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Texto Para Discussão

Número 39

Departamento de Economia

EAESP FGV

THE POLITICAL ORIGIN OF ECONOMIC PROBLEMS

Paper presented to the conference "Latin America and the International Economic System in the 1990s: Macro-Level Adjustment Policies and their Alternatives", sponsored by the University of Montreal and McGill University. Montreal, 6-8 April 1994.

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March 1994

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ECONOMIC PROBLEMS

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According to present conventional wisdom, "economic problems have a political origin". Another form of approaching the same problem is to say that macroeconomic adjustment and structural reforms fail or are not completed for lack of political support. Finally, a safety net or targeted social policies are often presented as a strategy to overcome the political support gap. This view on one hand corresponds to the real world; on the other, it is imprecise and contradictory, it is plagued by ideological motives and often serves as excuse for incompetent economic policy-making.

In this paper we will try to clarify the different meanings and implications the three related propositions presented in the former paragraph. We will discuss the political origin hypothesis of economic problems, the political support gap for adjustment and economic reforms, and the compensatory social policies as means of overcoming political obstacles. As an alternative to the punctual political origin and political obstacles hypothesis, that are dominant in the Washington consensus, we will suggest that the relations between the economic and the political system are closer and deeper than usually is assumed, as longo as the legitimacy of governments, that assures governance - the ability to govern - depends on the existence of a basic social contract. This contract is well founded in the advanced democratic societies, but weak, unstable, in the developing countries. Given the heterogeneity of their societies or the deep income inequalities, there is no political agreement on the existing economic regime, particularly on the income distribution pattern. The long term solution for this implies necessarily economic reforms

that have as permanent outcome the reduction of inequalities. Another alternative for the elites, that tend to oppose distribution, is to celebrate development oriented political pacts with the middle class and the workers. This compromise was often used in Latin America, but depends on the resumption of the development process, for which the macroeconomic adjustment and structural reforms are a necessary but not a sufficient prerequisite.

Thus, we can have a punctual definition for the economic origins of economic problems and the political obstacles to economic reform, or we can have a broader one, where economy and politics are intrinsically linked. We can offer short term targeted solutions, or more long term ones. Yet, the alternative diagnoses and the solutions are not really alternatives, since they can be adopted and implemented concurrently, the emphasis depending on ideological and political power considerations.

1. The Political Origin Hypothesis

The political origin hypothesis for economic problems is today often associated with the same intellectual realm where extremely abstract neoclassical economic models are developed. The reason for that is clear: since these models assume that markets are able to optimally allocate resources and maintain balanced the economy, economic problem must have an exogenous - nom-market - cause. This exogenous cause is power. In the past the type power that used to be emphasized was big business' monopoly power. Presently, political power - the power that comes from the state - receives all attentions. If were not for the expansionist policies populist governments undertake, the ever increasing public expenditures and its inflationary financing, the rents special interest groups are able to grab as long as they have political power, economic problems would not exist, or would be milder.

Yet, this approach loses most of its explanatory power when the assumption that markets are able to ideally coordinate the economy is dropped. In this case, economic crises cease to be just the outcome of wrong economic policies or of the pressure of interest groups, to be the inevitable result of the inner dynamics of the endogenous economic cycle. Additionally, if one adds to economic models - as it is being increasingly done recently - externalities and increasing returns of scale, multiple equilibria will be found, some of which are perverse, consistent, for instance, with economic stagnation or high inflation.[1]

[1]. See Romer (1989), Grossman (1990), Krugman (1992), Grossman and Helpman (1993).

Yet, the belief that economic problems have a political origin was an essential part of the views of classical and Marxian economists. Originally they named their science "political economy". "Economics" was a word that was only adopted in late XIXth century by the rising neoclassical economists, that wanted to rid the economic science from political influences and considerations. Today "political economy" usually means an intermediate area between pure economics and political science, where the political aspects of economic problems are taken into consideration. For the classical economists it meant the economic science proper - a science that was not just logical-deductive model whose microfoundations economists are supposed to discover and analyze, but also an inductive and historical science, where market and power elements are intrinsically mixed.

