GROWTH WITH INEQUALITY: The Cases of Brazil and Mexico

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DEPENDENCE AND INEQUALITY: A SYSTEMS APPROACH TO THE PROBLEMS OF MEXICO AND OTHER DEVELOPING COUNTRIES. Edited by R. F. GEYER and J. VAN DER ZOUWEN. (Oxford: Pergamon Press, 1982. Pp. 328. $35.00.)

BRAZIL AND MEXICO: PATTERNS IN LATE DEVELOPMENT. Edited by SYLVIA ANN HEWLETT and RICHARD S. WEINERT. (Philadelphia: Institute for the Study of Human Issues, 1982. Pp. 349. $30.00.)

DEVELOPMENT ALTERNATIVES OF MEXICO: BEYOND THE 1980S. By ROBERT E. LOONEY. (New York: Praeger, 1982. Pp. 268. $24.95.)

INEQUALITY AND SOCIAL MOBILITY IN BRAZIL. By JOSE PASTORE. (Madison: University of Wisconsin Press, 1982. Pp. 194. $30.00.)

SCARCITY, EXPLOITATION, AND POVERTY: MALTHUS AND MARX IN MEXICO. By LUIS A. SERRON. (Norman: University of Oklahoma Press, 1980. Pp. 279. $19.95.)

MODELS OF GROWTH AND DISTRIBUTION FOR BRAZIL. By LANCE TAYLOR, EDMAR L. BACHA, ELIANA A. CARDOSO, and FRANK J. LYSY. (New York: Published for the World Bank by Oxford University Press, 1980. Pp. 355. $18.95 cloth, $7.95 paper.)

SOCIO-ECONOMIC GROUPS AND INCOME DISTRIBUTION IN MEXICO. By WOUTER VAN GINNEKEN. (London: Groom Helm, 1980. Pp. 237.)

Among the large countries of Latin America, Brazil and Mexico experienced the longest and most intense period of industrialization in the years between 1950 and 1982, when yearly growth rates of the industrial sector were 8.1 percent and 7.5 percent respectively. The resulting structural change in these economies was notable. In Brazil the share of industry in GDP rose from 26 percent in 1950 to 37 percent in the early 1980s, while in Mexico this share rose from 30 to 38 percent. In the same period, the share of agriculture declined in Brazil from 25 to 10 percent, and in Mexico from 22.5 percent to less than 10 percent.

During this rapid industrialization, the distribution of income worsened in both countries. In Brazil the share of the national income of the lower fiftieth percentile of the population declined from 17.7 percent in 1960 to 15.6 percent in 1970 and to 14.6 percent in 1980, while the share of the top 10 percent increased from 39.7 percent in 1960 to 46.4 percent in 1970 and to 47.7 percent in 1980. In Mexico the share of the lowest 20 percent of the income earners declined from 7.8 percent in 1950 to 1.9 percent in 1975, while the top 10 percent increased their share from 38.6 percent in 1950 to 43.5 percent in 1975.

With some minor differences, both countries followed similar import substitution strategies: attracting foreign and domestic investments by protecting the domestic market, creating development banks to provide long-term finance for private and public firms in sectors considered strategic, and establishing new state enterprises in public utilities and heavy industries. These similar policies were applied to two societies with considerably different historical experiences and hence with different sets of socioeconomic institutions. Do the same results with regard to economic structure and equity mean that the fundamental economic relationships involved in industrialization are stronger in determining a society's equity structure than the initial socioeconomic-political setting?

This question seems to be the basic issue that comes to mind when delving through these seven books on Brazil and Mexico, all of which are based on research performed in the 1970s. Considering the similar impact of industrialization, it is ironic that many of these studies, which are comparative in nature, stress the differences one finds in the historical experiences. This emphasis is especially pronounced in Hewlett and Weinert's *Brazil and Mexico: Patterns in Late Development*.

