

## **WHO CAN DELIVER SUSTAINABLE DEVELOPMENT? THE CHALLENGES OF ECONOMIC GROWTH AND SOCIAL STAGNATION IN LATIN AMERICA**

*Thiago de Aragão, March 2006*

Latin America is a region characterised by a consistently high potential for economic and social development, but faces serious difficulties in accomplishing this task. Throughout the last few decades Latin America has experienced periods of economic growth generally followed by moments of stark recession. Such economic growth cycles have always been tremendously difficult to maintain and, most of all, use in creating positive results for social development. In some ways, the economic history of South America has been a permanent alternation of these cycles - a typical stop and go – or, ‘like a chicken flying’, always short and low.

This problem of inconsistent economic growth inhibits the implementation of long-lasting social plans that are more than just a ‘welfare safety net’ on the part of most governments. Long-term planning becomes unfeasible whenever economic imbalances generate an environment of uncertainty. These uncertainties do not relate only to Latin American public policies, but mostly to political decisions that are always dependent on the financial possibilities available at given moments. It is thus possible to begin to understand why, regardless of relatively stable phases of economic development, many current Latin American governments prefer to act in a populist way as proponents of welfare. In turn, many members of society believe that a patronising state actually provides enough to escape from poverty and develop socially.

## **LATIN AMERICA IN CONTEXT**

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 the region. However, some disparities exist between countries such as Chile, which has grown at almost 7%, and Brazil, which ended 2005 with a 2.5% GDP growth rate. Despite being regarded as satisfactory for governments and international economic monitoring agencies, it has been very difficult to reflect these gains into investment in social areas – 40.6% of Latin Americans still live under the poverty line, while 16.8% are in a situation of absolute poverty.

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

## **THE ROLE OF THE STATE**

Some view the problems of Latin America as the result of a failed, state-funded enterprise that had difficulty incorporating the needs of minorities. The state is the region's most important economic agent. According to Luiz Fernando Figueiredo, former director of monetary policy at the Brazilian Central Bank, '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'.

Due to the power held by the state, its actions and decisions either harm or benefit private enterprise. Sometimes state intervention can be suffocating, sometimes it can be empowering. A relationship of dependence is thus established in which the State can either help or hinder, and in which it is difficult to achieve a fair and balanced relationship. 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. The challenge for private enterprise to meet its potential is reflected in the increased bureaucracy of the state. Direct state interventions in economic development, as implemented by means of companies such as Petrobras and PDVSA, can bring problems concomitant with patronage 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. What is the relationship between this state expenditure, and the attraction of foreign investment, which remains at 20% of 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

works very precariously in Latin America as there are not enough funds to promote efficient and comprehensive welfare programmes. The social gap is widened by this failed process: those able to invest in private education and healthcare become separated from most of the population who are dependent on public investments in health, education and security.

Such difference between economic growth and social development also results from the lack of articulation between intellectuals and politicians. Due to historical reasons, the ideological pattern of education supports the intensive use of the state to solve economic and social development issues. Given the state's relevance and society's dependence thereon, the centre of economic and social development is the state rather than free enterprise.

The ability to correlate the economic development of a country and its social development is the responsibility of governments and of the societies that elect them. However, in some countries, the state attracts and demobilises society by means of welfare schemes that can be expensive and hinder the long term change so desperately needed.

### **INTELLECTUAL DISCOURSE AND THE ELITE**

In this part of the world, however, the intellectual capital shifted to economic growth is much more advanced than any other capital. Although intellectual capital aimed at the arts is the only one not to do so, this is not enough to bring about prosperity and a return to growth. An anecdotal demographic breakdown would suggest that we have brilliant economists, old-fashioned social thinkers and governors who are largely corruptible. This combination could adequately represent Latin America.

Yet the application of sustainable development is not only assigned to the economic area because it is paramount that intellectual development specialise in the management of society. The elites do not want to engage in direct administration of power, but rather to deal with the state by means of other instruments, such as campaign financing and corruption. The state rewards them by offering a different sort of welfare: subsidised credit, tax exemptions, licenses, authorizations, etc.

What one sees is a lack of articulation among three spheres that should be working together towards both economic and social development: the public sphere, by means of the state machine and political institutions; the economic sphere, with the private sector starting to invest in science, technology and human resource; and the educational sphere, whose aim is to prepare people for the contemporary world.

A primary criticism often made is that this approach prioritises only the formation of technicians, degrading scientific formation and basic research. The case of Brazil in the 1970s is often cited, when there was educational investment in the areas of engineering, but little in research or the humanities such as philosophy, sociology, political science, anthropology, history, human geography and other derived disciplines. This was a clear mistake. In developed countries companies need people that are increasingly specialised and, most of all, capable of being creative and

developing technology. This is something that is possible only in universities with the necessary infrastructure or in high-capacity laboratories. What is needed is the investment of large companies to ensure high-level, qualified personnel. In Brazil, for example, the military regime had investment, accompanied with some planning, tied to objectives of fast economic development by prioritising specific sectors to ensure an economic leap. There was, unfortunately, insufficient articulation between state, private enterprise and society.

It seems these universes are too distant, with an intellectual elite unable to appear to understand private enterprise and act within it, despite being able to control and participate in the political process. The most relevant result of this is the difficulty in building bridges between the state and society so as to allow resources resulting from economic growth to be appropriately transferred to society, by means of feasible plans that configure to real social needs.

Although we have a potentially brilliant intellectual elite, it is outdated or stagnant, with few proving to be an exception. We, therefore, are unable to enhance a suitable discourse that represents people's needs, even when no correct structural solutions for Latin American societies can be found. What one sees are leaders who are indifferent or incapable of going beyond their power, as well as people that are impotent to direct their future and fight on a democratic basis for their needs.

This is a reality that will only change by means of structural reforms that require a relatively long time to reconfigure elites that are aware of their social role and will fight for them. This will be possible in the medium term, if Latin American politics do not go backwards – another potential outcome. Bridges need to be built and work done to promote the awareness of our academic sector – one of the most urgent missions.