After the crisis represented by the Keynesian revolution, neoclassical economics gained forces and in the last twenty years recovered hegemony. Yet - and paradoxally - the *de facto* political origin of economic problems gained weight in this century. The basic reason for that was the decisive - although complementary - role the state assumed in capitalist economies, either allocating resources or interfering in the distribution of income. Probably as a reaction to that, mainstream economics and conventional wisdom turned their attention to politics, that suddenly became the origin of all economic evils. The more clear manifestation of this fact was the emergence of the public choice or rational choice school - a neo-liberal branch of neoclassical economics that aptly adopted as research program the endogeneization of government action.

Thus, in curious way, political economists and neoclassical conservative economists converge to the same and obvious view - politics matters -, but their understanding of the problem remains different. While for the first, politics is an essential part of the economic system, for the later it is an exogenous (to the market) obstacle to market clearing and to economic reform. The former may also see politics as an obstacle to macroeconomic adjustment and structural economic reform, but an endogenous obstacle - an obstacle that comes from the dynamic interplay of economic and political factors in the real world.

The answer to the question about the political or economical origins of economic problems depends on the concept we adopt of the economic and the political system. If we define the economic system just as a self-regulating market system, where rational individuals take production and exchange decisions, while the political system would be the domain of government power, economic problems would have primarily a political - or exogenous to the economic realm - origin. Contrarily, if we define the economic system as a system of production and distribution of income and wealth through

institutions, among which the market, money and the state are the main ones, the conclusion will be opposite. In this case markets are themselves institutions, that depend on other institutions as the property system, the legal contract system and the money system. They are institutions that exist and function as long as they are informally regulated by society and formally by the state. According to this view, that we share, individuals conserve an essential role as economic agents in the market, but social classes are also crucial, as they express their specific interests through social and state regulation.

This does not mean that economics and political science are mixed. The economists remains basically concerned with production and distribution through the market, the political scientist, with power relations. But it means that the state is not exogenous to the economic system. On the contrary, it is an essential part of it. If the state is in crisis, the property and the contract systems will poorly work; money - a manifestation of state sovereignity and credit - will be permanently endangered; entrepreneurs will ration investments, the economy will be also probably in crisis.

The inverse is also true. Cyclical economic crises - particularly long waves - bring with them political crises. In the expansive phase, strong political coalitions are formed, that break-down in the downturn 2. In this case, we have an economic origin of political crises. The economic crisis itself had its origin endogenously: short term economic downturns are usually the consequence of a large and uncontrolled expansion, long-term downturns, the result of the exhaustion of a cluster of Schumpeterian innovations.

Yet, in some historical moments, the cause behind a long term economic crisis may not be purely economical, but jointly economical and political, as it is present case in Latin America and Eastern Europe. If we look for a basic cause of this crisis, the best answer will probably be that it is a crisis of the state: (a) a fiscal crisis of the state, (b) a crisis of the mode of intervention (or the development strategy) of the state, and (c) a legitimation crisis, in which the role of the state in the economy is contested.[3] The fiscal crisis of the state is defined by the loss of public credit, the crisis of the mode of state intervention, by the exhaustion of the import substitution strategy in Latin America, and of the statist strategy in Eastern Europe, the legitimation crisis, by the waning down of

2 - Peter Gourevitch, studying the 1873-96, the 1929-49 and the present crisis, observes: "In the prosperous years preceding the crisis, a policy approach and support coalition developed. The came the crisis, challenging both policy and coalition" (1986: 21-22).
3. See Bresser Pereira (1988, 1990, 1993a). Through these texts, the author is trying to develop an explanation for the current crisis, its cyclical charcter, and its basic origin in a crisis of the state.

state authority and prestige caused by the neo-conservative wave that started in the 1970s.4

The assumption behind this diagnostic is that the state has important economic roles that it is unable to well perform, when it is paralysed by the fiscal crisis, by the lack of a clear intervention strategy and by lack of legitimacy of the government, its politicians and public officials. Given the crisis, state capacity is reduced, government is paralyzed or hampered, political coalitions are shaky and unstable. Yet, the fact that the economic crisis derives from the crisis of the state does mean that it has just a political origin. It has an economic-political origin, since the state is a also a part of the economic system.

