

“The challenge of institutionalizing social inclusion: Latin American case”*

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Abstract

The purpose of this paper is to use selected literature that link economic and political institutions to development, in order to make an interpretation of the recent evolution of economic and social policies, results and challenges in Latin America. The economic evolution of the region in the last 10 years is characterized by good figures concerning macroeconomic and some social indicators, nevertheless the pattern of inequality remains as a huge challenge. The main argument is that institutions matter, not only in economic development but particularly in social development and to ameliorate the entrenched inequality in the region. To develop the subject the paper has two parts: the first is devoted to analyze, from the point of view of the Social Market Economy approach the contribution in the field of institutions and development of the recent literature on economic and political institutions. On the second part it elaborates briefly the approach, the context of implementation and the results of social policies in Latin America. Finally, on the conclusion, it connect the two parts to draw some lessons on the proposed topic.

I. Introduction

The economic evolution of Latin America in the last 10 years is characterized by good figures concerning macroeconomic and some social indicators, nevertheless the pattern of inequality remains as a huge challenge. The main argument of this paper is that institutions matter, not only in economic development but particularly in social development and to ameliorate the entrenched inequality in the region. The purpose of this paper is to use selected literature that link economic and political institutions to development, in order to make an interpretation of the recent evolution of economic and

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II. “Inclusive vs. Extractive” Institutions and the Social Market Economy Approach

It is to note that the Social Market Economy approach and the theory based in distinguishing between extractive and inclusive institutions developed by Acemoglu and Robinson coincide in several points.¹In the first place they match in the emphasis on institutional factors as a key factor to promote growth and economic development. In the SME approach this emphasis could be noticed for example in the concept of what is called the "economic constitution", that is, the “rules of the game” that are developed in society to organize the economic sphere.²

Secondly there is also a coincidence in terms of the internal characterization of the institutions which are appropriate or inappropriate for economic and social development. In particular in the case of political institutions, the requirement of the above-mentioned authors of "a centralized state and at the same time of the existence of pluralistic political groups", is similar to the characterization within the SME of what was termed a "strong and limited" state.³ This concept refers to a state, strong enough to impose an orientation toward the common good, harmonizing the influence of the various interest groups, and on

¹Acemoglu Daron and Robinson James, (2012), “Why Nations Fail? The Origins of Power, Prosperity, and Poverty,” Crown Business, New York.

²See Vanberg, V. (1988), “Ordnungstheorie” as Constitutional Economics. The German Conception of a Social Market Economy’, *Ordo*, 39, pp. 17–31; Broyer Sylvain, (1996) “The Social market Economy: Birth of an Economic Style”, Wissenschaftszentrum Berlin für Sozialforschung, *Discussion paper*, FS I 96 – 318; and Leipold Helmut, (1990): “Neoliberal Ordnungstheorie and Constitutional Economics, a comparison between Eucken and Buchanan,” *Constitutional Political Economy*, Vol.1, No. 1.

³See my book (2008),“La estructura de una economía humana. Reflexiones en cuanto a la actualidad del pensamiento de W. Röpke,” Buenos Aires, Educa. Ch. 16, pp. 187-199; Ben Jackson, (2010), “At the Origins of Neo-liberalism: the Free Economy and the Strong State, 1930 – 1947,” *The Historical Journal*, 53, 1 pp. 129–151 f Cambridge University Press 2010; Bonefeld, W. (2012), “Freedom and the Strong State: On German Ordoliberalism,” *New Political Economy*, 17 (3), pp. 1–24.

the other, the existence of check and balances for this authority not to be used in an abusive manner, but under the rule of law.⁴

In the case of economic institutions, there is in the two mentioned approaches the requirement that institutions do not hinder, but promote personal initiative and innovation through: on the one hand institutions that protect property rights and competition, and on the other institutions that level the field for equal opportunities, such as a competition policy and the provision of public goods.⁵

Finally, in third place, there is a coincidence between the two approaches to argue that putting into effect extractive type institutions, both political and economic, even though could generate economic growth in the short and medium term, are a central cause of not-sustainable economic and social development in the long run.⁶

In this field the book makes a valuable contribution with regard to the systematization of the correlation between political and economic institutions –inclusive and extractive– and their consequences. It also provides a broad –although not complete, as we will argue below– institutional-historical analysis centered in the study of current and past cases. Once we affirmed the coincidences of both approaches in the above ideas –which, indeed, are essential– it is necessary to move on and point out certain missing aspects that could be examined from the SME point of view.

