

“The Political Effects of Inequality in Latin America: Some Inconvenient Facts”

Robert Kaufman
Department of Political Science
Rutgers University

Prepared for the “Workshop on Inequality,” Princeton University, September 22, 2007

Referring to the extreme economic and racial inequalities that have characterized his country since the colonial era, Fernando Henrique Cardoso has famously said that Brazil is no longer an underdeveloped country, but an unjust one. Surveys of mass publics throughout Latin America indicate that overwhelming majorities hold similar views about their own societies. All but small percentages in each country agree that the current distribution of income is “unfair” or “very unfair.” (Latinobarómetro 2001)¹ There is also evidence that inequality retards economic growth (eg., Birdsall, Graham, and Sabot 1998; Rodrik 1999). But even if that were *not* the case, we should still care a great deal about the inherent injustice of societies with such high concentrations of wealth and income.

The purpose of this memo, however, is to raise questions about the *political consequences* of inequality -- its effects on popular protest and democratic stability. Here, there are more reasons for skepticism. Since Aristotle, a high concentration of wealth is widely thought to lead to intensified class conflict, to encourage destabilizing populist protest, and to reduce the chances for democracy. But the evidence that inequality makes a political difference in Latin America is much more problematic than the conventional wisdom holds. Below, I highlight a number of paradoxes that require attention.

1. There is not a strong, direct relation between inequality and democracy

In recent years, the case for the negative political effects of inequality has been advanced most boldly in work by Carles Boix (2003; see also Acemoglu and Robinson 2006). Following Meltzer and Richard (1981), Boix’s basic model holds that the median voter can be expected to vote to redistribute by increasing taxes on wealth-holders and transfers to lower-income groups. In highly unequal societies, this implies that the chances for democracy are slim. Because the median voter is poor, redistributive pressures are severe, and wealth-holders are likely to opt to repress these demands through authoritarian rule. Distributive conflicts are further exacerbated, Boix argues, when wealth is held in the form of highly specific assets that limit opportunities for capital to exit the system.

¹ Do you think that the distribution of income is very fair, fair, unfair, or very unfair?

Such a theory obviously would not appear to auger well for the prospects of democracy in Latin America, a region with one of the most extreme concentrations of income in the world (see also Karl 2000). At least in recent decades, however, high inequality does not appear to have posed an insuperable barrier to democratic transitions or to democratic stability as conventionally defined. Most of the “third wave” transitions in the region occurred during the 1980s and early 1990s, a period of *increasing* inequality, and most democracies persisted despite continuing high levels of inequality throughout the 1990s and early 2000. In itself, this does not disconfirm either Boix’s argument or related theories advanced by Acemoglu and Robinson (2006); each is qualified in a number of important ways and would require much more elaborate empirical tests for a conclusive judgment. Even so, the striking juxtaposition of high inequality and the direction of political change does seem anomalous.

Table 1 provides details. In Costa Rica and Uruguay, two of the most democratic countries in the region, gini indexes were in the low or mid-40s – good for Latin America, but well above coefficients for many East Asian and Eastern European countries. In Chile – another democratic success story – the gini in the early 2000s was about 56 (one of the highest in the region), and had actually increased slightly under the democratic governments of the 1990s. Cross-national patterns also quite mixed in other countries as well. The gini index was relatively low in two widely discussed backsliders -- Chávez’s Venezuela and Fujimori’s Peru. Conversely, democracy in Argentina has survived despite a steep increase in the gini measure, and although inequality in Brazil has fallen since the mid-1990s, it still remains very high.

Inequality may well have affected the *quality* of democracy in these and other countries of the region. In highly unequal societies, wealth-holders may be more able to convert their assets into political power and to limit the effective voice of majorities. (Reuschemeyer 2004). Moreover, it is plausible that highly unequal societies have higher levels of corruption and lower levels of social trust.² But the quality of democracy (what that means and how it is determined) has not been the main issue addressed by most of the contemporary political-economy research. In terms of the basic procedural criteria

² But note that Chile, with a highly unequal distribution of income is also widely viewed as one of the least corrupt Latin American countries.

customarily used to define democratic regimes, inequality does not appear to have a significant impact.

