Democracy and the Left

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Social Policy and Inequality in Latin America

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Acronyms

AD	Acción Democrática (Democratic Action, Venezuela)
AFPs	Administradoras de Fondos de Pensiones (Pension Fund Administrators, Chile)
APRA	Alianza Popular Revolucionaria Americana (American Popular Revolutionary Alliance, Perú)
ARENA	Aliança Renovadora Nacional (Brazil)
AUGE	Acceso Universal de Garantías Explícitas (Regime of Explicit Health Guarantees, Chile)
BPC	Benefício de Prestação Continuada (Continuous Cash Benefit, Brazil)
CCOO	Confederación Sindical de Comisiones Obreras (Communist Workers' Commissions, Spain)
CCSS	Caja Costarricense del Seguro Social (Costa Rican Social Security Institution, Costa Rica)
CCT	Conditional cash transfer
CEPAL (ECLAC)	Comisión Económica para América Latina y el Caribe (Economic Commission for Latin America and the Caribbean)
CGTP	Confederação Geral dos Trabalhadores Portugueses (General Confederation of Portuguese Workers, Portugal)
CPCS	Conselho Permanente de Concertação Social (Permanent Council for Social Dialogue, Portugal)
ECLAC	Economic Commission for Latin America and the Caribbean
EMU	Economic and Monetary Union
EU	European Union

FA	Frente Amplio (Broad Front, Uruguay)
FDI	Foreign direct investment
FODESAF	Fondo de Desarrollo Social y Asignaciones Familiares (Social Development and Family Allowance Fund, Costa Rica)
FONASA	Fondo Nacional de Salud (National Health Fund, Chile)
FUNDEF	Fundo de Manutenção e Desenvolvimento do Ensino Fundamental e de Valorização do Magistério (Elementary Education and Teacher Valorization Fund, Brazil)
FUNRURAL	Fundo de Assistência ao Trabalhador Rural (Rural Workers' Assistance Fund, Brazil)
GDP	Gross national product
IALS	International Adult Literacy Survey
IAMC	Instituto de Asistencia Médica Colectiva (Collective Mutual Care Institution, Uruguay)
IDB	Inter-American Development Bank
IFIs	International financial institutions
ILO	International Labour Organization
IMF	International Monetary Fund
INPS	Instituto Nacional de Previdência Social (National Social Insurance Institute, Brazil)
ISAPRES	Instituciones de Salud Previsional (Health Provider Institutions, Chile)
ISI	Import substitution industrialization
IU	Izquierda Unida (United Left, Peru)
LIS	Luxembourg Income Study
MNR	Movimiento Nacionalista Revolucionario (Revolutionary Nationalist Movement, Bolivia)
NDC	Notional defined contribution
NDP	New Democratic Party (Canada)
NHS	National health service
OECD	Organization for Economic Co-operation and Development
OLS	Ordinary least squares (regression)
PAMI	Programa de Atención Médica Integral, Instituto Nacional de Servicios Sociales para Jubilados y Pensionados (Comprehensive Medical Attention Program, Argentina)

PC	Partido Comunista de Chile (Communist Party, Chile)
PCC	Partido Conservador Colombiano (Conservative Party, Colombia)
PCP	Partido Comunista Português (Portuguese Communist Party, Portugal)
PDC	Partido Demócrata Cristiano (Christian Democratic Party, Chile)
PFL	Partido da Frente Liberal (Liberal Front Party, Brazil)
PJ	Partido Justicialista / Partido Peronista (Peronist Party, Argentina)
PJJHD	Plan Jefes y Jefas de Hogar Desocupados (Program for Unemployed Male and Female Heads of Households, Argentina)
PLN	Partido Liberación Nacional (National Liberation Party, Costa Rica)
PMDB	Partido do Movimiento Democrático Brazileiro (Brazilian Democratic Movement)
PP	Partido Popular (People's Party, Spain)
PPD	Partido por la Democracia (Party for Democracy, Chile)
PPPs	Purchasing power parities
PRI	Partido Revolucionario Institucional (Institutional Revolutionary Party, Mexico)
PS	Partido Socialista de Chile (Socialist Party, Chile)
PS	Partido Socialista (Socialist Party, Portugal)
PSD	Partido Social Democrata (Social Democratic Party, Portugal)
PSDB	Partido da Social Democracia Brasileira (Brazilian Social Democratic Party, Brazil)
PSF	Programa Saúde da Família (Family Health Program, Brazil)
PSOE	Partido Socialista Obrero Español (Spanish Socialist Workers' Party, Spain)
PT	Partido dos Trabalhadores (Workers' Party, Brazil)
PTB	Partido Trabalhista Brasileiro (Brazilian Labor Party, Brazil)
PUSC	Partido Unidad Social Cristiana (Social Christian Unity Party, Costa Rica)
RN	Renovación Nacional (National Renewal, Chile)