Differences

When searching for the political roots of modern Mexico and Brazil, one naturally looks at the impact of the Mexican Revolution of 1911 and Brazil's Vargas regime during the 1930s. According to Ruth Collier's contribution to the Hewlett and Weinert volume, Brazil's "ancien régime" "ended with the Revolution of 1930. This was not, of course, a popular revolution but rather one that primarily expressed an intra-elite cleavage. However, this cleavage was not extremely intense, and there was no real sectoral clash between the agricultural and industrial sectors . . ."(p. 63). In Mexico the "ancien régime" fell with the overthrow of Porfirio Díaz in 1911, and the traditional Mexican elite did not fare as well as in Brazil. Collier finds that "in several important ways the Mexican Revolution differed significantly from the Brazilian 'Revolution' of 1930. . . . It represented a major escalation of intrafactional elite conflict that changed the rules of the conflict and introduced the mobilization of the popular sectors as a tactic in this rivalry. This pattern contrasted with the more accommodationist pattern of intraelite relations that followed the events of 1930 in Brazil, in which the popular sectors played no significant role" (p. 65). These differences also produced contrasting intraelite patterns. Vargas constructed in Brazil an elaborate corporative state-labor relations system, which "was based on both an extensive set of inducements for organized labor that helped create a legalized labor movement that was dependent on the state and also an extensive set of constraints on labor organizations and labor leaders . . ." (p. 66). In Mexico labor mobilization was not "primarily to defuse or deradicalize the labor movement" but "as a counterweight to the power of other elite sectors . . ." (p. 66). Thus "there emerged a coopted union movement under an increasingly corrupt leadership. Nevertheless, because of the political resource labor represented, a major effort was made to include organized labor within the support coalition of the government . . ." (p. 67).

The thirties also offer a pronounced contrast. Mexico experienced the Cárdenas reforms that favored urban and rural workers by strengthening "organizations which were to defend their interests." Thus Cárdenas "encouraged strikes and committed the state to intervene on behalf of the workers in industrial disputes, he greatly increased the distribution of land to campesinos, [and] he favored collective ownership in the countryside and the 'socialization' of the means of production in industry" (p. 68). In the same period, Vargas's Estado Novo "presented a different picture. On an ideological level it preached class harmony; in the countryside, it oversaw the continuation of clientelistic relations; and with respect to the urban working class, its inclusionary politics took the cooptive form . . ." (p. 69).

After World War II, Mexico's all-encompassing Partido Revolucionario Institucional, which incorporated a progressive ideology, became a conflict-limiting organization, while Brazil's resurgent political parties accentuated divergent interests. As a result, in Mexico the party coopted and controlled popular sectoral interest association, while in Brazil "this hegemonic function was largely missing, and primary reliance was placed on the state rather than the party for control of interest associations through elaborate legal constraints as well as through cooptation" (p. 82).

These different institutional developments help explain the greater success that Mexico has achieved in stabilization policies. These policies "impose heavy costs on the popular sector and thereby stimulate polarization and the development of leftist movements. The more politically autonomous position of these movements in the competitive party context in Brazil enabled them to defend their interests at least to the extent of preventing the implementation of such policies" (p. 92).

Douglas Graham's contribution to the Hewlett and Weinert collection concentrates on a number of interesting differences in the economic structure. He stresses that the Mexican export-led growth under Porfirio Díaz was dominated historically by foreign capital, which explains the subsequently stronger antiforeign revolutionary tradition in Mexico than in Brazil. Graham also emphasizes the contrasting reactions to the world depression in the 1930s. Brazil had expansionary fiscal and monetary policies and a balance of payments protection scheme that resulted in the first great import substitution boom, but Mexico had no significant industrialization spurt, and "the first half of the decade witnessed a conservative reaction to the impact of the depression, bringing on restrictive monetary and fiscal policies. Only in the last half of the decade did the new . . . Cárdenas regime engage in explicit expansionary measures" (p. 17).