⁴The important recent book by Francis Fukuyama “The origins of political order” could be associated with the same idea. Fukuyama argues that a good political order has to have three elements: “The state, after all, concentrates and uses power, to bring about compliance with its laws on the part of its citizens and to defend itself against other states and threats. The rule of law and accountable government, on the other hand, limit the state’s power, first by forcing it to use its power according to certain public and transparent rules, and then by ensuring that it is subordinate to the will of the people.” Fukuyama Francis, (2011) “The Origins of Political Order. From Prehuman Times to the French Revolution,” Farrar, Straus and Giroux, Ch. 1, “The Necessity of Politics,” “Getting to Denmark”, pg.19. Fukuyama nevertheless fails to refer the connection of this idea with Ordoliberalism and the SME.

⁵ Acemoglu Daron and Robinson James, (2012), “Why Nations Fail? The Origins of Power, Prosperity, and Poverty,” Crown Business, New York, Ch. 3 The Making of Prosperity and Poverty, pg.54. For the same idea in the tradition of the SME see my book (2011). “Introducción a la Economía Social de mercado. Edición Latinoamericana,” Río de Janeiro, SOPLA-KAS, Part I, Section 2, Ch. 12, “Marco de Ordenamiento Económico,” pp.103-111.

⁶ Acemoglu Daron and Robinson James, (2012), “Why Nations Fail? The Origins of Power, Prosperity, and Poverty,” Crown Business, New York, CH 5 I’ve seen the future and it works, pg.91; Resico Marcelo, (2013) “A debate on models of capitalism and the Social Market Economy”, *Konrad Adenauer Foundation Online publication*, Brazil, June.

In the first place is surprising for the reader to note that in a work which includes abundant historical cases from Africa, Latin America and Asia, in addition to a detailed analysis of the birth and evolution of the Anglo-Saxon model, there are almost no reference to the European economic and social model, beyond the scarce references to the French example. Is peculiar, for example, that the case of the Scandinavian nations, or of other nations from the center and north of Europe are not taken into account.⁷ This nations are among the ones with the highest-income, equitable and democratic social systems and usually are at high positions in different indexes of economic performance, institution quality and social and human development.

In the second place, some aspects of the institutional development of modern economy are scarcely exposed by the work. Although it is argued that economic and political institutions that generate equal opportunities are important, there is neither an adequate historical account, nor a critical analysis of the genesis and the evolution of the institutions that gave rise to the welfare state, and its main elements. This important and extensive institutional evolution has developed the principle of "freedom of association" and the incorporation of the workers' movement to democracy, the development of labor market regulations, social policies for poverty reduction, and education, public health, and housing that has also characterized the Western model of development.⁸

Concomitant to this absence, there is another sub-developed aspect. The book emphasizes the conflict of interest between the groups that benefit by extractive institutions and those who are pushing the inclusive ones. In fact, a separate chapter would merit the development of how conflicts of interest are tackled "within" the inclusive institutions. The work at this point reduces this issue to compliance with the rule of law, which I agree is correct. But even under inclusive institutions, there is permanently a dynamic effort to enforce the law, and a negotiation below her of different conflicts of interest, which also imply the existence of institutions or mechanisms for overcoming these conflicts. In this field, we find another significant void in institutional history. We are pointing to the description of how the central conflict of capitalism, that is, the difference in interests between capital and labor, was overcome. The nature of the conflict, the risks that came with it and the institutions that were developed for its management are very important in the configuration of modern economy in the West. The mentioned institutional

⁷ As an example the mentioned book of Francis Fukuyama uses Denmark as a kind of ideal type, and dedicates an important part of the book to trace the history of France, Spain, although the German case is neglected.

⁸ Among the elements I am referring to are Bismarck's social state, the institutional elements in the Historical School of Economics, old American institutionalism, and the theoretical and social Catholic Movement that influenced in the origins of *Rerum Novarum*. For this last issue see Solari, Stefano, (2007) "The contribution of Neo-Thomistic thought to Roman Catholic Social Economy", *American Review of Political Economy*, Vol. 5, No.2 (Pages 39-58), December 2007.

developments are an integral part of the SME approach, both in terms of its theoretical formulation as in its implementation.⁹