SEDLAC	Socio-Economic Database for Latin America and the Caribbean
SNS	Servicio Nacional de Salud (National Health Service, Chile)
UCR	Unión Cívica Radical (Radical Civic Union, Argentina)
UDI	Unión Demócrata Independiente (Independent Democrat Union, Chile)
UGT	Unión General de Trabajadores (General Union of Workers, Uruguay)
UGT	Unión General de Trabajadores (General Union of Workers, Spain)
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNU-WIDER WIID	United Nations University World Institute for Development Economics Research World Income Inequality Database
UP	Unidad Popular (Popular Unity, Chile)
USAID	United States Agency for International Development
VAT	Value-added tax
WB	World Bank

COUNTRY ACRONYMS USED IN FIGURES

ARG	Argentina
AUL	Australia
BEL	Belgium
BOL	Bolivia
BRA	Brazil
CAN	Canada
CHL	Chile
COL	Colombia
CRI	Costa Rica
CZR	Czech Republic
DEN	Denmark
DOM	Dominican Republic
ECU	Ecuador
ELV	El Salvador
FIN	Finland
FRG	Germany
GTM	Guatemala

HON	Honduras
HUN	Hungary
IRE	Ireland
ITA	Italy
MEX	Mexico
NET	Netherlands
NIC	Nicaragua
NOR	Norway
NZL	New Zealand
PAN	Panama
PER	Peru
POL	Poland
PRT	Portugal
PRY	Paraguay
SLO	Slovenia
SWE	Sweden
SWZ	Switzerland
UKM	United Kingdom
URY	Uruguay
USA	United States
VEN	Venezuela

Preface and Acknowledgments

This book has a long personal intellectual history. In the late 1970s, we began our first collaborative work. Our focus then was at the intersection of our previous work, European social democracy and reformist redistributive or egalitarian political change in Latin America. At the time, the Latin American region was covered by dictatorships, but there was some movement toward transition, and we anticipated that the return to democracy would make reformist redistributive politics relevant once more. One of the only extant experiments at that time was the Manley government in Jamaica (1972–80). By the time we got into the field in 1981–82, Manley had been voted out of office, but precisely because the government had many failures as well as successes, we thought that an analysis of these successes and failures would be instructive for other left governments in other countries in Latin America. By the time the book was published in 1986, the region was already on its way (back) to democracy.

Unfortunately for the relevance of the book on Jamaica, the debt crisis and exhaustion of import substitution industrialization (ISI) had already made one element of the left models of the 1970s irrelevant. The project of the Manley government married redistributive social reform with dependency theory–based economic strategy that called for state-led development and deepening (if highly selective) of ISI. The left governments of the 1970s envisioned deep-going social and economic transformation—more radical in the case of the Allende government, more modest in the case of the Manley government, to take two examples. This kind of economic model was off the agenda in the region by the mid-1980s, in part because ISI was not a viable way forward, but equally importantly because it conflicted with the neoliberal Washington Consensus, which the international financial institutions (IFIs) were able to impose on countries in the region as a result of the debt crisis. The nonviability of an import substitution industrialization economic model might have left the project of redistributive reform through social policy on the table, but this project too conflicted with the Washington Consensus.