Table 1: Gini Coefficients and Democracy in Latin America

Country	Changes in Gini in the 1980s	Gini Coefficient Early 1990s	Gini Coefficient Early 2000s	Year of 3 rd Wave Democratic Transition
Argentina	+	42.6	50.4	1983
Bolivia		54.3	55.9	1983
Brazil	+ +	59.5	57.2	1985
Chile	+ +	54.7	56.1	1989
Colombia	= -/=	55.9	55.8	1958
Costa Rica	= =	43.9	44.6	1948
Dominican Rep	+ +	50.2 (mid-90s)	48.1	1970
Ecuador		53.0 (mid-90s)	54.3	1979
El Salvador		50.5	51.8	1994
Guatemala	+		56.0	1996
Honduras	=	55.6	53.0	1998
Mexico	+ +	53.9	52.7	2000
Nicaragua		54.2	54.1	1990
Panama	+ +	54.7	54.4	1994
Paraguay		57.8 (mid-90s)	54.9	1993
Peru	=	45.7	47.7	1980/2000
Uruguay		40.8	42.5	1985
Venezuela	= +	41.7	45.5	1958
Regional Average		50.5	51.4	

Source: David De Ferranti, Guillermo Perry et al, “Inequality in Latin America and the Caribbean: Breaking with History?” International Bank for Reconstruction and Development/The World Bank 2003, Table A.6, p. 402.

Estimates of changes in gini in 1980s: first column is from Londono and Szekely, second from Morley and Altimir, De Ferranti et al 2003, p.405

2. The poor do not necessarily vote for higher taxes on the rich or redistributive transfers.

A core assumption underlying both Meltzer-Richard and Boix’s extension is that in highly unequal societies, politicians face strong electoral pressure for redistribution. Again, however, the evidence that this mechanism works in democracies is thin. I cannot cite direct evidence for Latin America with respect to this question, but consider the following general findings:

- Moene and Wallerstein (2001) and Wallerstein and Moene (2003) find that in OECD countries, the median voter votes against unemployment protection as she becomes poorer, because she perceives that the cost of additional social

insurance outweighs the transfers she would receive if she were to lose her job.

- Cheibub(1998) finds that the tax take of democracies is not significantly different from the tax take of authoritarian regimes.
- In the United States, tax increases are generally very unpopular, despite growing inequality.
- Research on the tax bargain (Timmons 2005) suggests that public goods directed toward low- and median income voters (schools, health, etc) are more likely to be financed by an emphasis on relatively flat consumption taxes, rather than more progressive income taxes. Tax systems that emphasize progressive income taxes, paradoxically, are more likely to invest in measures that protect property rights. The logic is simple; if the poor do not pay taxes, they will not be attended to.
- Despite transition to democracy, the tax take in Latin America (outside of Brazil) is still very low by international standards.

One problem with a simple model that connects inequality, the median voter, and redistributive transfers is that democracy empowers not only low-income voters, but middle-income and working-class interest groups that often oppose a shift of resources toward the poor. Although “high-tax coalitions” of low- and middle-income sectors are possible, they are by no means inevitable. When they do not materialize, better organized middle-income interest groups and unions are likely to prevail over the poor in the contest for scarce resources.

3. Discontent over inequality does not cause voters to reject incumbent office holders.

It has been widely assumed that inequality and/or disappointment with the unequal distributive effects of neoliberal reform underlies voter electoral volatility and shifts toward the opposition. Nevertheless, the most systematic analysis of this relation finds little evidence to support it.

Lora and Olivera (2005) examine electoral shifts in 66 presidential and 81 legislative elections held in 17 Latin American countries between 1985 and 2002. They find considerable evidence for retrospective voting: general economic conditions have a consistent impact on whether voters reward or punish incumbents. High inflation is

particularly damaging for office holders, as a number of other studies have also shown. Using the Lora index, Lora and Olivera also find that voters withdraw support from governments that pursue “neoliberal” structural reforms; surprisingly, this is true even when these reforms appear to have positive macroeconomic effects. *However, they find no relation between changes in inequality and swings toward the opposition.*

Other research which disaggregates specific aspects of reform (Baker 2003 and 2008 forthcoming) shows that privatization is especially unpopular and may well be the main target of the electoral opposition to “neoliberalism” seen in the Lora and Olivara study. The important point, however, is that opposition to privatization does not break along the basic class divide that might be expected from an inequality hypothesis. It is relatively weak among low-income groups that benefit from increased access to services, and strongest within the middle class, which already had access but must now pay higher prices. Trade liberalization, interestingly, has substantial support among all income groups (Baker 2003), because of its positive effect on price levels and consumer access to goods and services.

