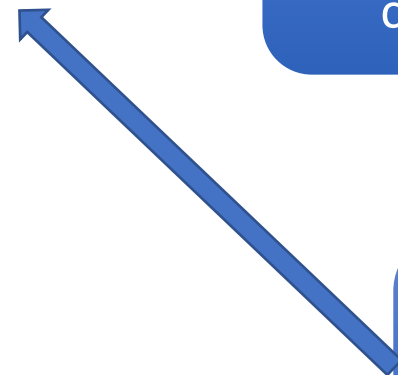
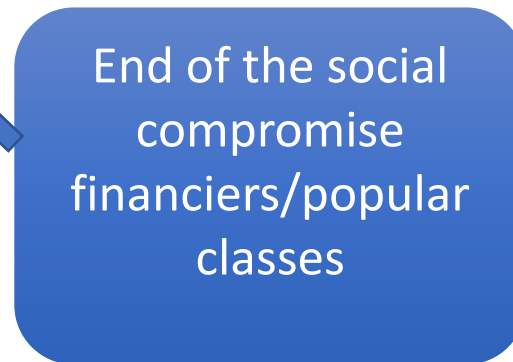
Institutionalist explanation

- Neo-institutionalism tackles this situation on the basis of the idea that the **institutions of Latin America countries are weak, out of balance, badly institutionalized, or that there are actors (informal veto players) that do not accept the formal processes** (Levitsky and Murillo, 2012). Dani Rodrik, has analyzed previous crisis with the argument that these weak institutions make it hard not only to grow continuously, but mainly to resist external shocks (Rodrik, 1999). Nonetheless, as we have argued above, institutions are not autonomous entities, but are shaped by social and political actors, by their conflicts and settlements, which go on permanently. They are being continuously modified by the most powerful of these groups.

An interpretation from a Political economy perspective

- Industrialized countries that achieved developing in the past, in both Europe and Asia, did so **based on a solid developmentist alliance** between the State, the entrepreneurs, and in some cases the middle classes and the workers.
- In Latin America we have experienced **weak, fragile or unstable alliances**. Alliances, where, for example, the State has been coopted or has been colonized by the entrepreneurs, and has not been able to attain enough autonomy to force the industrialists to start confronting external competition and upgrade their production as they did in Korea and Taiwan (Evans, 1995, Haggard 1990). Or, more radically, situations where agro-exporters conspired with the military to overthrow an alliance between the State, domestic industrialists and workers as it happened in 1955 with the ousting of Perón and in 1975 with that of his wife.
- Rather than weak institutions, we consider we should be talking about **weak, fragile, or nonexistent developmentist alliances** in order to explain the failure to embark in a development pathway. It is the incapacity of building stable developmentist alliances, as argued by Bresser Pereira (2012 and 2017), that explain the failure of the Latin American countries to reduce the gap between them and the most developed countries.
- The only moments when some of the Latin American countries achieved reducing the income and productivity gap with the United States, was **during the Import Substitution period**, and, more recently, during the commodity super cycle. In both cases it was not only a question of an economic downturn of the international markets and incorrect economic policies that led to the failure, as for example, in Brazil, the government of Dilma was trying to implement measures to deal with the situation, but the fact that **the socio-political alliance broke down**, and the incoming government took totally contrary economic measures that did not build upon what had been achieved until then. This happened with the coup in 1975 in Argentina, and again with the election of Macri in 2016, and in Mexico with the arrival of the liberal technocrats in 1982, and, in Brazil, with the impeachment of Dilma in 2016.

Crisis scenario
socio-
developmentism



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