We then turned our attention to the conditions that make democracy possible and sustainable, and, in collaboration with our colleague and friend Dietrich Rueschemeyer, engaged in a broad comparison of the historical development of democracy in Western Europe, North, Central, and South America and the Caribbean, and the Antipodes. What followed was a study of the development of social policy in the twentieth century in advanced capitalist democracies. In the course of these studies, we developed a unified theoretical framework to explain the development of democracy and egalitarian social policy. We further extend this theoretical framework in the present book.

When we began to focus again on Latin America around the turn of the century, prospects for egalitarian social policy seemed dim. The hegemony of the Washington Consensus was beginning to erode, though, and after a couple of years the turn to the left ushered in a period of new policy departures that allowed room for hope that the seemingly deeply entrenched structures of inequality might begin to come under attack. The research for this book, which includes the first decade of the twenty-first century, has given us reason for cautious optimism regarding the potential long-term effects of democracy on social policy and poverty and inequality in the region.

While working on this book, we have been fortunate to receive help from many generous scholars and institutions. For financial support we thank the National Science Foundation grant SES 0241389; the Hanse-Wissenschaftskolleg in Delmenhorst, Germany; the Collegio Carlo Alberto in Moncalieri, Italy; the Kellogg Institute for International Studies at the University of Notre Dame; the John Simon Guggenheim Memorial Foundation; and the Morehead Alumni Distinguished Professorship and the Margaret and Paul A. Johnston Professorships (funding the Gerhard E. Lenski, Jr., Distinguished Professorship) in the College of Arts and Sciences at the University of North Carolina at Chapel Hill. For leaves from our teaching and administrative responsibilities we thank the College of Arts and Sciences at the University of North Carolina at Chapel Hill.

We are grateful for invitations to present parts of this work and for the feedback we received from the participants at the following institutions: Brown University, the Collegio Carlo Alberto, the Comparative Working Group of the Department of Political Science at UNC, Columbia University, the Graduate School of Social and Political Sciences at the University of Milan, the Hanse-Wissenschaftskolleg, Humboldt Universität in Berlin, the Kellogg Institute for International Studies at the University of Notre Dame, Pontificia Universidad Católica de Chile, Princeton University, Universidad Diego Portales in Santiago, Chile, Universitat Pompeu Fabra, and the University of Texas at Austin. We also benefited greatly from participating in the conferences where the contributions to the following volumes were presented: *Democratic Governance in Latin America* (Mainwaring and Scully 2010a), *Leftist Governments in Latin America: Successes and Shortcomings* (Weyland, Madrid, and Hunter 2010), and *The Resurgence of the Latin American Left* (Levitsky and Roberts 2011). We particularly thank the editors of these volumes for comments on our contributions.

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This is the third book for which John Tryneski has been our editor. It has been great to work with him, and we thank him for his support of our scholarship. Last but not least, we express our profound gratitude to our former and present research assistants who have worked with us over the years on this project: Santiago Anria, Juan Bogliaccini, Kirk Bowman, Michelle Dion, Juan Pablo Luna, Thomas Mustillo, Sara Niedzwiecki, Indira Palacios, Jennifer Pribble, and Frederick Solt. We are happy to

see their careers flourish, and we know that we could not have written this book without them.

We dedicate this book to our children, Klara and Sepp. It has been a joy to see them develop from the state of "no political science at the dinner table!" to the present, where they engage us in animated conversations about their views of the world.

CHAPTER ONE

Introduction

This book argues that political forces can bring about peaceful redistributive change in Latin America. Scholars have long agreed that Latin America has an extremely unequal income distribution. Most would also agree that it has the worst income distribution of any region in the world (Frankema 2009). Traditionally, Latin American governments and international organizations dealing with the region focused on economic growth and poverty reduction rather than on inequality. By the turn of the century, however, a number of factors had come together to bring the problem of inequality into the limelight. First, econometric studies had shown that inequality can be an obstacle to economic growth (e.g., Alesina and Rodrik 1994). Second, public opinion in Latin America had become increasingly critical of the austerity and structural adjustment policies championed by the international financial institutions (IFIs) because of the failure of economic benefits from the reforms to trickle down.