In the third place, another missing chapter is the recent and abundant institutional history of what in the book is named as "liberalizing reforms" of the "Washington Consensus". Although this movement has had its positive aspects in terms of monetary stability and cuts to over-regulation, they have also provided arguments for the relaxing the muscle of anti-monopoly laws since the 80s and 90s, especially in the USA.¹⁰ This issue raises a question, contradictory to the emphasis placed by the authors in the positive evolution of these systems within the elements of inclusive institutions. They finally try to solve the problem, mentioning the Microsoft antimonopoly case, at the end of the 90s. But we know that the company only was enacted in Europe by the Commission, but not in USA, where and agreed a solution was quickly reached following the "dot com bubble" in 2000.¹¹

Related also to this period (80s-90s) there is a very important debate –without mention in the work– on the effects of financial deregulation on national and international financial system, with connections to the latest subprime crisis. Precisely there is a concept of New Institutional Economics, developed by the Chicago economist George Stigler, called the "regulatory capture" that describes the ability of an interest group to influence and affect the regulation of the state.¹² A state that is not sufficiently strong to withstand this pressure, and that does not pass laws considering a broad vision of plural interests, is in the terminology of Acemoglu and Robinson, an extractive institution. This process, which implied an endangerment to the rule of law in several countries, has generated decay into institutions with extractive logic that we think deserved to be treated in the work.¹³

⁹For example the idea of Muller Armack about social peace or "irenism", in which the different points of view are evaluated in regard of finding the lowest common denominators and bridges that will bring the parties to a peaceful solution and cooperation, beyond conflict. See Müller Armack Alfred, "Social Irenics", (1950), en Willgerodt, Hans et al., (1982) *Standard Texts on the Social Market Economy*, Ludwig Erhard Stiftung, Gustav Fischer, Stuttgart- New York, 1982, pp.347-360.

¹⁰William E. Kovacic and Carl Shapiro, (2000) "Antitrust Policy: A Century of Economic and Legal thinking," *Journal of Economic Perspectives*, Volume 14, Number 1, Winter 2000, Pages 43–60.

¹¹ For a far sighted view on the problem see Boorman Patrick M., (1993), "Antitrust Laws in a Global Market," *Challenge*, Jan./Feb. 93, Vol. 36 Issue 1, p30, 7p., for a description of it, and comments on cases see Horton Thomas J. and Schmitz Stefan, (2002) "A Tale of Two Continents: The Coming Clash of the Conflicting Economic Viewpoints in Europe and the United States," *ABA Antitrust Section Economics Committee Newsletter*, Vol. 2, No. 1, p.21, Spring; for a positive view on how to forge a convergence: Tritell Randolph W., (2005), "International Antitrust Convergence: A Positive View," *Antitrust magazine*, Summer, pp. 25-28.

¹²Stigler, George J., "The Theory of Economic Regulation," *Bell Journal of Economics and Management Science*, 2 (Spring 1971): 3-21.

¹³ For example the cited book by Fukuyama is far clear on this point: "Free markets are necessary to promote long-term growth, but they are not self-regulating, particularly when it comes to banks

Finally, one last and debatable element is the avoidance of further analysis on the connections between culture, ethics, and civil society in the background of the development of extractive or inclusive institutions. The treatment of the topic in the work is somewhat insufficient, from the point of view of approaches that are based on more developed normative bases as a SME, and, even more, the Social Doctrine of the Church.

III. Social inclusion and economic institutions in Latin America

III.a. The General Background

In the last decade, the region has overall improved in its social indicators: the percentage of the population under the poverty line has diminished since the 1992 till 2012 from 46,5% to 25,0%.¹⁴ Moreover, the Gini coefficient of the region has dropped 5,4 points.¹⁵ Unemployment has decreased from 11,5% in 2000 to 6,8% in 2012, according to data from the World Bank. However, the informal sector has mildly decreased, resting around the 40%.¹⁶ According to this scenario, we can argue that although it is true that the region did improve, there are still several social issues to be considered, and that there is still an important difference when compared to the most developed countries.

The causes of this better social situation reside in the improvement of economic growth in the same period, as well as the augment of transfers for social security, made possible by that growth.¹⁷ There sources that are directed to the social budget, on the region's average, have grown from 11,2% in 1990 to 18,6% in 2010, in terms of GDP, whilst

and other large financial institutions. The system's instability is a reflection of what is ultimately a political failure, that is, the failure to provide sufficient regulatory oversight both at a national and an international level.⁸ (2011) "The Origins of Political Order. From Prehuman Times to the French Revolution," Farrar, Straus and Giroux, Ch. 1, "The Necessity of Politics," pg.14.

¹⁴ While the indigence level slumped from 22,6% to 11,5%, during the period 1990-2010, according to ECLAT.