In the period following World War II, according to Graham, Mexican growth was fairly steady while that of Brazil was cyclical; and Mexico's industry was more labor-intensive than that of Brazil. Brazil emphasized vertical integration of industry sooner than Mexico, and the degree of protection was higher in Brazil than in Mexico. Graham concludes that "Mexican industrialization policy, while more nationalistic in controlling foreign investment . . . , was less nationalistic in terms of forced industrial integration, and thus was more efficient" (p. 25).

In examining foreign capital during the postwar period, Graham finds that "the ISI growth cycle of the fifties was predominantly generated by foreign investment in both countries; however, the comparative advantages given to foreign investors in Brazil, as well as the greater degree of import substitution . . . , strongly suggests a relatively greater foreign role in this process in Brazil" (p. 27). Graham finds that after the import substitution experience, local private capital was relatively stronger in Mexico than in Brazil. Although public firms are important in both countries, Brazilian firms are more independent than their Mexican counterparts. Graham believes that this independence might be due to a "stronger permanent career pattern . . . in the Brazilian scene, with an internalized managerial ethic and promotion ladder reflecting the profit or capital accumulation goals of many important firms. In Mexico, the existence of a stronger institutionalized revolutionary political party cuts into the degree of autonomy that can be enjoyed by public enterprises" (p. 35).

The chapter by Peter Evans and Gary Gereffi analyzes both differences and similarities in the role of foreign investment. They note a general convergence in the way foreign capital was integrated into the two economies. Among the differences, they observe that "Mexico's long common border with the United States has resulted in a particularly heavy flow of American capital into Mexico" while "Brazil has maintained a diversified relationship with a half dozen countries in terms of both investment and trade patterns" (p. 114).

In modern-day policies toward multinationals, Brazil "focused almost exclusively on eliciting specific behavior from TNCs while Mexico divided its attention between ownership and behavioral controls of transnationals" (p. 123). Also, in Brazil a greater tendency exists for denationalization through acquisition of local firms than in Mexico. Finally, more joint ventures with local capital exist in Mexico than in Brazil.

Over time an increasing amount of convergence in the sectoral distribution of foreign investment has occurred, and in recent years, "the mix of state policies" toward multinationals in the two countries "seems to be converging. Brazil is paying more attention to ownership and the protection of the interests of local capital and thereby becoming more like Mexico, while Mexico has maintained flexibility on the issue of ownership and at the same time is becoming more effective in the implementation of behavioral controls, which have previously been a Brazilian specialty" (p. 153).

Similarities

As mentioned earlier, despite their historical and institutional differences, both Mexico and Brazil have evolved into semi-industrialized economies, with similar sectoral structure and increased concentration of income. David Felix's contribution to the Hewlett and Weinert volume analyzes Mexico's continuing income concentration trend by accounting for factors that negated the well-known Kuznets income distribution model.[1] Kuznets observed that in industrializing countries, the lower-income groups' share of income fell in the nineteenth century and rose in the twentieth century. The share of the upper-income groups had an inverted U pattern over the same period. He concluded that the period of rising inequality averaged five to six decades, reflecting increasing intersectoral income differences in early industrialization, after which time the trend would reverse due to a combination of economic, institutional, and policy reactions. Felix observes that this mode "obtains its turning point with the aid of two implicit assumptions: that the institutional matrix determining private property rights is not evolving in an unequalizing direction, and that economic growth eventually produces full employment, chronic excess demand for labor, and broadly rising urban and rural real wages. The universal validity of neither assumption is obvious" (p. 283).