Toward the end of the decade, the Inter-American Development Bank produced a major study of inequality (IDB 1998), followed in 2004 by the World Bank (Ferranti et al. 2004). The World Bank study was remarkably critical in that it pointed to negative consequences of inequality not only for poverty rates but also for economic growth and democracy. The United Nations Economic Commission on Latin America and the Caribbean (ECLAC 2002) warned that the millennium goals of cutting poverty and extreme poverty in half by 2015 would not be achieved without a change in distribution. Other studies confirmed that high degrees of inequality reduced the effect of growth on poverty reduction (Bourguignon 2002). The United Nations Development Programme (UNDP 2004) report on the state of democracy in Latin America argued strongly that the degree of inequality prevalent in most Latin American countries obstructed the construction of a democracy of full citizenship.

Economists have explained the high degree of inequality in Latin America by the unequal distribution of productive assets—land, skilled labor, and capital—(Morley 2001, 51), and in addition by the frequency of macroeconomic crises (Ferranti et al. 2004, 157, 227–34), and by geography and resource endowments (IDB 1998, 97–100). The World Bank team further traced the historical origins of inequality to the concentration of wealth and power by the colonizers, the exploitation of indigenous and imported slave labor, and the survival into the independence period of the concentration of wealth and the political exclusion of the majority. These conditions gave rise to clientelistic politics and states with low capacity to ensure macroeconomic stability, property rights, and basic services in the twentieth century. Specifically, they entailed a neglect of the expansion of public education. The ensuing struggles over economic and political inclusion caused political instability and erratic economic policies and growth. Social policies on average did little to mitigate inequalities because tax burdens and social expenditures were comparatively low and most social spending was regressive (Ferranti et al. 2004, 109–47, 247–72).

We certainly agree with the general contours of this analysis. The debt crisis of the 1980s and the ensuing abandonment of the import substitution industrialization (ISI) model were but the latest manifestations of radical changes in economic policies, which had the result of increasing economic inequality. The reduction of social expenditures as part of austerity packages allowed the quality of public social services to deteriorate even further. Thus, by the end of the century, inequality and poverty in Latin America appeared close to intractable, largely immune to political intervention. Indeed, popular commentators contended that the deepening process of globalization tied the hands of governments in the region more than ever.

Political scientists have attributed the absence of significant redistributive reforms under the newly democratic regimes to the dysfunctional nature of political institutions. In the important case of Brazil, for instance, they emphasized fragmentation of the state, political parties, and civil society (Weyland 1996), and candidate-centered electoral systems that promote clientelism and weakness of party discipline (Ames 2001). Other social scientists underlined the staying power of racial, ethnic, and gender hierarchies (Gurr 2000; Gootenberg 2010; Ewig 2010), and still others invoked the enduring power of hierarchical cultural traits (Wiarda 1982).

Yet, in the ensuing decade, the region began to turn the corner as new emphasis on redistributive social policy spread. For the first time since reliable data became available, inequality declined in most countries in the region (López-Calva and Lustig 2010). This historic turn, the earlier decline in poverty in some countries, as well as the large differences in redistributive social policy across Latin America, suggest that inequality and poverty may not be so intractable after all.

In this book, we explain the differences in redistributive social policy and inequality between countries and over time. We base our account on quantitative analyses and comparative historical case analysis of the development of social policy over seven decades in five Latin American countries and further comparisons to developments in the two Iberian countries.[1] We find that democracy is one of the most important determinants of redistributive social policy. One mechanism by which democracy promotes egalitarian social policy is that it is a precondition for the development of left parties and their access to governmental power, but our evidence indicates that it has additional effects, such as political competition of nonleft parties with left parties. We also show that international structures of power affect the fate of egalitarian social policy. This impact appeared in the differences within Latin America between the 1980s and 1990s on the one hand, when the debt burden and Washington Consensus greatly constrained Latin American social policy, and the 2000s on the other hand, when many countries in the region freed themselves from the IFIs and there was no longer a consensus in the U.S. capital about desirable social policy, certainly not a neoliberal one. It appeared yet more strongly in our comparison of Latin America and Iberia, where the Europe-oriented Iberian countries never even considered neoliberal social policies such as pension privatization.

