

## **A new left in the South?**

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In most cases, to be left-wing in the South still means to be statist, developmentalist, and nationalist. Why is that so? What are the probabilities for this to change? As a citizen of a developing country, I would like that things were different, but the only thing I can say is that there are exceptions, as it is the case of Chile. In fact, although democratic governance is not strictly correlated to the level of economic growth, the two variables are closely related. In Latin America, the emergence of a modern left did not come true yet, although the democratization in the last 15 years represented a major advance. In the United States, despite being the richest country in the world, democratic governance trails behind as it can be seen by income concentration and the percentage of people below poverty line. In contrast, the emergence of a new left, market-oriented but committed to social justice, opened new political perspectives for Western Europe.

In Berlin, in the first semester of 2000, the meeting of the Progressive Governance group, formed by 14 social-democratic heads of government, became a historical mark. For the first time the more important democratic countries, which could be defined as social-democratic governments, got together to discuss values, common objectives, and some specific issues of general interest. Thus, there was a clear ideological character in the meeting. Leading democracies, like Japan, Spain, and India were not invited because they have not in office social-democratic but conservative administrations.

In the globalized world we live, the rich countries in Berlin represented the new left, more specifically the new social-liberal left, that overcame the old historical divide between liberalism and socialism. Four major ideologies shape modern capitalism: liberalism, democracy, republicanism, and, last but not least, socialism. Capitalism – a form of organization of production and property – is not opposed to socialism, but to statism: to the state ownership of the means of production. Identifying socialism with statism has been a left's historical mistake that only now is being recognized.

Out of the four ideologies, democracy – which besides a value is also a political regime – is defined by political freedom and asserts political rights: the right of voting and being voted in free and clean elections.

Liberalism is founded on individual freedom, and is committed to civil rights – individual liberty, property, and respect. Republicanism emphasizes individuals’ responsibilities toward the common good, requires civic virtues from politicians, and asserts republican rights: the right that public patrimony is not captured by private individuals. Finally, socialism gives priority to social justice, and defends social rights.

In order to protect social rights and promote economic growth socialists as well as republicans claim that an active state is required, while liberals mistrust the state and strive for limiting its intervention in the economy. Liberals are suspicious of state because they take for granted an all-powerful state that threatens civil rights. Socialists and republicans count on the state, the former because they presuppose that markets are blind to social justice, the later because they assume the existence of powerful citizens involved in capturing the state (or in rent-seeking): both also because, if they believe that markets, even imperfect, are insuperable in allocating scarce resources, and cannot be replaced by economic planning, they know that government must play a complementary role in relation to markets besides guaranteeing property rights and contracts..

In England, in the eighteenth century, when, with the industrial revolution, the Capitalist Revolution was completed, capitalism was correctly identified with liberal ideas. Yet, since then, in that country and, subsequently, in all new capitalist revolutions, democratic, republican, and socialist values became increasingly a constitutive part of these revolutions. Today, the more advanced is a country’s democratic governance, the more protected will be citizens’ rights that liberalism, republicanism, socialism, and democracy combined assert.

In 1989, it was statism – not socialism – that was defeated: state ownership and economic planning proved inefficient substitutes for markets. But if capitalism turned victorious it does not mean that it may be identified with classical liberalism, or with neo-liberalism. Modern capitalist economies are mixed economies, where markets and state complement each other. If the only economic regime viable today is capitalism, the only political regime that has legitimacy is democracy. Capitalist economies and democratic politics are supposed to combine civil, political, social, and republican rights, if they hope to achieve political legitimacy and guarantee social order. The existence of many possible combinations between liberalism and socialism shows that there are many forms of capitalism and of democratic governance. All, by definition, will protect civil and political rights, but they will vary in how far they are able to achieve the classical ideal of social justice. The more they are committed to this ideal, the more one can say that a progressive, left-oriented, governance is in place.

Left and right politics are part of an ideological spectrum whose center changes in time and from country to country. Yet, two criteria are permanent in distinguishing them: order versus justice and market versus

state. The left is committed to order but is ready to risk some political stability in the name of social justice, while the right always gives priority to social order. Second, the right believes that the state should not interfere in markets, except in regulating them, while the left gives a more positive role to government.