During the Porfiriato, the railroad boom encouraged land grabbing, and labor shortages were avoided by the use of impressed labor. In the reformist Cárdenas days, Felix observes, "the maximum legal limits on the size of farms and prohibitions against the elimination of ejidal property came to be increasingly evaded by subterfuges, while government agencies supplying credit and technical assistance to small farmers were allowed to fall into corruption and decay. Since 1940 the lion's share of lands made arable by government water projects and accessible through public road building has been appropriated by large holders. The consequence has been a rising concentration of land ownership, a rising share of landless workers in the rural labor force, and a rising rate of rural underemployment" (p. 283). Also, most of the increase of farm output after 1940 was provided by the large farm sector, which employed a minimum of rural labor. By 1970 about 68 percent of rural labor was underemployed, and the growth and mechanization of large farms was "strongly encouraged by tax incentives and subsidized credit and fertilizer prices, as well as by the agri-business orientation of rural public works programs" (p. 284). At the same time, the employment elasticity of industry was low, falling from 0.62 in the 1950s to 0.53 in the 1960s, while "social welfare programs and government supported increases of wages, salaries, and private fringe benefits have favored chiefly the more affluent sectors of the urban labor force" (p. 285).

Felix also points to the links between the consumption profile of the upper-income groups and the technology of the goods that they consume with labor absorption:

> British income inequality in the nineteenth century may well have approximated twentieth-century Mexico. But the nineteenth-century scale requirements for the production of status goods and producer equipment were low, and cognitive requirements for innovation were still largely within the reach of relatively unschooled but gifted artisans and small entrepreneurs. Thus both the expanding incomes of the middle and upper classes and rising investment were strongly oriented towards the purchase of relatively labor-intensive goods. Because of the supportive compositional trends, the British masses, poor and undernourished through much of the century, were yet essential to the growth process, so that emerging labor scarcities after mid-century pushed up unskilled wages and helped produce a Kuznets turning point by the end of the century. (P. 290.)

But in the case of Mexico (and Brazil), import substitution

> is restrained from rapid diffusion by the concentrated capital accumulation and prolonged technological dependency that are essential parts of its dynamic. As the productivity and income of the modern sector grow, the gulf between it and the "traditional" economy deepens and the structural interdependence between the two weakens. With this, an increasing percentage of the poor become inessential for the growing affluence of the middle and upper classes and for the growth process. (Pp. 290–91.)

Wouter van Ginneken's *Socio-Economic Groups and Income Distribution in Mexico* also concentrates on explanations for increased inequalities in that country. Some of his analysis covers the same ground as that of Felix. But van Ginneken also stresses other factors, such as the increasing concentration of financial capital, evidenced by the fact that financial claims on government increased from 3.6 percent of GDP in 1960 to 11.2 percent in 1970, and claims on the private sector increased from 22.3 percent to 33.8 percent (p. 25). Other factors discussed are educational inequality (statistical analysis showed that the largest part of inequality was due to differences in educational levels) and the low productivity of small-scale industry resulting in low wages (despite employing one-third of the labor force). Van Ginneken finds that medium- and large-scale employers control "about 63 percent of the GDP. Given the high share of wage and salary income they generate, it is not surprising that organised labour and the large-scale employers have basically similar interests. At the same time, the government is dependent upon the large-scale employers because about half of the tax income (on profits and imports) is directly paid by them" (p. 70).

Most of the other books on Mexico under review here concentrate on the agricultural sector as a continuous contributor to inequality and poverty. In *Dependence and Inequality: A Systems Approach to the Problems of Mexico and Other Developing Countries*, edited by R. F. Geyer and J. van der Zouwen, L. Langman offers a sharp critique of the situation in Mexico:

> The agricultural inequality is especially blatant, the peasant land holdings, individual or communal . . . , tend to be small. Much of this land is not arable without irrigation. Most of the rich, irrigated, commercial land of the northern states produces most of the crops and cattle. It is owned by a small minority. Close to 70 percent of agricultural and cattle production is concentrated in 10 percent of the land. The top group of about 3 percent of the landowners has 70 percent of the irrigated land and agricultural capital. The lowest 50 percent of land owners . . . provide 3 percent of the total agricultural produce. (P. 116.)