With regard to social policy and inequality, our quantitative analysis and case studies highlight the centrality of investment in human capital. On the basis of studies of microdata on household income distribution, by ECLAC (see chap. 3) and UNDP (see chap. 6) and our own quantitative analysis, we demonstrate that social insurance is not very redistributive and sometimes even perversely redistributive in Latin America, whereas health and education spending and targeted social transfers are quite redistributive. Moreover, education spending, to the extent that it is aimed at expanding the educational level of the mass citizenry, reduces inequality by reducing the skill income premium. Investment in human capital, however, cannot be pursued in isolation; it must be pursued in conjunction with reductions in poverty. The correlation between national-level poverty and average cognitive skill is very high (−.84; see chap. 5), and the causal relationship is almost certainly reciprocal. The beauty of the conditional cash transfer programs (see chap. 6) is the explicit recognition of the link between poverty and investment in human capital. Finally, upgrading of human capital is essential in setting Latin American countries on a new development path in which the region no longer competes in export markets solely on the basis of export of raw materials and low-wage, low-skill manufactured goods.

Outline of the Argument

In chapter 2, we outline our theoretical and methodological approach. We build on power constellations theory presented in Rueschemeyer, Stephens, and Stephens (1992) and further developed in Huber and Stephens (2001a). The first cluster of power is the balance of domestic class power and party political power, which is the core explanatory factor in the power resources theory of welfare state variations in advanced capitalist democracies. The second cluster of power is the structure of the state and state–society relations. The third is transnational structures of power, the complex of relations in the international economy and systems of states. Our adaptation of the theory as we applied it to welfare state development in advanced capitalist democracies (Huber and Stephens 2001a) follows the differences in our explanations of the development of democracies in those countries and Latin America and the Caribbean (Rueschemeyer, Stephens, and Stephens, 1992, cf. chap. 4 and chaps. 5 and 6).

Of great importance for the first cluster of power, Latin American economic development was historically late and dependent on development in core capitalist countries and thus differed sharply from the historic development of Europe. For these reasons and because of a historical inheritance of highly unequal distributions of land, the class structure developed differently, consisting of a significant class of large landlords, a larger class of poor peasants and rural workers, a smaller urban working class, and a larger class of informal workers. We argued in *Capitalist Development and Democracy* that this class structure was not favorable to democracy. Thus, as compared to Huber and Stephens (2001a), in which we focused on the post–World War II period in advanced capitalist democracies, in this analysis democracy is a variable, not a constant, and we hypothesize that political regime appears as a major determinant of egalitarian social policy. These same features of the class structure weaken the political left, which, following the power resources theory hypothesis, should also be a major determinant of egalitarian social policy.

In the second cluster of power, state–society relations appear as more important in the analysis of social policy development in Latin America. In periods of authoritarian rule, the state was arguably more autonomous from civil societies and, and once the urban working class became a significant social force, the authoritarian state was faced with the need to co-opt it, if the state was not willing to resort to outright repression. State capacity, which was not an issue for the post–World War II advanced industrial societies, is a problem for many Latin American countries, particularly at the beginning of the period under investigation. Constitutional structure veto points, which loomed large in our explanation of social policy variations, play a smaller role in Latin American social policy developments, presumably because they were only relevant under democratic regimes.

We hypothesize that our third cluster of power, transnational structures of power, would be much more important in Latin America. During the debt crisis period of the 1980s and afterward in the 1990s, the heyday of the Washington Consensus, the International Monetary Fund and the World Bank pressed for the neoliberal agenda and had powerful negative (conditionality) and positive (loans) inducements at their disposal to push the agenda of neoliberal reform, including social policy reform, on Latin American countries.

