The Politics of Declining Inequality

by **Kenneth M. Roberts** | Cornell University | Kr99@cornell.edu

Although economic inequalities increased in much of the world during the first decade of the twenty-first century, they declined in the world's most inequitable region—Latin America. This paradox should not be dismissed as a statistical artifact of an outlier regressing to the mean, and it cannot be explained by structural or market forces alone. The trend toward declining inequalities started in a number of countries before the commodity boom provided new revenues to be distributed in the middle of the decade, and allegedly market forces like the skill premium for higher education are, in fact, highly influenced by labor market policies (for example, increases in the minimum wage). Consequently, previous research has demonstrated that public policy was decisive in lowering inequalities after 2000. Governments increased taxes and made them more progressive, intervened in labor markets to raise employment and minimum wages, and expanded public spending on human capital and social assistance programs (see Cornia 2012). If public policy mattered, then it behooves researchers to identify the political factors associated with the changing policy environment, both as causes and as effects.

Formal models of distributive politics assume that democratic competition in contexts of high inequality will produce popular majorities with preferences for redistributive policies (Acemoglu and Robinson 2006). Majority preferences, however, cannot be inferred directly from objective material interests; they must be politically constructed, and that process is highly contingent. During the 1980s and 90s, a confluence of events impeded the political construction of popular majorities around redistributive agendas. Statist development models collapsed in the debt crisis, severe inflationary and balance of payments pressures imposed market constraints on consumption and redistribution, and labor movements entered into a steep decline. Under such conditions, even center-left and populist parties adhered to the technocratic consensus for fiscal austerity and market-based structural adjustment. Indeed, given the devastating effects of hyper-inflation on wages and mass consumption, democratic majorities often supported stabilization and adjustment measures, whatever their longer-term distributive consequences.

The defeat of hyperinflation across the region by the mid-1990s, however, ushered in a new, post-adjustment political era in which market liberalization ceased to dominate the policymaking agenda and social concerns became increasingly salient. Latinobarómetro surveys consistently found that between 75 and 85 percent of region-wide respondents considered the distribution of income in their country to be unjust, with 50 percent calling it "very unjust" (Latinobarómetro 2007: 36). Furthermore, over 80 percent of survey respondents assigned responsibility to the state for primary and higher education, health care, and social security (Latinobarómetro 2008: 38). In this post-adjustment era, then, democratic competition and, in some cases, mass social protest re-politicized the social deficits of market liberalization. In the process, they eroded the technocratic consensus for market orthodoxy and opened new political space for social policy experimentation—space that would only expand once the post-2003 commodity boom relaxed fiscal and foreign exchange constraints.

In this context, the post-adjustment era was characterized by an unprecedented political shift to the left in Latin America, with at least eleven different countries electing a left-of-center president since 1998 (see Levitsky and Roberts 2011). Naturally, it is tempting to attribute declining inequalities to the election of governments that are, by definition, ideologically committed to reducing them. Several studies have demonstrated empirically that governments of the left have, in fact, reduced inequalities more than non-leftist governments in the region (Cornia 2012; Birdsall, Lustig, and McLeod 2011), reflecting their more aggressive and comprehensive pursuit of the policy initiatives outlined above (which inevitably require a greater willingness to intervene in markets or expand the state's social welfare roles). Declining inequalities, however, have not been the exclusive preserve of leftist governments, such as those of Argentina, Venezuela, Brazil, and Ecuador, where steep declines in Gini indices were recorded. Centrist and conservative governments in countries like Peru, Mexico, and Colombia oversaw healthy reductions as well (see Cornia 2012), suggesting that opportunities exist to craft moderate redistributive or pro-poor policies even within the constraints of macroeconomic orthodoxy. AmericasBarometer surveys, for example, found that 29 percent of Colombian respondents and 19.5 percent of Mexican respondents were recipients of monthly social assistance from government programs (Layton and Smith 2011), indicative of conservative support for conditional cash transfers (CCTs) that have low fiscal costs and few market-distorting effects.