And the corollary is that the solution for the problem is not the minimum state, as neo-liberals assume, but to reform and rebuild the state. When, today, people speak of "economic reforms", they are actually referring to reforms of the state. Fiscal adjustment, privatization, trade liberalization, deregulations should be seen in this vein as strategies to rebuild a smaller but stronger state.

2. The Political Support Gap

There is a second way of approaching the same theme. Instead of focusing the origin of the crisis, one can focus the reason why it is not solved. In this case the standard assertion is: "required economic reforms are often not undertaken for lack of political support". Behind this affirmation there is the belief that for all or for most economic problems there is a set of economic policies that will solve them, provided that there is political support. Political obstacles would explain the failure of economic reforms.

The concern with the political aspects of inflation may be viewed as an antecedent to the political obstacles literature. Marxist economists always viewed inflation as consequence of political conflict and monopoly power. In the 1930s, Gardiner Means, Michael Kalecki and Joan Robinson were analyzing the political cycle and cost-push inflation. In the 1950s Aujac wrote about the influence of social groups in inflation (1950). The Latin American structuralist theory, initiated by Noyola (1956) and Sunkel (1957), and complemented by Rangel (1963) and Pinto (1973), where Keynesian and Marxian influences are present, incorporates a sociological and institutional approach to inflation. Hirschman (1981) wrote extensively on the subject. On the other hand, there is an extensive literature on the political aspects of inflation and its relation to populism,

4 - This neo-conservative or new-liberal wave emerged in the 1970s as a response to the excessive and distorted growth of the state in the previous fifty years. Yet, in the last three years there are clear signals that this trend is wavering down.

beginning with Canitrot (1975) and O'Donnell (1977) and Hirschman (1978). It is, however, in the 1970s that sociologists and political scientists start focusing their attention in inflation. An extensive literature is opened with three collections of essays: Hirsch and Goldthorpe (1978), Thorp and Whitehead (1979), and Lindberg and Mayer (1985).

Up to this moment, attentions were concentrated in the political and social causes of inflation. In the late 1980s, after the break-down of the debt crisis, that soon turned into a fiscal crisis, inflation rates accelerated in the highly indebted countries. The need for short term fiscal adjustment and long term structural reforms became evident. The pressure on this direction coming from the developed world mounted. It is in this moment that political scientists become particularly interested in the political dimension of policy-making. The political support gap hypothesis will then be analyzed in several books: Nelson, ed. (1989, 1990), Ethier, ed. (1990), Haggard and Kaufman, eds. (1992), Przeworski (1992), and Bresser Pereira, Maravall and Przeworski (1993), Bates and Krueger, eds. (1993)

Economists, on the other hand, came increasingly interested in the political aspects of adjustment and economic reform. Economic populism was revisited in two collections of essays: Bresser Pereira, ed. (1991), Dornbusch and Edwards, eds. (1991). Concern with political cycle in macroeconomic policy and with the political resistance to stabilization, that was present since the 1970s, gained new strength specially with the utilization of game theory: Alesina (1987), Alesina and Sachs (1988), Alesina and Tabellini (1988), Sachs (1989), Edwards and Tabellini (1990), Alesina and Drazen (1992).