In chapter 3, we outline a strategy for redistribution for Latin American countries. We begin with an exposition of the simple arithmetic of redistribution because there are so many misunderstandings about this even among some scholars of comparative social policy. The basic point we make here is that proportional taxation combined with flat rate benefits (e.g., each decile receives 10 percent of the benefits) is very redistributive. It is an easy step from here to the seemingly counterintuitive observation that slightly regressive taxes and a transfer system that is mildly earnings related (i.e., the upper deciles get slightly more that 10 percent of the benefits) can be redistributive.

We then explore the possible coalitions for redistributive social policy by examining data on income distribution and class structure in Latin America. We conclude that two-thirds of Latin American households, whether seen from the point of view of class position or position in the income distribution, have an interest in egalitarian social reforms. On the basis of the discussion of domestic class relations in the previous chapter, we proceed to explain why this seemingly favorable terrain has produced so little redistributive reform in Latin America, even during democratic periods. Consistent with power resources theory but directly contrary to the Meltzer-Richard theory of redistribution (Meltzer and Richard 1981), we argue that the reason for this lack of reform is that inequality in material resources is accompanied by inequality in political resources and thus less, not more, redistribution transpires.

In chapter 3, we also flesh out what a solid and effective redistributive social policy regime in Latin America might look like. We build on the concept of basic universalism, as developed by Filgueira et al. in Molina (2006). In the areas of health and education, the essence is guaranteed universal access to free or subsidized (according to household income) quality services. In the area of transfers, basic subsistence should be guaranteed by a combination of social insurance and social assistance. Social assistance is crucial in the context of high informality, where social insurance leaves about half of the labor force uncovered. Means testing is compatible with basic universalism as long as the transfers are broadly targeted and seen as a citizenship right, not as charity.

Chapter 4 covers the development of social policy up to the end of the import substitution industrialization (ISI) period, circa 1980. The chapter opens with a cross-national analysis of social policy development in this period. We show that the size of the urban working class and democratic history (measured by cumulative years of democracy after 1945) appear as the strongest determinants of social welfare effort as of 1980. The social welfare effort measure, a combination of social spending and coverage, also allows us to identify five welfare state leaders—Argentina, Brazil, Chile, Costa Rica, and Uruguay. These high social effort countries are selected for in-depth comparative historical analysis in the remainder of this chapter and in chapters 6 and 7.[2] A scatter plot of social welfare effort by democratic history suggests that there were two paths to early welfare state leadership—a democratic/left political strength path, represented by Chile, Costa Rica, and Uruguay, and a path characterized by authoritarian elite co-optation of a large urban working class, represented by Argentina and Brazil. The comparative historical analysis in the rest of the chapter confirms the existence of two paths and fleshes out the process of early welfare state formation.

Chapter 5 presents a pooled time series analysis of the determinants of social spending, inequality, and poverty in the period 1970 to 2005. Democracy emerged as the most important variable in this analysis, in part because of its direct effects, but more importantly because it was at the beginning of a causal chain that influenced all of the dependent variables in our analysis: social spending, inequality, and poverty. Democracy had a strong direct influence on all three spending variables (health, education, and social security and welfare), on poverty, and on inequality. The polar opposite of democracy, repressive authoritarianism, had negative effects on education spending. Democracy made left political mobilization possible, and left political strength had important effects on inequality and poverty. Democracy pushed up spending on education, which had a strong direct effect on poverty and strong indirect effects on inequality and poverty through its effect on the average educational level of the population. Finally, social security and welfare spending had a negative effect on inequality but only if it developed in a democratic context. We also found support for Muller's (1989) argument that the effect of democracy on inequality appears only after some twenty years of democracy. We found a similar relationship with poverty.

In sharp contrast to our findings for developed democracies (Bradley et al. 2003), we found that social spending did not have unambiguous negative effects on inequality in Latin America. Given this outcome, it is not surprising that we did not find much evidence of left political effects on the level of social spending, again in sharp contrast to our finding for developed democracies (Huber and Stephens 2001a). Since left strength affected inequality, we surmised that left political strength affected the composition and allocation of expenditures. We found strong evidence of this in the comparative historical analysis. Finally, it is worth underlining the importance of investment in human capital for lowering poverty and inequality in Latin America. Our analysis shows strong statistically negative relationships between average years of education and both poverty and inequality as well as a strong negative relationship between health spending and poverty.