¹⁵ From 0,517 in 1992 to 0,484 in 2012. Source: SEDLAC (CEDLAS and World Bank).

¹⁶ Vuletin Guillermo, (2008) "Measuring the Informal Economy in Latin America and the Caribbean," *IMF Working Paper*, WP, 08/102, International Monetary Fund. The measure of the informal sector measured according to informal employment, according to ILO is around 50%, see ILO, "Thematic Labour Overview: Transition to Formality in Latin America and the Caribbean," Lima: ILO, Regional Office for Latin America and the Caribbean, 2014. 46p.

¹⁷ According to the recent World Bank GEP report GDP at market prices grew a 3.3% between 2000 -2010. See (2015) "Global Economic prospects, Having Fiscal Space and Using It," Ch.2 Regional Outlooks, Latin America and the Caribbean, The World Bank Group, 2015.

ascended from 45,7% to 62,6% as percentage of the total public budget in the same period.¹⁸

The mentioned economic growth that sustained the increase of transferred resources into the social area has two aspects: on the one hand, it has been fueled by the increase of international commodities prices of products which the region produces in a competitive way, such as food and minerals. This raise in commodity prices has been caused, between other factors, by the recent Chinese high growth and demand.¹⁹ On the other hand, returning to the argumentation line that we have been following, we can assert that several countries in the region have fairly improved their institutional quality.²⁰

Bearing this in mind, we can distinguish three groups of countries.²¹ There is a first group, whose members have achieved high social indicators thanks to the growth of the private sector, maintaining monetary stability, increasing the transfer of resources to social policies, as well as a better off institutional quality and civil involvement. In these countries, we can observe a greater participation of inclusive institutions over the extractive ones, indicating the presence of SME elements.

There is a second group of countries where the reforms derived from the “Washington Consensus” have been conserved. These economies have improved their growth paired with stability, though with a minor transfer of resources on social policies, hence causing a more mild improvement of social indicators. Some of them are placed in Central and North America. Although it is fair to say that as they were producing manufactured goods for the North American market, they have been weakened by China’s high competitiveness in these goods, and also were hit in a sensible way by the deceleration of the American economy following the subprime crisis.

The last group includes those countries whose growth has been stimulated by the raise in the international prices of commodities, though the governments’ policies are based on more extractive institutions. Despite bettering their social indicators, they have relied on the generation of massive processes of redistribution without consent. This strategy

¹⁸ Source ECLAT.

¹⁹ Currently the important reduction of Chinese economic growth rate is fostering a debate in the region related to the definitive end of the previous period of high rates and the future perspectives.

²⁰ See Krause Martín, “Institutional Quality Index 2014,” Relial, 2014.

²¹ See my two works: (2013), “A debate on models of capitalism and the Social Market Economy”, *Konrad Adenauer Foundation Online publication*, Brazil, June; and (2013) “El rol del estado en la economía según la Economía social de mercado: casos y aplicaciones para Latinoamérica” International Conference “Los desafíos económicos, políticos y sociales de América Latina contemporánea”, organized by Centro de Estudios Internacionales of El Colegio de México and the Konrad Adenauer Foundation, 20-21 June 2013, México D.F.

polarized society and deteriorated institutional quality due to the concentration of political power. In these countries it is taking place a replacement from private to public investment with diminishing results, problems of productivity and the traditional problems related to corruption. In some cases, macroeconomic policies of the countries of this group have led to significant levels of inflation, jeopardizing seriously social advances. Let's see in more detail some examples of each group.

III.b. Cases from Latin America: an outline of social policies and their interdependence with economic growth and institutions

In South America, the Chilean experience is a case of effective reduction of poverty in a sustainable way, within a context of higher institutional quality. Although inequality receded recently, remains still high and continues to be a policy challenge. The country has profited from a transition into democracy without altering the market system, preserving macroeconomic stability and an active international economic involvement. Furthermore, well organized social policies were accurately designed, especially during the "Concertación" governments, leading to good and consistent results. These policies aim at decreasing poverty by a coherent series of public services and grants, with a considerable transparent supervision. The result have been a sustained decrease of poverty, from 38,6% in 1990 to 14,4% currently, which were the main objective of social policy.²² Nonetheless, inequality was only slightly reduced and, together with the reduction of poverty in important sectors, have generated a demand for higher equality, expressed clearly in the last years in the demands for both a free and public education.