All this literature is very interesting. It responds to a real problem - the political obstacles to highly needed fiscal adjustment policies and economic reforms. Yet, most of it suffers from two limitations: from a technocratic bias - the idea that all economic problems have a policy solution -; and from a naive assumption - the assumption that economists or policy-makers are competent in adjusting, stabilizing and reforming, and only do not succeed for faltering political support.5

Economic policy as a pervasive economic and political phenomenon is a historical new fact, that dates from this century, specifically from the Keynesian revolution. Before that, economic theory denied the need for economic policy, and economic theory did not dispose of a relevant set o policy tools. After Keynes, while governments in developed

5 - Bates and Krueger (1993) are explicit on this assumption. After reviewing the experience in eight developing countries, they concluded that in no case program design flaws were crucial to the outcomes.

and developing countries made extensive use of economic policy to achieve full employment and growth, neoclassical economists denied real effects for them, asking, instead, for permanent and credible policy rules. Yet - in a technocratic and optimistic way - this did not prevent mainstream economics of assuming the full effectiveness of conventional stabilization policies, when often this was not the case.

In a first phase, the assumption behind the macro-economic models was that governments were exogenous and all-powerful entities. More recently, given its obvious lack of realism, this assumption was dropped, giving rise to the political obstacles literature. Yet, the technocratic bias remained. If the economic policies designed to avoid economic unbalances - essentially, permanent rules endowed of credibility - were not followed, the task of stabilizing an economy would be just a question of political will, since the required economic policies would be clear and straightforward.

Stagflation in the 1970s and inertial inflation in the 1980s challenged this view. Particularly in Latin America, where the neo-structuralist theory of inertial inflation was initially developed, economists challenged the conventional stabilization policies.6 In a second moment, the new-Keynesian school followed the same line of thought 7 On the other hand, as inertial inflation changed into straight hyperinflation in many Latin America and Eastern Europe countries, it became evident that they faced abnormal or exceptional times - times in which just conventional monetary and fiscal policies are unable to control inflation.8

Yet, when political scientists turned interested in the politics of economic reform, although often recognizing the unique character of inertial inflation and/or the exceptional character of hyperinflation and the fiscal crisis of the state, they ignored the neo-structuralist and new-Keynesian critiques of conventional policy-making and assumed that economist knew well how to stabilize. They adopted this standpoint either because they shared the orthodox and technocratic views, or because they prefer not to intrude in alien domain. In doing so, they unwillingly offered an alibi for incompetent and weak policy-makers, that adopted a kind of contented political determinism: it is useless to design and implement bold economic reforms, since there is no political support for them.9

6 - On the Latin American theory of inertial inflation see Pazos (1972), Bresser Pereira and Nakano (1983), Arida and Resende (1984), Lopes (1984).

7 - See Bruno, Fischer, Helpman and Liviatan, eds. (1991) and Mankiew and Romer (1991).

8 - For a critique of conventional stabilization policies in Brazil see Bresser Pereira and Nakano (1990) and Bresser Pereira (1993b).

9 - This happened, for instance, in Brazil in 1991-92, when the IMF approved a non-sensical gradualist and conventional stabilization program instead of demanding that the 25 percent a

As a matter of fact, in abnormal times, when a fiscal crisis of the state critically undermines public credit and hyperinflation or an hyperinflationary process prevails, only bold shock policies, usually including monetary reforms, are able to succeed in stabilizing the economy. If these policies are skillfully designed and courageously implemented, they may readily produce positive economic results and, thus, engage wide political support. This was what happened when inertial inflations were brought under control in Israel (1985), Mexico (1987), and hyperinflations were defeated in Bolivia (1985), Poland (1990), Peru (1990), Argentina (1991). Certainly, in the design and implementation of the shock policies policy-makers took into account and tried do circumvent political obstacles. But the essential factor in the positive outcome was not only the effectiveness but particularly the efficiency of economic reforms.

In some cases stabilization policies fail just because they are wrong, unable to achieve the announced goals. In most cases, however, they hypothetically may achieve the goals, but are inefficient, involving unnecessary transition costs, that eventually turn the stabilization program not viable in political terms.