4. There is not a systematic relation between income inequality and left voting.

Swings toward the left in recent years have also commonly been attributed to disappointment over distributive inequalities. Again, however, there are reasons for skepticism about any simple relationship. For one thing, as we just saw above, inequality did not appear to have an effect on swings away from incumbent governments toward the (left?) opposition. In at least some cases, moreover, left victories had less to do with an increase in support than with splits among conservative candidates – this was most notably the case with the recent Sandinista victory in Nicaragua.

More important, if we look across the region, we find only an imperfect relationship between class divisions and the left resurgence. During Brazil’s presidential election campaign of 1989, Lula’s support came primarily from the non-poor and middle class. By the election of 2006, the support base for the PT and Lula had shifted to the poorer regions in the north of the country, but this resulted from pro-poor policies adopted by the Lula government *after* having won office. Support from the poor was an *effect* of his initial rise to power, not a cause. Similarly, Chávez’s appeal to low-income voters was not consolidated until the early 2000s, after the launching of his *misiones*

programs. In Ecuador, the radical candidacy of Rafael Correa drew support primarily from urban sectors rather than the poorer indigenous population. And throughout the 1990s and early 2000s, the middle classes were more inclined than the poor to support left parties in Chile and Uruguay (Handlin 2007).

Matthew Cleary (2006) argues that the resurgence of the left in Latin America has come mainly in countries with long historical experiences with labor-based parties, presumably because such experiences created an organizational base that could launch political challenges to inequality. But as is implied above, the causal mechanisms remain unclear. In Venezuela, Brazil, Uruguay, and Bolivia, left surges were led not by traditional labor-based parties but by new political movements that arose in opposition to the old, dominant political alignments. Left movements in Ecuador and Peru, similarly, were led by outsiders. It may be the case that these outsiders tapped into social networks and individual voters that had previously supported traditional labor-based parties. This seems quite plausible in the case of the PRD in Mexico. Otherwise, however, I have not seen evidence to this effect.

Finally, and most obviously, the “lefts” that have emerged in the last decade differ widely – from market-oriented social democrats in Brazil, Chile, and Uruguay, to much more radical, populist movements in Venezuela, Ecuador, and Bolivia. Cross-national variation in the degrees of inequality does not explain these differences, however. The closest fit is perhaps Argentina, where the Peronist shift to the left under Kirchner followed a drastic increase in measures of income concentration. But in Brazil and Chile, left parties have remained quite moderate, despite very unequal distributions of income. In Venezuela, conversely, the gini index is relatively low.

Other ways of thinking about inequality

From a broader perspective, it is clear that a variety of factors can be expected to offset, at least partially, some of the expected effects of inequality on the prospects for democracy and on the intensification of class cleavages. First, with respect to democracy itself, international influences appear to have been quite important in recent decades. Most significantly, the winding down of the Cold War in the mid-1980s undercut the anti-communist rationale used by military dictatorships to garner international and domestic support. Even after the memories of these dictatorships faded,

moreover, diplomatic pressures and the incentives of international trade have helped to deter reversions to military rule.

Pro-poor social policies may also have helped to have bolstered the stability of democratic government, and to have damped the intensification of class cleavages. Social spending in most countries continues to flow disproportionately to the middle- and upper classes. But under both left-center governments such as Lula's and right-center governments such as those in Mexico, spending has shifted at the margins to lower-income sectors – particularly in the areas of social assistance, health, and education. The long-term effect of these programs on human capital and inequality remains a subject of debate, but it is clear that they provide important components of poor families' income and that they are popular. Indeed, in evaluating democratic regimes, citizens may attach greater weight to the implementation of such programs than to the persistence of long-standing class inequalities over which governments have little short-term control.

Finally, as Robert Dahl (1971: 81-105) argued over thirty years ago, the connection between inequality and political action must be mediated by a long intervening chain of causal mechanisms: people must perceive inequality as unjust; they must believe that government, elites, or other relevant reference groups cause the injustice; and they must believe in the efficacy of entering the political arena. Finally, to form effective popular organizations, those who launch challenges to prevailing inequalities require resources necessary to engage in large-scale and sustained collective action. For the poor, these mediating steps constitute formidable barriers to political participation, whether in the form of voting, civic organization, or broader social protest.