Luis Serrón's *Scarcity, Exploitation, and Poverty: Malthus and Marx in Mexico* also stresses agriculture as one of the main contributors to inequality. He finds that Mexico's agricultural output outpaced population growth, but this increased production did not alleviate malnutrition because much of the increment of agricultural output was exported and what was used for domestic consumption was unevenly distributed (pp. 83–89). Concentration of ownership is also the hallmark of Mexico's industrial sector. Serrón shows that in the mid-sixties, 1.5 percent of industrial establishments controlled about 77 percent of total capital and accounted for 75 percent of total value of output (p. 121).

Many of the structural features of the Mexican economy that have led to increased inequalities are also present in Brazil.[2] But *Models of Growth and Distribution for Brazil* stresses the post-1964 government wage policies. Authors Lance Taylor, Edmar Bacha, Eliana Cardoso, and Frank Lysy view the lag of wages behind price increases, which was one of the major tools in bringing down inflation, as an important contributory factor in the growing income concentration trend between 1960 and 1970. In addition, they also find that reductions in labor costs might be an inefficient way to increase employment and that export growth might also have been associated with a distributional shift at the expense of the poor (see chap. 4).

Bacha and Taylor also examine changes in the educational level of the Brazilian population and come to the interesting conclusion that "the population share of college graduates increased by 80 percent, while their per capita income increase (51.9 percent) was greater than any other educational group. In contrast, the population share of the uneducated fell by a quarter, and their per capita income stayed constant. Any theory of competitive labor markets would suggest that average payments to the college-educated should have fallen under this sort of shift, while payments to the depleted ranks of illiterates should have gone up" (pp. 310–11).

The importance of wage repression as an explanatory element for the increased concentration of income makes especially useful Kenneth Erickson's and Kevin Middlebrook's contribution on labor organization and the state to Hewlett and Weinert's *Brazil and Mexico.* In both countries, "labor's subordinate position is the result of policies devised by the governing elites to establish political control over the working class" (p. 213). In the case of Brazil,

> Vargas' Estado Novo (1937–45) was an elaborate corporatist system of state-labor relations designed to coopt and control the fledgling industrial labor movement by linking labor organizations directly to state administrative structures. . . . The labor legislation . . . gave Brazilian workers the right to organize for the first time, but it also required that labor organizations be formed under the express tutelage of the political elite. The system simultaneously sought to preserve the fundamental characteristics of the established socioeconomic order while laying the basis for future industrial modernization and growth. (Pp. 214–15.)

In the same period, Mexico's Cárdenas "institutionalized labor's political role by including the Confederation of Mexican Workers . . . as one of the principal sectors of the 'official' party . . ." (p. 215).

In both countries, the state controls labor unions through its authority to grant legal recognition, and without such recognition "unions have no authority to negotiate collective contracts with employers, to file strike demands, or otherwise to represent rank-and-file interests before employers, public administrative agencies, or judicial authorities" (p. 230). Also, in both countries "organized labor . . . is subject to extensive regulation of its most important political and economic weapon—the strike. In both countries labor legislation requires formal state recognition and approval of strike actions" (p. 239). Finally, Erickson and Middlebrook also stress the fact that social welfare is strongly politicized in these countries.

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Within the generally gloomy picture of social inequities in the process of development, José Pastore's excellent study, *Inequality and Social Mobility in Brazil*, provides some positive results of the industrialization process. Pastore differentiates between structural mobility (which occurs when new positions become abundant resulting in mobility independent of individuals' characteristics) and circulation mobility (which occurs when new positions are scarce, personal characteristics become more important for advancement, and the rise of one person depends upon the exit of another). Developing societies "tend to show relatively high percentages of structural mobility. The distributions between point of origin and point of destination are due in large part to the increase in employment opportunities and to changes in the occupational structure stemming from the diminishing of rural occupations and the increase of urban occupations . . ." (p. 33).