In the literature on the political obstacles to sound economic policies the political business cycle theory always received special attention. Assuming a four year political incumbency, politicians would adjust and reform the economy in the first two years, opening room for, in the last two years engage in an expansionary policy and get reelected. This theory is simple and the prediction involved was repeatedly confirmed in the real world.10 Yet, it does not apply in abnormal times, when the costs of high inflation are extremely high. In such moments, economic expansion does not bring votes, and we have a reversion of the political cycle: the recommended political strategy to facilitate reelection is to adjust and control inflation. As a matter of fact, in these contingency an expansionary fiscal and monetary policy is just ineffective for lack of credibility. Economic agents expectations will be that the expansionary policy will be short lived, and will not invest or consume as in normal times would happen. Nevertheless, economists and political scientists tend to ignore that, remaining attached to the conventional political business cycle hypothesis, whose explicative power was substantially reduced.

month inflation was controlled abruptly through the combination of orthodox and heterodox policies (see Bresser Pereira, 1993b)..

10 - See, among others, Nordhaus (1975), Soh (1986) and Alesina and Sachs (1988).

3. The Social Compensation Strategy

Summing up the previous discussion, economic crises may have a political origin, but it is basically flawed to adopt the implicit assumption that markets efficiently coordinate the economy and attribute all or most economic problems to politics. Market failures and the consequent endogenous character of the economic cycles probably remain the basic cause behind them. On the other hand, the existence of political obstacles to adjustment and structural reforms, although a fact, has a more limited scope than present conventional wisdom claims, since the implicit assumption that the policies that are being proposed and face resistance are competent of efficient is at least disputable.

In the extent, however, that a political support gap exists, the adoption of compensatory targeted social policies became a favorite strategy in recent times, particularly in the realm of the Washington consensus. Through them, the specific social groups most hitten by fiscal adjustment or by structural reform would be partially compensated. Besides the humanitarian value in itself of this strategy, it would also be short term or pragmatic a means of overcoming or circumventing the political obstacles, or of winning political support to the administration.

In the *World Development Report 1990 - Poverty* the World Bank (1990: 3) asserts that the basic strategies to fight poverty are (1) to promote the productive use of the poor's most abundant asset, labor, and (2) to provide basic social services: education, health care, nutrition and family planning. But it adds that when an adverse macroeconomic shock takes place, "a comprehensive approach to poverty reduction calls for a program of well targeted transfers and safety nets as an essential complement to the basic strategy".

This view is essentially correct. The compensatory social policies are a temporary complement to job creation and the supply of basic social services. Or, in other words, to long term distributive policies. Yet, there is the permanent risk of its adoption as a substitute for the more long term policies. Populist and authoritarian governments alike often tend to see targeted assistance as a cheap way of gaining or conserving short term political support, in the moment economic reforms are being implemented.

Oxhorn and Ducatenzeiler (1994) observed that the market oriented reforms that were adopted recently in Latin America were often the outcome of authoritarian or technocratic political coalitions. In order to compensate the losers, targeted assistance programs focused on helping *individuals* to escape poverty, thus encouraging state paternalism, which undermines the long term prospects for the full incorporation of the popular sectors.

Yet, it is possible to devise cases that would require targeted compensatory social expenditures. When some groups are particularly hitten, there is an obvious case for them. Particularly if the losses are transitory and targeted social expenditure have a corresponding limited duration. When reforms are introduced at a very slow pace or take too much time to produce positive outcomes, compensatory social expenditures may also be recommended. It is important, however, so check if this is not just a case of inefficient economic reform. Or, in other words, if there are not alternative economic policies that would bring positive outcomes more rapidly. A third and correlated case is the one in which there is a permanent reform process, one economic reform following the other. In this case, the social costs involved in each reform may be quite transitory, but the total losses may be large, given the succession of reforms. In this case the reform process is long, not because reforms are incomplete or partially unsuccessful, but because the required reforms are many. If reforms were not producing the expected results, we would have a case of inefficiency, requiring a change in the design of reforms, not a case for targeted social expenditures.