Despite these “inconvenient facts,” it would be wrong to dismiss the underlying distribution of wealth and inequality as politically inconsequential.³ As is true of many “fundamental” structural variables, however, we should expect that the effects of inequality in Latin America will be contingent on a variety of other structural and political factors. Although it is beyond the scope of this short memo to elaborate a full list of such factors, here are a few that seem, at least potentially, to be especially relevant in the contemporary Latin American context.

³ Class cleavages have, for example, played an important role in party alignments within Western European democracies

Asset specificity. As mentioned above, Boix's notable study couples the effects of inequality with the degree to which capitalists can parry the threat of redistribution with an exit option or are locked into investments in highly specific assets. It is possible that this distinction may help to explain differences among more radical and moderate left government in Latin America. Moderate presidents such as Lula or Tabaré Vázquez preside over economies where capitalists do have relatively significant exit options, whereas Chávez, Morales, and Correa govern economies based in petroleum and natural gas. The obsolescing bargain that underlies investment in such sectors creates strong incentives to for left governments to engage in resource nationalism, with important implications for political polarization and the stability of a democratic system.

The post-2003 commodity boom. Although this is related to the asset specificity argument, it conditions the effects of inequality through somewhat different mechanisms. First, as Albert Hirschman once suggested in his famous "tunnel theory" of inequality, the high growth that has come with the current commodity boom may have intensified the dissatisfaction of those who continue to lag behind. To be sure, much more empirical research on this question is necessary: people may be indifferent to inequality if their own incomes are also rising. Even so, it is also plausible that – notwithstanding such gains -- they may remain highly dissatisfied if they perceive that income differences are widening.

Commodity booms and high growth more generally, moreover, provide incentives for governments to ignore fiscal constraints in order to pursue broadly redistributive social programs. Chávez, for example, veered substantially to the left in 2003 as oil prices began to rise, and the populist tilt in Argentina has been sustained by the growth surge that followed its debt default in the early 2000s. In short, commodity booms may contribute to the politicization of class cleavages both by increasing the demand for redistributive policies and by expanding opportunities for governments to supply them.

Insecurity and mobility Various forms of insecurity might also contribute to the mobilization of protest against inequality. The fact that the poor are hit especially hard by economic shocks and gain more slowly during periods of recovery might spur collective action. The threat of downward mobility is perhaps more relevant to the

middle-class and near poor than to the poor, but might facilitate the formation of cross-class alliances.

Regional rivalries. The politicization of inequality is also likely to depend on the availability of structural or political resources that reduce barriers to collective action. It may matter whether income inequalities overlap with differences among geographic regions. In a number of countries, the perception that particular regions appeared to be falling behind seems to have provided an important foundation for political cleavages among rich and poor. Note, for example: Mexico's poor southern states voted solidly for López Obrador in the 2006 presidential election. In Peru, the radical left candidacy of Ollanto Humala was rooted in the impoverished regions of the Sierra. In Brazil, the poor states of the northeast have moved equally solidly toward Lula. Not all left parties have these geographic roots; indeed, those which fail to penetrate the hinterland typically gain more support from the middle-class than the poor (Handlin 2007). Nevertheless, it may be the case that voters in poor regions are integrated into communications and organizational networks that reinforce incentives to vote left and/or to engage in social movements and other forms of collective action.

Political Variables Most obviously, the politicization of class cleavages will depend on political mediations: the extent to which the incentives facing political leaders and the organization of interests is conducive to challenges to inequality. In some cases, these incentives may depend on the policies pursued by governments already in power. In Venezuela, for example, the divisive policies of the Chávez government are likely to have effects on class conflict that endure far beyond the tenure of his government itself – as was the case decades earlier under Juan Perón in Argentina. On the other hand, more moderate left governments – such as those of Chile, Uruguay, and Brazil – are likely to have an integrative effect that blurs the edge of class-based politics. The growing literature on social movements is also relevant for understanding the extent to which distributive politics is influenced by political openings, the strategies of movement entrepreneurs, and the “cultural repertoires” that can be deployed in political mobilization. In the Andean countries, for example, “ethno-populist” movements have combined appeals to indigenous communities with more inclusive appeals to a broader sector of the low-income mestizo population (Madrid 2007).