The new left, the modern left, that characterizes contemporary capitalism, combines social with individual rights, market allocation of resources with active state regulation. It is called third way, new democrats, progressive governance, modern social democracy, and varies from country to country, but shares basic common values. While conservatives view inequality as natural, the new social-liberal left sees social inequality, particularly inequality of opportunities, as intrinsically unjust. Modern left increasingly identifies itself with democracy, as this political regime empowers the poor, and legitimize demands for social rights. It knows that the practice of democracy may imply risking social stability, as it involves increasing peoples' participation in political affairs, but believes that risks will be limited and fruitful. The close relationship between democratic and socialist ideals derives from this shared disposition to incur in some risk.

In Europe there is clearly a new left, which first appeared in the Scandinavian countries and in Germany, with Helmut Schmidt; later in Spain and France, with Felipe Gonzales and François Mitterrand; and finally in Britain, where Tony Blair and a group of New Labor intellectuals proposed the Third Way and gave it a more precise formulation. In the developing world, however, one cannot yet speak of a new left or of a progressive governance. Most political parties situated in the left side of the political spectrum are not characterized by market orientation and the combination of liberal and socialist values, that characterizes the new left. In the South to be left still means to be statist, developmentalist, and nationalist: it often means to be old left.

I can understand why the old left is nationalist. People in the developing countries are still building their respective nations. Even a new left should be nationalist, since inside their countries they have to confront "globalist" elites that ignore the existence of the national interest. While in the North citizens and politicians have no doubt that governments should protect interests of the nation's labor and capital, so that nobody is "nationalist" because all are so, because to be nationalist in these "developed" terms is not a discriminating characteristic, in the intermediate countries conservative elites doubt about the very existence of a national interest.

The fact that the old left in the intermediate countries is developmentalist is less acceptable. "Developmentalists" are economic populists who oppose themselves to "monetarists". In the rich countries developmentalism is often seen as an evil by the new left, while as a good by the old left in developing countries. Developmentalists believe that there

is a tradeoff between economic growth and inflation and opt for inflation provided that it is low. It is difficult for them to understand that this trade-off is false. That the discipline involved in macroeconomic fundamentals is germane to economic growth. That the real choice is between a competent and an incompetent macroeconomic policy. Competent policymaking is not to set interest rates at a comfortable level, so that inflation is under control, as many central bankers in the developed world do, and many international financial organizations suggest. Inflation is under control, but unemployment is higher, and growth rates, smaller than should and could be. You don't need to be developmentalist to promote growth. And there is no trade-off between inflation and economic growth. But economic growth is only maximized when a permanent tension is maintained between aggregate demand and supply, when interest rates are as smallest as possible in an economic regime of low inflation.

Finally, to be statist today makes no sense. It is as senseless as to be a libertarian, an ultra-liberal (that in Latin America we call neo-liberal). But if it is true that pure statist disappeared, distrust in market coordination is still pervasive in Latin America's old left. A statism that often is identified with protectionism, although today most Latin American countries should benefit from free trade more than developed countries. If there are countries that are today interested in protection and committed for "reasonable" domestic political reasons, these are the rich countries, not the intermediate ones.

Populist policies, coming from the left and the right, have characterized economic policymaking in Latin America till the 1980s' Great Crisis. The populist cycles were short, ending in high inflation and financial crisis, but got repeated because it was the way to face high concentration of income and poverty. After the Great Crisis, conservative policymakers learned that populism did not solve the problem but did not turn to competent macroeconomic policy. Instead, they recurred to "neo-populism" since the distributive conflict had not been addressed. By neo-populism I mean a policy that maintains public expenditure under control, but overvalues local currency, so artificially increasing wages and salaries.

Is there a possibility for this situation to change, that a new social-liberal left emerges in Latin America middle-income countries? Will they be able to candidly address and solve the distributive incompatibility that only got worse in the last thirty years? I believe so. In the moment that the left assumes political power at national level, it will have to submit to economic constraints. It will have to maintain macroeconomic fundamentals, it will have to respect the veto power of entrepreneurs in relation to physical investments, and the veto power of financial institutions in relation to credit. At that moment, if it is smart and imaginative enough, it will see that the alternative to gain elections and reelections is, first, finding ways of reducing to the minimum rentiers' interests rates, their rental fees, and the pure rents they get out of some kind of monopoly power or sheer corruption; second,

to assure a satisfying profit rate to business enterprises, and, third, to increase wages and social benefits at least with the increase of productivity. This is not a simple task. This is the “way of the middle”, and this path is narrow and full of obstacles. But, whenever competently followed by the left (which is the only political group that can consistently follow it), it is the path that has the people’s support. Or this is what finally matters in democracies – particularly in new democracies like Latin American ones where people’s social demands have been so disregarded by incompetent conservative elites.