It is not realistic, however, to believe either that compensatory social policies will really compensate the losses involved, or that they will not be used as a substitute for more long term income distribution. The World Bank pro-poor policies, that in the 1970s intended to be permanent and imply an effective distribution of income, were never really implemented in large scale, given the resistence of the privileged groups in each country. With the debt crisis and the fiscal crisis, they were for some time abandoned, to reappear in the end of the 1980s in the form of targeted social expenditures, that were supposed to involve limitted resources and play a political role: to support reforms. In these circumstances, it is clear that they were intended to replace more long term distributive policies.

Joan Nelson, that surveyed the compensatory social programs, observed that they are often criticized as "band-aids" applied to relieve some of the damage of depression and adjustment. And added: "A longer term and more enduring approach to protecting and promoting the poorer groups in the course of adjustment is reorienting the structure of public social sector programs. Such reorientation is a major theme in present adjustment dialogue because it addresses both poverty problems and the acute fiscal crisis likely to continue in many countries into the 1990s" (1989: 105). Yet, already in mid 1990s, this reorientation did not take place. Instead, targeted social expenditures, as Chile's, Bolivia's and Costa Rica's programs in the 1980s, and, presently, the Programa Nacional de Solidariedad (Pronasol), in Mexico, continue to be popular in Washington.

This fact may be explained in serveral ways. First, because they are often the only alternative left, given the political weakness of the poor in Latin America since the crisis broke up in the early 1980s and magnified the excess supply of unskilled labor. Actually, long term distributive policies are unlikely when they depend on solidarity of the rich, rather than on the demand from the poor. A second reason for the popularity of target assistance programs, in this case not in Washington but among politicians in Latin America, is the fact that, if well administered, they may originate support, if not directly to economic adjustment, to the government (Graham: 1992).11 Yet, the basic rationale behind their attractiveness, is their relatively low cost and immediate results, if the programs do not become themselves victims of partisan interests.

Their popularity in Washington does not mean that they are neo-liberal or conservative programs. As Draibe (1992) observes, the fact that social programs assume a targeted or limited scope and that they adopt decentralization as a strategy does not necessarily means that they are conservative or neo-liberal. In Brazil, for example, when, in 1983, an IMF approved adjustment program was nationally implemented, the progressive Montoro administration in São Paulo state successfully adopted targeted social policies.

The criterion to distinguish progressive from conservative social policies is not if they are targeted, but if the selective programs are seen as a substitute for long term income distribution policies. Conservatives usually see poverty and inequality as a consequence of individual differences, rather than of the existing economic structures and the institutional framework. Another way of approach the same problem, is to ask if the political obstacles that these policies are supposed to overcome are punctual problems that require punctual solutions and the improvement of educational standards, or if, besides that, they are structural ones, as long as they are related to the property system, the distribution of income and the quality of the political and economic institutions.

11 - Carol Graham studied Bolivia's Emergency Social Fund adopted by the Paz Estensoro administration between 1985 and 1990. Her evaluation is highly positive. She atributes the good rsults to the fact that "the ESF managed to remain remarkably free of political constraints and influences, and to deserve reputation for conducting the vast majority of its operations in an efficient and transparent manner" (1992: 1246).

4. Governance and the Economic Regime

The last phrase brings us back to the central problem of this paper: the political origin of economic problems. There is no doubt about the close relation between the economic and the political system, between economic policy and politics. A classical critique of institutional, structuralist, Keynesian and Marxist economists to neoclassical economics was based on its ignorance or underestimation of power relations in the market. As we saw before, in the last ten years mainstream economics got increasingly interested in politics, but the emphasis was fully given to the punctual or short-termed analysis of the political obstacles to the well functioning of markets and to the adoption of the necessary fiscal adjustment policies and economic reforms.

The alternative is to assume that the economic and the political spheres are intrinsically and dynamically interrelated (Sola, 1994). Not only because markets are themselves political institutions, that depend on the state to be regulated. This type of analysis escapes the scope of this paper. But also because governance - the effective ability to govern, and so, to implement economic policies - is a central political variable that intrinsically depends of the economic regime.

