The Brasília consensus

Moderate leftist regimes are consolidating in Latin America. This "Brasília consensus" is superseding radical leftist regimes. The big challenge is how countries can sustain the consensus despite international financial crisis and an expected weakening in commodity prices.



Photo: Lula Marques.

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As he took office July 28, Peruvian President Ollanta Humala promised to govern "Peru for all," echoing the words of his mentor, Luiz Inácio Lula da Silva, who spoke of "Brazil, a country for all." Humala announced the expansion of an income transfer program, Juntos, similar to Brazil's Family Grant. He also decreed an increase of 12.5% in the minimum wage and stressed that his priority is growth with social inclusion. The speech was co-written by Louis Favre of Brazil's Labor Party (PT), who organized Humala's election campaign.

Hugo Chavez, a former inspiration for leftist Humala, was not mentioned, even indirectly.

The victory of Humala in Peru's presidential election — and his first six months of government with many moderate initiatives and a centrist Cabinet — advances the "Brasília Consensus." Moderate leftist regimes that combine social inclusion, a protective nationalism regarding natural resources, and macroeconomic stability are consolidating in Latin America.

The greatest symbols of this new consensus are Brazil, Uruguay, and El Salvador. The Nobel laureate Mario Vargas Llosa, a well-known free market advocate, supported Humala in this election and wrote about the new consensus in the Spanish newspaper *El Pais*:

> "In order for those [social] programs to be successful, it is essential that Peru continue to grow as in recent years; otherwise there

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will be no wealth to distribute. The Chilean, Brazilian, Uruguayan, and Salvadoran socialists understood this and, though still calling themselves socialists, they have made social-democratic governments."

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During the Alan García administration, Peru followed strictly the precepts of the Washington consensus on attracting investment and liberalizing trade. It signed trade agreements with the United States, China, and the European Union, among others. The country became a great success story in the region, with its average growth of 7.2% over the past five years among the highest in the world.

But Peru neglected its social programs, and that was a determining factor for the election of Humala. Poverty had been reduced, but the disparity between the coast and Lima, the rich, and the highlands and the Amazon, the poor, was still very large. This led to popular dissatisfaction and the perception that the fruits of large foreign direct investment in exploitation of natural resources were not being equitably distributed.

Michael Shifter, president of the Inter-American Dialogue (who coined the phrase "Brasília Consensus"), said that the Peruvian election was "a coup against the right," which believed that good policies and economic growth would be enough to solve the poverty problem.

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Countries like Brazil, Uruguay, and El Salvador, the greatest symbols of the consensus; hybrids Argentina and Paraguay; and Chile and Colombia at the center-right are moving to the Brazilian model. They bet on the paradigm of macroeconomic stability — central bank independence, fiscal stability, a floating exchange rate. They share a concern for social inclusion and embrace, to a greater or lesser extent, conditional income transfer programs and raising the minimum wage.

This is a different left from what is found in Venezuela, Bolivia, and Ecuador, where the leftist project is centered on more radical

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income distribution, honoring socialist precepts. The Bolivarians also tend to resort to changes to the constitution to perpetuate their leaders in power.

However, the Brasília Consensus also embraces some aspects that are less palatable to those embracing the Washington consensus. Some countries are betting on industrial policies with echoes of the import substitution advocated by Raul Prebisch, which is anathema to neoliberals. Humala said that he will invest in that kind of initiative and Argentina is also heading in that direction. Even Brazil's initiative to require suppliers to include more local content in oil rigs for the state-owned oil company, Petrobras, can be seen as part of a program of import substitution.

Another constant in the Brasília Consensus is nationalism as it relates to exploitation of natural resources. In Brazil, the regulatory framework for mining, which is stalled in Congress, is expected to increase the royalties from natural resource exploitation. And one of the priorities Humala has announced is to increase the taxes paid by mining companies. He promises, however, to follow the Chilean model of negotiating with mining companies without breaking contracts.

The Brasília Consensus — which *The Economist* prefers to call Lulism — is rising just as Chavez and the Bolivarian left are in frank decay. Before his illness was revealed, Hugo Chavez's popularity as president was below 50%, historically low. Venezuela is fighting numerous economic problems. While the rest of South America has achieved high growth, Venezuela is emerging from two years of recession. Oil production is falling, blackouts are frequent, and the city of Caracas has the highest murder rate in the region.

The big challenge for other Latin American countries will be how to sustain the Brasília Consensus in a less benign international environment. The international financial crisis, the high indebtedness of European governments, and the prospect of slow growth in the United States foreshadow a weakening in commodity prices. Brazil has relied on high prices of commodities to maintain its model of income distribution; there has been no significant fiscal adjustment.

Without bonus income from commodities, Brazil and other Latin American countries that export commodities will need to revise their tax revenue model to sustain their efforts to pursue social inclusion.