Lesson from Lula's victory

China and India need to reduce income and regional disparities, as Brazil has started to do. In all three countries, more and better quality growth would seem to be not only good economics but also good politics

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The landslide re-election in Brazil of President Luiz Inácio Lula da Silva owes more to a (modest) reduction in income inequality than to any upswing in economic growth.

China and India, along with Brazil, are among the largest developing economies, with a growing global status in economic size. But among them, striking differences mark trends and the relative importance of economic growth and income distribution.

Brazil's income inequality, along with South Africa's, is among the highest in the world, far greater than China's and India's. But the magnitude of poverty in the latter two is greater — with more people in "extreme poverty" in India than Brazil's population. Further, rising regional differences are a serious concern for China.

Economic reforms have spurred rapid growth in urban India, but far less in rural India, where agriculture has stagnated with environmental degradation and weak policies. So is rising inequality a necessary cost of high growth rates?

The earlier experience of high growth with a relatively favourable distribution in several East-Asian countries suggests not. In China too, the earlier economic take-off gained from giving agricultural property rights to numerous small farmers.

Also, inequality grew fastest during periods of slow growth. Brazil finds that it cannot really sustain high growth without including the less well off population in generating that growth. By its usual definition, income poverty is affected by growth, or by changes in distribution, or by both.

In the past decade, China reduced poverty through very high growth, even though distribution worsened. Meanwhile, Brazil lowered poverty by improving modestly income distribution, even as its growth was only a quarter of China's.

But some countries of East Asia and Europe and Central Asia achieved both simultaneously — an approach that would seem to favour not only sustained poverty reduction, but also social stability, and — politicians note — electoral gains.

Brazil's efforts in addressing the acute inequities coincided with crucially needed actions to reverse macroeconomic instability. Again, Brazil has faced far greater instability than the Asian counterparts. But progress has been striking in the past five years, when the interest rate spreads on Brazilian borrowings narrowed sharply and the share of the public debt in GDP came down to more sustainable levels. The conservative policies behind this trend constitute a change for the Brazilian and Latin American Left.

Historically, however, income distribution policies in Latin America and elsewhere meant large fiscal deficits and debt. Following the debt crises of the 1980s, mainstream economic thinking evolved toward the so-called Washington Consensus that gave high priority to belt tightening and market liberalisation.

While this has its own socio-economic benefits, social actions were not emphasised in the recipe. But Brazil under Lula has sought to run macroeconomic stabilisation and social programmes in tandem, rather than in sequence: call it the Brasilia Consensus.

Turning to these social programmes, all three countries reveal the importance of increasing the size and quality of investments in education and health. On social assistance, Brazil's Bolsa Familia (family grants) (as with Oportunidades or opportunities in Mexico), make transfers to poor families, conditional on proof that children are attending school and going to clinics for check ups. If done well, such transfers can improve current incomes, while investing in the future.

For its part, Brazil seeks to raise investment and growth closer to the rates in China and India. For that, fundamental reforms of taxes and expenditures, social security and labour markets would be necessary. On growth, there is an interesting experience to build on: while national growth has been low, Brazil's populous, poor regions have recently had high growth, reducing inequalities. In China and India, in contrast, it is the relatively rich regions that have had high growth, worsening inequalities.

Finally, a common lesson is the urgency to reverse the severe environmental damages. Brazil has the world's largest tropical forests and exceptional biodiversity. If the relentless deforestation is replaced by protecting forests, the resulting absorption of carbon could have a huge marketable value.

In China, some cities appear to be among the most polluted in the world, damaging people's health. And in India, growing farmer distress owes something to policies that encourage unsustainable water pumping that exhausts aquifers, drying wells for drinking water and shallow wells of smaller farmers.

Returning to their dominant economic sizes, China and India would seem to be on track with rapid growth — although large fiscal deficits are a major concern — while Brazil looks for a turnaround.

On the other side, China and India need to reduce income and regional disparities, as Brazil has started to do. In all three countries, more and better quality growth would seem to be not only good economics but also good politics.

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