Since Hobbes it became clear that, to be governed, capitalist societies require a state legitimated by a social contract. If this was true in Hobbes times, when what acutely prevailed was a mercantilist economy, it is more so in the complex and democratic advanced capitalist societies of today. In these societies, there is a basic agreement on the prevailing economic regime, that is, on the property system and on the distribution of income between individuals and social classes. It is this agreement, it is this basic political pact, besides a complex institutional system, that legitimates governments, assures governance and guarantees the effectiveness of economic policies. This does not mean that the distributive conflict was eliminated. It just means that it is under control, not only because differences in wealth and income are not so great, but also because there is a complex and well structured system of interest aggregation, through which interests of groups and classes are agglutinated and permanently negotiated.

When this basic agreement is faltering or incomplete, as it is the case of most developing countries, the political obstacles to economic policy-making become evident. In these countries the opposition to the property system ceased to be important since the communist regimes collapsed, but the disagreement on the income distribution pattern remains extremely high, particularly in Latin America, where concentration of income remains a major problem. The political response to this difficulty has been either to resort to authoritarianism, or, in the realm of democracy, to compensate the weakness of the

basic social contract with the celebration of limited development oriented political pacts, that give a positive perspective to the working class. These pacts are limited because do not involve the whole society. After World War II these pacts assumed, in Latin America, the form of the populist pacts, that Vargas, Peron, and many others led in the 1940s and 1950s. The economic distortions brought by these political pacts ended in the capitalist-bureaucratic authoritarian regimes of the 1960s and 1970s. Since the 1980s, when the distortions in state intervention now brought about by the military regimes also ended in deep economic crisis, democratic governments in Latin America face, in different degrees, a permanent legitimacy crisis.12

Summing up, to face this crisis solutions may be thought in three levels. Targeted social programs may be a short term response to political obstacles to economic reforms. The ability of the elites to come to a development oriented political pact with the middle class and part of the working class is another alternative. The third is to engage reforms that have as outcomes not only to give back state solvency, to assure a more efficient allocation of resources, and to build an adequate institutional framework, but also to guarantee a permanent reduction in income inequalities. The first type of program will easily gain support of the elites, the last will face permanent opposition. The second may be viewed as a feasible compromise. The three strategies are not exclusive but complementary.

Conclusion

In conclusion, the conventional wisdom that economic problems have a political origin must be qualified in many ways. Many economic problems have a strict economic origin, deriving from the dynamics of the economic cycle and the imperfection of the market. On the other hand, the belief that stabilization programs and structural economic reforms are not implemented or fail for lack of political support is only partially true. In many cases, the inefficiency of the reforms, the sheer incompetence of policy-makers, has also a part in the explanation of the negative outcomes.

Economic and political problems are closely related, as long as there is no markets without power. And also, because political power, the ability to govern, depends not only on institutional and personal considerations, but also on a basic social agreement on the

12 - I discussed more extensively this relation between the lack of a basic social contract and the need for development oriented political pacts in Bresser Pereira, 1994.

prevailing economic regime. When this agreement is weak, when the property system and particularly the income distribution pattern is being strongly contested because social difference are very big, governments lack legitimacy and find increasing problems in implementing economic reforms.

The strategy of securing political support for economic reforms through a transitory social safety net may be effective, provided that the targeted social programs are well and transparently managed, but the limits of this strategy are clear. The alternative - to implement social policies that effectively distribute income - is always present. But it is an "expensive" alternative, in the sense that it means the transference of income from rich to poor, facing permanent opposition from the former. A third alternative, that was effective in some moments, particularly in Latin America, where income distribution is extremely uneven and the legitimacy crisis of governments a permanent threat, was the celebration of development oriented political pacts. This alternative, however, faces a basic difficulty. It is only viable when economic development is resumed - an outcome that is not automatically guaranteed by the macroeconomic adjustments and the structural reforms that the Washington consensus promotes, independently from the fact that these economic policies are necessary.

These three possibilities are not really alternatives, since they can be adopted in a complementary form. They way they are balanced will define the political commitments in each existing governmental coalition.

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