But if governments of the left and right are both able to reduce inequalities, they do not necessarily rely on the same measures to do so, and they do not build the same types of welfare state. Targeted social assistance under conservative governments provides a measure of protection against market insecurities for those lacking the private resources to compete in a market economy. As such, it conforms to the basic logic of liberal or "residual" welfare states that rely primarily on the market to meet social needs, with the state providing only supplemental support for the most needy or disadvantaged (Esping-Anderson 1990). Governments of the left have also created or expanded CCTs, but they have differentiated themselves from their conservative counterparts and moved beyond residual welfare states in one of two basic ways. First, they have combined targeted social assistance with reforms grounded in universalistic or social democratic principles, such as the efforts in Chile, Uruguay, and Argentina to expand coverage of public pension and health care systems (particularly by extending benefits to women and informal-sector workers). Second, several of the leftist governments have included asset redistribution, such as land reform and nationalizations, within their general package of redistributive reforms. This has been most common in countries with large natural resource-based extractive industries that can generate windfall rents for states (i.e., Venezuela, Ecuador, and Bolivia), and is also characteristic of governments led by populist figures or new leftist movements that grew out of the social backlash against neoliberal reforms in the 1990s.

What, then, are the political effects of these varied models of redistributive politics? Survey research has found that social assistance programs enhance the re-election prospects of incumbent presidents (Layton and Smith 2011). In Brazil, for example, the Bolsa Familia program is widely credited with helping Lula and the PT expand their base of support in impoverished northeast regions where the party was traditionally weak (Hunter and Power 2007). Not surprisingly, then, the broad-ranging redistributive measures adopted by most of the new left governments have been associated with continued electoral success. To date, in the eleven countries with relatively clear-cut left-leaning presidents, incumbent presidents or their parties have been re-elected eleven out of twelve times since 2000. The only defeat, Chile in 2010, was an artifact of electoral laws that prevented Michelle Bachelet from running for re-election despite approval ratings hovering near 80 percent. Even if the "left turn" is broadened to include the more questionable cases of Hipólito Mejía in the Dominican Republic and Álvaro Colom in Guatemala, incumbent left parties have been re-elected eleven out of fourteen times, a 78.6 percent rate. By comparison, incumbent centrist and conservative parties have been re-elected only nine times out of thirty-two elections since 2000, a 30 percent success rate.

Clearly, the electoral success of leftist parties may diminish if the current highly favorable macroeconomic conditions change and austerity reignites distributive conflicts. Nevertheless, given the historical record, the recent ability of leftist governments to address social needs while maintaining relative macroeconomic and political stability is striking. And as the Chilean case suggests—where Bachelet's conservative successor, Sebastian Piñera, has faced massive student protests to reform a privatized and highly inegalitarian educational system—social pressures to reduce inequalities are likely here to stay. Indeed, in Latin America's neoliberal showcase, Piñera has proposed a major tax hike in order to increase educational spending and, he hopes, defuse a protest movement that may otherwise force him to dismantle the third basic pillar of Pinochet's social model. Meanwhile, in supposedly polarized Venezuela, the opposition to Hugo Chávez has selected a presidential candidate who is careful to identify with center-left currents and reassure voters that he will maintain the signature social programs of the Chávez regime. In recent years, leftist presidential candidates in countries like El Salvador, Mexico, and Peru tried to reassure wary investors that they would "be like Lula" rather than Chávez, but we may have reached a point where conservatives as well must promise to "be like Lula" in order to win elections.

In a manner reminiscent of early European welfare states, Latin America may thus be in the process of politically consolidating basic forms of social protection—programs that reproduce electoral support for the left, and which conservatives dare not roll back in a competitive democratic arena. Should such a new consensus emerge, it would represent a significant shift in the region's development trajectory, and a most unexpected denouement of the fractured Washington consensus in the post-adjustment era.

Endnotes

1 This includes Venezuela, Chile, Brazil, Argentina, Uruguay, Bolivia, Ecuador, Nicaragua, Paraguay, El Salvador, and Peru under Ollanta Humala.

2 Piñera's socialist predecessors, Ricardo Lagos and Michelle Bachelet, previously adopted major reforms in the privatized health care and social security systems, respectively, moving in the direction of universal social citizenship. To date, Chile's democratic regime has made only modest reforms to the labor code, the fourth basic pillar of the neoliberal social model bequeathed by the Pinochet military dictatorship.

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