A final note on research. Dahl's emphasis on the mediating importance of *perceptions* of inequality underlines some important issues of empirical research as well as theory. Yet objective measures such as the gini tell us nothing about these beliefs, how they are socially constructed, and how they motivate political action.

As implied above, one notable step toward filling this gap might be greater cross-fertilization between political-economy and some of the literature on social movements and contentious politics. There is much room for skepticism about the extent to which movement activists actually represent the subordinate groups for whom they claim to speak. Still, a demand for equality is typically an important component of movement rhetoric, and when this is linked to "durable inequalities" such as race or ethnicity, it may play an important role in framing larger political cleavages and collective action capabilities. In any case, we need to find out.

Perhaps an even bigger gap is the paucity of survey research which taps directly into subjective perceptions of inequality and how these are linked "backward" to position in the class structure and "forward" into political action. Some survey-based studies on happiness conducted by Graham and Pettinato (2001) provide valuable, sometimes counter-intuitive insights into the relationship between mobility and optimism about the future. But these findings do not directly address a number of the questions posed above, including their implications for political behavior. In any case, surveys are an essential instrument for getting at the way people's beliefs influence their propensity to engage in distributive politics. A multi-method approach is clearly called for.

Bibliography

Acemoglu, Daron and James A. Robinson 2006. *Economic Origins of Dictatorship and Democracy*. New York: Cambridge University Press.

Baker, Andy 2008. *Consuming the Washington Consensus: Mass Responses to the Market in Latin America*. Cambridge University Press, forthcoming.

Baker, Andy 2003. "Why is Trade Reform so Popular in Latin America? A Consumption-Based Theory of Trade Policy Preferences." *World Politics* 55 (April): 423-455.

Birdsall, Nancy, Carol Graham, and Richard H. Sabot, eds 1998. *Beyond Tradeoffs: Market Reform and Equitable Growth in Latin America* Inter-American Development Bank and Brookings Institution Press.

Boix, Carles 2003. *Democracy and Redistribution*. Cambridge University Press.

Cheibub, Jose 1998. "Political Regimes and the Extractive Capacity of Governments: Taxation in Democracies and Dictatorships" *World Politics* 50, 3 (April).

Cleary, Matthew 2006. "A Left Turn in Latin America? Explaining the Left's Resurgence" *Journal of Democracy* 17: 4

Dahl, Robert A. 1971. *Polyarchy: Participation and Opposition*. Yale University Press.

De Ferranti, David, Guillermo Perry et al, 2003. "Inequality in Latin America and the Caribbean: Breaking with History?" International Bank for Reconstruction and Development/The World Bank.

Graham, Carol and Stefano Pettinato 2001. *Happiness and Hardship: Opportunities and Insecurities in New Market Economies*. Cambridge University Press.

Handlin, Sam 2007. "Popular Parties and Class Cleavage in South America, 1990-2004. Paper prepared for the 2007 meeting of the American Political Science Association, Chicago IL, August 29-September 2.

Karl, Terry Lynn 2000. "Economic Inequality and Democratic Instability" *Journal of Democracy*, Vol. 11, No.1: 149-156.

Lora, Eduardo and Mauricio Olivera 2005, "The Electoral Consequences of the Washington Consensus" Inter-American Development Bank, Research Department, Working Paper #530. (May).

Madrid, Raul 2007. The Rise of Ethno-Populism in Latin America: The Bolivian Case." Paper prepared for the 2007 meeting of the American Political Science Association, Chicago IL, August 29-September 2.

Meltzer, A. and S. Richard. 1981. "A Rational Theory of the Size of Government," *Journal of Political Economy* 89, 5 (October): 914-927.

Moene, Karl Ove and Michael Wallerstein 2001. "Inequality, Social Insurance, and Redistribution." *American Political Science Review* 95, 4 (December): 859-874.

Reuschmeyer, Deitrich 2004. "Addressing Inequality." *Journal of Democracy* Vol. 15, No. 4:

Rodrik, Dani. 1999. "Where Did All the Growth Go? External Shocks, Social Conflict and Growth Collapses." *Journal of Economic Growth* 4(4): 385-412.

Timmons, Jeffrey F. 2005. "The Fiscal Contract: States, Taxes, and Public Services." *World Politics* 57 (July): 530-567.

Wallerstein, Michael and Karl Ove Moene. 2003. "Earnings Inequality and Welfare Spending: A Disaggregated Analysis," *World Politics* 55, 4 (July): 485-516