Chapter 6 examines the development of social policy, poverty, and inequality in our five focus cases since 1980. The period can be broken into two distinct subperiods: neoliberal reform from 1980 to 2000 and the left turn after 2000. Allowing for some variations in timing between the countries, we see that the first period was characterized economically by the debt crisis, GDP stagnation or decline, and economic instability until the early 1990s, then economic stabilization and renewed growth, though punctuated by financial crises. The whole period witnessed not only the transition from ISI but also economic liberalization in areas other than trade (e.g., privatization, liberalization of external capital controls, liberalization of domestic financial systems). Politically, all of our focus cases and most other countries in the region transited to democracy by 1990. This was the Washington Consensus period, and the IFIs pushed neoliberal reforms in economic and social policy in the region. In only one area, educational policy, did we find a significant push in social policy in a progressive direction during this period. Argentina and Brazil passed significant educational reforms in the 1990s, and most countries in the region significantly expanded primary and secondary school enrollment. In Brazil and Argentina, it is clear that the return of democratic political competition was responsible for the reforms, and we surmise that this was probably part of the story elsewhere.

Inequality rose in this period, and on the basis of our data analysis, pooled time series analysis by Morley (2001), and analysis of microdata on household income distribution by the contributions to López-Calva and Lustig (2010), we can pinpoint fairly precisely why this rise happened. The transition from ISI to open economies led to deindustrialization, which increased inequality. Part of the mechanism here was the shedding of low-skill industry and deployment of investment to higher-skill activities, which led to skill-biased technological change and thus an increase in the skill/education income premium. The development of poverty rates varied across Latin America in this period. The transition from ISI increased informalization and led to upward pressure on poverty levels across the region. Poverty, however, declined in some countries after 1990 as a result of the return of growth or the adoption of compensating social policy. Among our focus cases, this decline happened in Brazil, Chile, and Costa Rica.

The turn of the century was also an important turn for politics, social policy, and inequality in Latin America. Domestic power relations changed as roughly two-thirds of the population of the region was governed by left executives by mid-decade. The international structures of power became more benign as Latin American countries freed themselves from debt and thus IFI conditionality, and as particularly the World Bank turned from neoliberalism in social policy toward advocacy of social investment policy. Left governments in the region passed new progressive social policies (see the contributions to Weyland, Madrid, and Hunter 2010, and to Levitsky and Roberts 2011). In our focus cases, the Lula government in Brazil substantially increased the conditional cash transfer programs initiated by Cardoso and greatly increased the value of the minimum wage, which also increased the value of government transfers tied to the minimum wage; the Lagos and Bachelet governments in Chile passed basic universalistic health care and pension reforms; the Kirchner governments in Argentina expanded conditional cash transfers and access to basic medicines and reformed labor legislation, which strengthened unions and their hand in bargaining; and the Vázquez government in Uruguay reformed the tax system, unified the health care system, increased family allowances, and revived the wage councils.

Inequality fell in Latin American after 2000, and our data analysis and the contributions to López-Calva and Lustig (2010) again allow us to pinpoint why. By 2000, the transition from ISI to open economies had run its course, and with it skill-biased technological change petered out. As the education expansions of the 1990s began to change the education and skill composition of the workforce, the skill premium actually fell, which contributed to a decline in inequality in labor incomes. In addition, in some countries, labor legislation reforms and increased minimum wages also contributed to lower labor income inequality. The decline in inequality of disposable income was furthered by increases in targeted transfers, most notably conditional cash transfers, by increases in the minimum wage that pushed up transfers that were linked to the minimum wage, and by increased progressiveness of other transfers.

