Koźmiński Studies in Management and Economics 2

Lukasz Czarnecki / Erik Balleza / Mayra Sáenz

Poverty and Inequality in Ecuador, Brazil and Mexico after the 2008 Global Crisis

PL ACADEMIC RESEARCH

Preface

Latin America is known as the world's most unequal region. And for most countries of the region, this reputation is well earned: inequality is one of their most durable characteristics, a true structure in the sense that Fernand Braudel gives to this term. Decades and centuries go by, governments come and go, revolutions and military dictatorships succeed one another, economic booms and busts produce alternating spells of hope and dismay—but the basic, unequal, architecture of Latin American societies stubbornly remains, shaping the expectations, actions and destinies of millions of people.

One massive manifestation of this inequality is poverty. Other regions of the world may have worse levels of poverty, but in most of those cases this is due to the fact that society in general is scarcely developed and absolute deprivation is large. What is truly peculiar to Latin America is the combination of abundance and scarcity, of prosperity and decadence. The political, cultural, even aesthetical consequences of this fact are far-reaching and variegated.

But it is important not to reduce the issue to its economic manifestations, defining it as a mere matter of income distribution. Precisely because this inclination is so strong, it is crucial to emphasize that Latin America's inequality is a social phenomenon in the broadest sense of the term—it is how wealth, power, status, knowledge and other basic social goods are distributed to create an enduring social structure. Thus, strictly speaking, extreme inequality is not a distortion or corruption of Latin American societies: it is the way these societies are constituted.

Changes that took place in the last decades accentuated or mitigated this inequality. By liberating economic power from many political restrictions, the neoliberal reforms of the 1980s-1990s certainly aggravated it. The progressive governments of the early 2000s took pains to alleviate it, in some countries with notable success. The reinsertion of the region into the world economy—with many countries taking back their old roles as exporter of primary products—certainly helped these political efforts by providing extra resources that could be distributed without affecting the interests of the elites.

But if these recent changes altered the intensity of Latin America's inequality, they did not transform its basic shape. The origins of this basic shape have to be searched for in the distant past: in the Iberian conquest, in the original design of colonial societies, in the way the newly independent nations inserted themselves into the global social system in the early nineteenth century.

But if inequality is a historical fact, it is also a living one—a continuous struggle to maintain or transform the structure of society. Inequality is reproduced in the day-to-day working of institutions and the daily interactions of human beings. Thus, if one wants to understand it, it is not enough to point to its historical roots. It is necessary to analyze why and how it is created and recreated every day, how the elites are able to overcome the continuous challenges to their power and the frequent changes in the international environment.

Therein lies the main virtue of this book. The following chapters show how the unequal structures of three Latin American countries interacted with the international economic environment in a critical juncture whose effects are not fully played out even five years after the initial outbreak. What the reader shall find here is living history: the continuous present of the social tensions that make Latin America the most unequal region of a very unequal world and the equally continuous efforts to change this situation.

José Luis Velasco
Instituto de Investigaciones Sociales,
Universidad Nacional Autónoma de México

Part I

Introduction

Lukasz Czarnecki

The central question is how deep is the impact of the 2008 global crisis in Ecuador, Brazil and Mexico? Since the beginning of the crisis, researches have examined the causes, consequences and circumstances of it. What is so unique in the analysis, which the reader will find in this volume? First of all, the uniqueness of this book is in the comparison of three Latin American countries: Ecuador, Brazil and Mexico. Second, a multidisciplinary approach to analyze the crisis was implemented. Not only the economic issue, but also the social implications will be presented. Third, the uniqueness of the analysis of three cases is in the different perspectives and focuses. Fourth, very few analyses focus on the social inequality and poverty during the 2008 crisis.

Latin American countries have been characterized by persistence of inequality, poverty and income concentration for decades, even for centuries. Most of these countries implemented the neoliberal structural polices in the 1980s. Privatization, deregulation and liberalization of macroeconomic policy constituted these neoliberal reforms. However, Ecuador, Brazil and Mexico have instituted different concepts of social and economic development during the last decade. These differences were also perceived during the time of crisis including the implementation countercyclical measures in 2008. In Ecuador, president Rafael Correa implemented the "social anti-neoliberal" policy. In Brazil, the "progressive" social and economic policy was instituted by president Luiz Inácio Lula da Silva (2003-2011) and carried out by president Dilma Rousseff. In Mexico one could observe the policy of "continued neoliberalism" which was strengthened by presidents Vicente Fox (2000-2006), Felipe Calderón (2006-2012) and recently, by the elected president Enrique Peña Nieto (2012-2018).

The second question is how did governments of these countries respond to the 2008 crisis and what are the similarities and differences in poverty and inequality among Ecuador, Brazil, and Mexico?

In this framework, in the case of Ecuador, Mayra Sáenz analyzes in Chapter 1, that the effects of the crisis were reflected in the reduction of Gross Domestic Product (GDP), in export earnings, remittances, and immunization rates. Besides, there was an increase in inflation, unemployment, underemployment, poverty, and inequality. In response, the Ecuadorian government with its president Rafael Correa, implemented safeguard measures, import restrictions, and fiscal and banking regulations. The government also conducted educational reforms and prioritized human development within public spending, especially health and education through the Human Development Bond (BDH, in Spanish). These policies had positive results. The global financial crisis coupled with external financial constraints, the contraction of trade flows and limited response options of a dollarized economy jeopardized the Ecuador's ability to tackle poverty, hunger, and needs. However, the stimulus to economic growth and the expansion of social protection allowed to revive the economy in a short period of time with no negative deeper effects.

Erik Balleza in Chapter 2, shows that over the last decades Brazil has experienced structural, economic, social and institutional changes that have impact on the management of the current crisis. The great progress in reducing rates of inequality and poverty from the last decade was an outcome of a combination of factors ranging from public transfers and social assistance benefits, to a better distribution of education, to a successful stabilization of economy. On the basis of this progress, the Brazilian government authorities started to implement a series of measures to tackle the deterioration in the economic environment: both general (horizontal) and sector specific (vertical). The aim was to mitigate the impact of the international crisis on Brazil by avoiding a sharp slowdown in the economy and its negative consequences for employment. In that framework, counter-cyclical fiscal, credit, and monetary policies were adopted.

In Chapter 3, Lukasz Czarnecki presents the hypothesis of the *permanent crisis,* which was evoked by the application of the Washington Consensus since the eighties of the last century. The economic neoliberal policies have strictly continued and were applied under the administration of the president Carlos Salinas (1988-1994), the neoliberal *guru*. The direct outcome of applying neoliberal polices was the peso devaluation and the economic crisis in 1994. Moreover, the North American Free Trade Agreement (NAFTA) came into existence in January 1, 1994, the same day of the Zapatista outbreak. Now, with respect to the 2008 crisis, nothing new happened. The anti-crisis policy caused more debts based on bilateral agreements with the US Reserve and the International Monetary Fund than implementing the countercyclical measures for the labor market and promoting industrial production. Instead, the minimum salary in the official employment is 60.75 MXP, equivalent of 3.55 EURO. Hence, it justifies the large proportion of the population in the informal sector. The new government of Enrique Peña Nieto, who won elections in 2012, has been directly continuing the philosophy of the neoliberal policy *à la* Salinas de Gortari.