The case of Brazil also presents a number of positive points, particularly from the period of President H.E. Cardoso to the present day. Under his administration, economic liberalizing reforms were carried out in a moderate manner and were consistent with economic growth and macroeconomic stability, avoiding crises and unemployment. Later on, during the period of President Lula, several social policies were implemented, including, for example, the well-known "plan Bolsa Familia" (which reaches 27% of the population). These programs were well designed, encouraged social participation and have had positive results. Poverty in general terms fell significantly, it was reduced in almost 10 points, from 38,2% in 2002 to 29,6% in 2006. During this process even the Gini coefficient improved, showing progress on equal opportunities.²³ On the other hand President Lula, unlike other regimes of Latin American left, energetically secured macroeconomic stability and low inflation. During the present period, although efforts have been made to continue the successful previous orientation, Brazil has been affected by the international economic

²² Source ECLAT.

²³ Source IPEA.

slowdown. At the same time social unrest is arising, demanding reduction of corruption, greater citizen participation and equality before the law.

The case of Peru, according to our classification, is similar to some extent to the one of Chile. Its economy has been benefited by the increase in prices of minerals and raw materials. The conditions of economic activity have improved, macroeconomic stability has been maintained, and the government has taken advantage of the circumstances of an expanded international free trade network. The public social policy has been receiving increasing funding and is characterized by "targeted" policies. Perú reduced significantly poverty from 49% in 1999 to 28% in 2011, and its Gini Index has been decreasing but a slow pace.²⁴

In the case Mexico we can notice the continuity of the Washington Consensus reforms. The country has succeeded in sustaining macroeconomic stability; it continues promoting free trade and tries to maximize investment conditions for growth. However, social policy has had a focalized nature, characterized by "targeted" policies instead of broader schemes. It is important to highlight though, that significant Chinese competition in the manufacturing industry and the strong impact of the recent financial crisis originated in the USA didn't help. Nonetheless, social outcomes are still very poor. For example poverty fell from 53.1% in 1992 to only 52.3% in 2012.²⁵At present the challenge of social inclusion, also related to the informal sector, include a wide part of the economically active population. It is also important to mention that emigration, mainly towards USA, is an important adjustment variable in socio-economic terms. The characteristics of Mexico are reflected and reproduced in some countries of Central America such as, for example, Guatemala and El Salvador, which lack the natural resources and scale of the Mexican economy.

In the case of Argentina, which is comparable to that of Venezuela, the liberalizing economic reforms of the 90s culminated in major economic crisis; and the governments that emerged from these crises, with a left-wing orientation, have adopted policies based on political and economic institutions with a clear extractive logic. In both cases authoritarian style of government has been nurturing domestic political polarization. Many social programs consisting of large state transfers of resources, which come from the extractive sectors (agriculture, petroleum), have been implemented.²⁶ As in the other cases the extractive sectors have profited from high international prices during the last decade. Although these social policies have achieved some positive results in quantitative

²⁴ Source ECLAT.

²⁵ Source CONEVAL.

²⁶ In the case of Argentina we are referring to the agribusiness sector that has to face a tax of 35% on exports, and in the case of Venezuela to the energy sector which is controlled by a state owned company.

terms, they have been criticized for their poor design and their close relationship with traits of populist political favoritism, especially towards the current government parties which provide these funds. In Argentina poverty was reduced from 44,3% in 2003 to 20,6% in 2010, according to official figures, while the ones based in the private inflation estimate obtained 27,5%. In Venezuela poverty decreased from 49% in 1999 to 30% in 2011.²⁷The governments have adopted a rather permanent "activism" on macroeconomic policy, that has generated high inflation (of more than two digits) in both countries.²⁸ Consequently, this raise in inflation eroded part of the social gains. In addition, the authoritarian and discretionary traits of these governments have damaged severely the investment conditions, fostering a further replacement from private to public investment. Ultimately this same discretion impairs the equality before the law, eroding the advances in social indicators derived from monetary transfers.

Finally, Ecuador and Bolivia are cases similar to the latter ones, though a positive differentiation in favor of these last, is that they have been able to sustain macroeconomic stability. Nevertheless, they are equally problematic in the same way, when referring to the poor design of social policies, their dependence on purely monetary transfers instead of providing public services and granting equality before the law. To sum up their reliance on extractive institutions and the erosion of private investment conditions deteriorate sustainability and the mid-term growth prospects.

IV. Problems of institutional mechanisms for social inclusion in Latin America

At this point of the present argument, we can collect the main ideas expressed on the first part related to the theoretical background concerning institutions for social inclusion and the descriptive analysis of the performance of Latin American economies and social policy of the second, and try to synthesize, as a way of conclusion, some final thoughts.