In chapter 7, we compare the development of our four South American cases with Portugal and Spain in the period after 1970. The similarities between these countries in social, political, and economic terms in 1970 are striking. Both groups of countries were characterized by high levels of land inequality, high levels of inequality in the distribution of education, similar average educational levels, similar levels of GDP per capita, similar social protection systems both in terms of the level of effort and the structure of the system (Bismarckian contributory social insurance), similar ISI economies, and by authoritarian political systems, at that point or in the near future. By 2000, the Iberian countries were very different from Latin America in that they had levels of social welfare effort close to European averages, GDP per capita levels significantly higher than those in our four South American countries, and levels of inequality much lower than those in the Latin American countries. In this chapter, we account for the differences in social policy and its outcomes.

Part of our explanation mirrors our explanation of variations within Latin America through time and across cases: the Iberian countries democratized a decade earlier and had much longer experiences with left government. Indeed, left executives were nonexistent in post-redemocratization Argentina, Brazil, Chile, and Uruguay until after 2000. The other part of our explanation concerns the different effect of transnational structures of power. Our historical analysis indicated that the Washington Consensus neoliberal formula had important impacts on social policy reform in Latin America. The different position of Iberia in transnational structures of power, next to and increasingly integrated into Social Europe, demonstrated just how important this factor was for social policy. Nowhere was this clearer than in the case of pension reform. Both groups of countries had contributory-defined benefit pension systems that were in deep trouble in this period. In all of the Latin American countries, pension privatization along the lines of the Chilean system, recommended, and indeed financed, by the World Bank, was on the agenda, and most countries adopted some system of at least partial privatization. In Iberia, however, privatization was not on the agenda, and both countries adopted parametric reforms of the existing system.

Theoretical Contributions

Our main theoretical contribution is to demonstrate the explanatory power of power constellations theory for the development of welfare states or—more modestly—social policy regimes and their redistributive effects in Latin America. Politics matter fundamentally and have the potential of modifying the seemingly immutable structures of inequality in Latin America. We also want to demonstrate that power constellations theory is much more powerful than the widely used Meltzer-Richard median voter model in explaining redistribution. Indeed, we argue that the assertion of Meltzer-Richard is plain wrong. The model postulates that greater distances between the median and the mean income generate greater demands for redistribution that are met by government policy. One can certainly agree that a greater distance between the median and the mean income generates a greater need for redistribution, but this need does not necessarily translate into political demands, and political demands do not necessarily translate into policy. Political socialization shapes perceptions and thus the probability that demands are formulated. The distribution of material resources and of organizational networks shapes political power distribution and thus the probability that demands are met.

A greater distance between the median and the mean income tends to be accompanied by a more skewed distribution of political power and thus lower responsiveness to demands for redistribution. And highly skewed distributions of political power shape political socialization so as to restrict the range of perceived policy options and thus demands for redistributive policy. Democracy and the rise of left parties reduce the degree to which political power distributions are skewed and thus open the possibility for a greater range of policy options to be perceived, for demands for new policies to be articulated, and for those demands to be met. Again, there is nothing automatic or necessary or functionalist about these processes. Redistributive policies are a result of political action, but democracy makes the rise of actors committed to redistribution and the pursuit of actions aimed at redistribution possible.

Another theoretical contribution is to demonstrate that democracy in the longer run makes a difference for poverty and inequality—at least in Latin America—and to explain why this is so. Ross (2006) found no difference between authoritarian and democratic regimes in poverty, taking into account nonincome poverty and corrections for missing data from authoritarian governments. Certainly, if one were to focus on Eastern Europe and the former Soviet Union, one could show that the transition to democracy has been followed by increasing poverty and inequality. This was the result of the transition from socialist to capitalist economies that accompanied the democratic transition, and the tremendous economic and social dislocations generated by this transition. In Latin America, however, the alternative to democracy has with few exceptions been right-wing authoritarianism, and these regimes lacked any commitment to egalitarianism and solidarity. On the contrary, they repressed autonomous organization and mobilization from below and thus kept those forces weak that might pressure for redistribution. Democracy made it possible for social movements, civil society organizations, and parties of the left to form, grow, and slowly gain influence on policy to shape it in a more egalitarian direction. Democracy does not guarantee uniform movement toward lower poverty and inequality, but it makes gradual movement in this direction possible.