The Social Side of Reforms

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In the sense usually meant by economists, there are, at least, three genres of arguments favoring the realization of the so-called structural reforms (i.e. administrative reform, economic openness, social security reform, privatization, etc). The first school debating for the realization of reforms is the macroeconomic order, derived from the need to diminish deficits in public account and/or balance of payments. Rigorously, the reforms' macroecononomic impacts constitute another secondary and immediate effect. However, the fragility of the Brazilian economy, allied to the shortsightedness of political managers and of financial markets, induces the establishment of a macroeconomic debate centered on Brazil and the reforms.

Secondly, from the microeconomic side, we gain in terms of economic efficiency, through the removal of barriers harming the market. The basic question in this situation is: What keeps the economy from reaching a Pareto optimum? —a situation where it is impossible to improve a person's situation without worsening that of another individual. The efficiency gain also reflects the correction of market failures through the development of institutions. That is, situations where the free functioning of the market does not lead to the desired outcomes, mainly due to informational problems, externalities, increasing returns, etc. Mechanisms may then be leading to the improvement of economic efficiency.

Lastly, but not least significant, an incentive for the adoption of reforms is of a purely social concern, such as the conquest of smaller poverty and inequality levels. Markets, even in ideal conditions of perfect information and competition, do not lead to an equitable distribution of outcomes among the members of a given society. Adam Smith's invisible hand can lead—in ideal conditions—to efficiency, but it doesn't provide equality as a subproduct.

Reforms help to complete markets, leading towards paths of social justice or correcting institutions that produce inequalities. Take a look at a simple example: social security—including liabilities from the public sector—consumes approximately half of the Brazilian social cost, consolidated to three levels of government. The top 10% highest social security benefits consume around 48% total benefits. This occurs in such a way that 25% of the Brazilian social cost is seized by an elite composed of retirees and those in receipt of pensions, less than 1% of total population. In the presence of budgetary constraints, the social security reform is key so as to direct resources towards the fight against hunger, health, education, etc. This social view of reforms is as simple as relevant, but until recently, it had been briefly explored in the Brazilian debate.

We are now in the prime of a new administration, and the discussion of ideas takes on special importance. This is a new decisive phase when certain diagnostics may, or may not, be transformed into future reforms. It is a crucial moment, in light of the electoral force acquired in the ballots, having the tendency to erode with time. The adoption of reforms ends the possibility of producing a credibility shock in the system, starting a virtuous cycle for Brazilian society.

The convergence created around some views contrary to the implementation of reforms was impressive in the recent presidential campaign. It is necessary to reformulate the debate around reforms. At this point, it might be more useful to question what explains, aside from the political-electoral cycle, the counter-reform movement—dominant until recently.

In Brazil, the reforms have been discussed from an essentially macroeconomic standpoint, with little emphasis on microeconomic or social impacts. The debate has also focused on the potential impacts on the public accounts. Given that reform agendas, in Brazil and elsewhere, have succeeded more in times of macroeconomic crises, this may have led to a causal diagnosis, such as "reforms cause crises." This type of perception may have been responsible for a convergence of opinions against the Washington Consensus. The empirical results from controlled experiments on the aggregated impacts of reforms in Brazil and elsewhere, have not strengthened the reformist pessimism, existent until recently.

Shifting to distributive arguments, studies sponsored by the IADB in many Latin American countries identify the short-run reduction of employment as the main adverse side effect of reforms. Certain reforms harm specific interest groups, namely the administrative reform and the public servant, the economy's openness and the industrial worker, privatization and the public worker, the social security reform and the public sector's liabilities.

These interest groups are influential and have a voice, contrary to those who gain from the reforms, who are a diffuse consumer mass. Or in the case of more socially aimed reforms, those who gain are part of an anonymous mass of underprivileged. The Brazilian inequality's high inertia justly portrays the asymmetry of pressure power within our society. While the debate on poverty and inequality is carried out more generically, everyone is vexed by these social evils. But when those who lose from changes are explicit, everything ends in pizza.

In this sense, President Lula's proposal of summoning entrepreneurs and unions to debate a social pact, focusing on the Hunger Zero Project, with the social reforms on the side, constitutes an excellent strategy of increasing well being, simultaneously attacking the issue from economic and social viewpoints. If the objective is to increase the quantity and quality of social spending, it is necessary to guarantee the financing sources for this endeavor, similarly to the manner in which the improvement of Brazilian social spending also demands reforms.

The value of optimal long run solutions is such that it causes difficulty in reform implementation. We vehemently adhere to a static vision fixed on the concept of first-best. The costs of reforms are, in general, paid in specie by a group of actors, as benefits are provided later and more diffusely. For example, the worker who has lost his job as a consequence of the economy's opening.

More than this, consumers get accustomed to the gains granted by the reforms throughout time. For example, the advancement in the access to telephones—resulting from the privatization of telecommunications—tends to be forgotten. In an ideal situation, a given reform should be applied when the present value of the gains obtained by the triumphant exceeds the present value of the losses incurred on the losers.

An anticipated compensation for part of these losses increases the probability for the formation of consensus around reforms. This vision of negotiating a solution of the type second-best is not warmly received by our economists. The result is a situation, when in the impossibility of moving forward in the reforms' agenda, we tend to move backwards. Dialogue mechanisms, such as the recently proposed social pact, complete the process.

The best do not always win, and when they do, they do not always succeed. An example of this can be found in the conception of life itself. The sperm that wins the race of fertilization breaks open the egg's wall and dies without leaving his legacy. The second one, which sees the open path, immortalizes its presence in the embryo's genetics.

Observation: The social aspect of reforms in Brazil is quantified in Neri et al., found in the publication Gasto público en servicios sociales básicos en América Latina y el Caribe: análisis desde la perspectiva de la iniciativa 20/20 edited by Ganuza et al., published by UNDP, ECLAC, and UNICEF, Santiago, 1999.