In the first place, there is a significant challenge in terms of improving the economic inclusive institutions that can sustain economic growth, not only relying on the export of traditional raw materials, but also by generating an innovation economy. In this sense, the following elements play an important role: macroeconomic stability, the investment conditions for the private sector, and the development of an educational system that

²⁷ Source CEPAL.

²⁸An active macroeconomic policy is correct when the economic cycle phase is recession and there is room in the private sector to improve output using the existing capital stock; when there is need for new investment, active policy is counterproductive, instead is advisable to generate better investment and supply side conditions. See my book (2008), "La estructura de una economía humana. Reflexiones en cuanto a la actualidad del pensamiento de W. Röpke," Buenos Aires, Educa. Ch. 19, pp. 221-248.

promotes scientific and technical knowledge. Today as we have seen, there are different degrees of progress and also setbacks according to the classification of the country according to the three groups we have outlined.

In a second place, it is important to emphasize the institutional aspect as a fundamental element for designing social policies. In this regard in some countries there is still a shortfall of technical capacity, but in many others the obstacle resides in poor institutions generated by an extractive logic of a particular kind. In the last cases the policies do not have adequate transparency with regard to the content and the recipients of the aid. The prevailing logic consists of linking the social aid to the political sympathy, or directly to the personal commitment to the local leadership, which in turn receive the resources to be distributed by the central leadership. This "clientelistic" network form an obstacle not only to policy implementation, but also to the achievement of the policy objectives. In this way, instead of working on the self-improvement and autonomy of the person in need and his family circle, the logic of dependence on the leadership with political clout to reallocate resources is reproduced. Aid reaches people, but scarcely, usually in monetary form and not in the form of more efficient and accessible provision of public services.

Thirdly, a very important problem of social policy and inclusion, from the point of view of its relationship with the institutional factors, relates to the "rule of law" and more precisely to the ideal of the "equality before the law", which is a component of the previous.²⁹This thought leads us to consider that in many cases the social assistance is provided through monetary transfers, but does not take into account important inequalities before the law that delay or distort the results. A very important requirement to access the benefit of an equal treatment before the law, in addition to the quality of the institutional framework, is related to education. The differences in education cause an inequality in real access to impartial law, which exists only in nominal form, and should protect from certain abuses.

There is another obstacle to foster an institutional approach in many Latin American cases. This obstacle is embedded as an informal factor, and is developed through the repetition of traditional behavior. As the law has historically been created through a "top-down" process, without sufficient citizenship participation—and this is a problem for both the governments of the right and left—the law often is created far away from the concrete needs and has serious difficulties to be applied in the situation of important segments of

²⁹ "These two phenomena—inequality and weak rule of law—are related. Rule of law protections often apply to only a small minority of people in Latin America, such as those who run big businesses or belong to trade unions. Economic inequality is promoted by the uneven application of law, since the poor live in a world largely unprotected by it." Fukuyama Francis, (2011), "The Origins of Political Order. From Prehuman Times to the French Revolution," Farrar, Straus and Giroux, Ch. 24, "Patrimonialism Crosses the Atlantic", pg.227.

the population. On the other hand there is an even more serious underlying perception: that the law is generated by certain powerful interest groups with special access to the government, and that is designed to meet the interests of those who wield the government in agreement with these pressure groups. In this way the population may not perceive the law as a protection and a mechanism of social inclusion, but as something external and sometimes counter-productive. For this reason the culture of informality grows, people have incentives to seek support in discretionary power and its network of rewards and punishments, which is closely related to the logic of extractive institutions. This kind of logic cannot generate a sustainable level of inclusion and equal opportunities, but produce an incentive to seek protection from some powerful group and take advantage of its network for the distribution of privileges. In addition to the reinforcement of dependency rather than autonomy and empowerment, this logic creates a divided society, in which the one that belongs to the power network is unequal from the one that doesn't.

To sum up, although in Latin America social outcomes have improved in recent years, important challenges still remain concerning the future of social inclusion. On the one hand, the challenge of sustainable growth, creating added value and innovation based on natural resources. On the other hand, overcoming the mentioned problems related to social policy. In both aspects, it is important to emphasize the institutional dimension of policies, both economic and social, for inclusion. In the SME approach, as well as in the new contributions concerning inclusive and extractive institutions, it is possible to find significant guidelines for discernment in regard to the type of institutions that may be more beneficial to obtain the desired goals.

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