In analyzing different age groups, Pastore was interested in testing the hypothesis that "people who entered the labor market more recently enjoyed better employment opportunities and a more differentiated occupational structure, and that, reaching higher statuses . . . , [they] achieved more vertical mobility than did older individuals . . ." (p. 70). His findings, which were based on sample surveys, showed that: the percentage of unschooled increases with age, implying that educational restrictions were greater in the past than at present (p. 77); many people advanced socially despite a meager formal education (p. 81); a high degree of intergenerational mobility exists (p. 84); and "most total mobility derives systematically from structural mobility—that is, from labor market transformations that have taken place between the times of fathers and sons, and, in particular, from the shrinkage of the agricultural market and the creation of new jobs in the urban zone . . ." (p. 96).

Pastore's general conclusion is that "the upper class continues very small, reflecting an unequal and funnel-shaped pyramid. In absolute terms, the upper class, which constitutes a proxy of the Brazilian elite, is still quite limited. In relative terms, however, the upper class among the sons is 85 percent larger than it was among the fathers. More important than this expansion is the internal transformation occurring in this class. . . . The elite can no longer self-recruit its members, and is slowly becoming a quite heterogeneous stratum." Thus Pastore infers that "despite the great social disparities which persist in Brazil, it seems unquestionable that the Brazilian social pyramid is changing in form. To say that Brazil today is a middle-class society is unrealistic. But the changes that have occurred undoubtedly are taking Brazil in that direction" (p. 131).

Conclusion

In their ambitious attempts to modernize their economies rapidly, a succession of Brazilian and Mexican governments have managed to establish a modern industrial sector and some islands of modern agriculture. They have failed, however, to incorporate the masses into these dynamic sectors. As the volumes reviewed here show, this failure was caused by the capital-intensive nature of these sectors, by the incentive system used to promote modern sectors (which favored large domestic private and state groups as well as large foreign multinationals), and by the state's political power to prevent "premature" income and asset redistribution.

One phenomenon overlooked by all the authors of these seven books is the limited possibility of employment in the modern industrial and agricultural sectors and the rapid rate of growth of employment in services. Given technological developments in the world and the need of developing countries to maximize the growth of productivity in industry and agriculture, it is doubtful that these sectors could ever become effective absorbers of the economically active population. Thus the service sector will have to be taken into account in future efforts to increase equity in Brazil and Mexico.

When examining the advanced industrial economies, it becomes obvious that the service sector has a major function. It provides employment for the largest proportion of the economically active population (amounting to almost 70 percent in the United States and Sweden, and over 50 percent in most other advanced industrial countries). The advanced income level of service sector workers in these economies is made possible by the very high productivity of agriculture and industry. It is this productivity of the "real" sectors that enables industrial societies to support a large service work force at advanced salary levels. The mechanism through which this takes place is the high income elasticity of demand for services.

If the aim of socioeconomic development is to raise the standard of living of the average citizen to levels approximating those found in advanced industrial countries, it may be counterproductive to try to keep the agricultural and industrial sectors from reaching maximum productivity by attempting to stress labor-absorptive technologies. The greatest challenge will then be to structure employment in the service sector in the intervening period—that is, the time required for the economy to build up its productive capacity in agriculture and industry to a level at which the economy is capable of raising average per capita income and general social expenditures to an extent that will justify expanding employment in highly paid service sectors. This process will imply institutional reforms that will make income redistribution more effective than in the past.[3]

NOTES

1. Simon Kuznets, "Economic Growth and Income Inequality," *American Economic Review* 45, no. 1 (Mar. 1955):1–28.
2. See Werner Baer, *The Brazilian Economy: Growth and Development*, second edition (New York: Praeger, 1983), chaps. 5 and 6.
3. Expanded versions of these arguments can be found in Werner Baer and Larry Samuelson, "Toward a Service-Oriented Growth Strategy," *World Development* 9, no. 6 (June 1981):499–514; and Werner Baer, "Semiindustrialización y semidesarrollo," *Desarrollo Económico* 25, no. 97 (Apr.–June 1985):107–14.