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# Latin America's Income Inequality Under five Political Regimes, 1870-2018

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# Latin America's Income Inequality Under five Political Regimes, 1870-2018[1],[2]

*by*
*Giovanni Andrea Cornia*[3]

**Abstract.** Most analysts of the Latin American economy believe in the unavoidable persistence of high income and wealth inequality in the region due to a continued structural dependence on primary commodities, the lingering effects of colonial policies, and the emergence of a modernized version of the traditional elites. This paper challenges this view on political economic grounds. It argues that the changes observed over the last one hundred and fifty years in the political orientation of governments affected the nature of economic and social policies that, in their turn, influenced the level of income inequality, both upward and downward. In other words, the evolution of inequality has depended to a considerable extent on ideological and political changes that need to be fully understood. This paper tries to explore this circular relation between 'political orientation' of governments and 'inequality', and between 'endogenous changes in economic/social conditions' and 'changes in the political orientation of governments'.

## 1. Origins of Latin America's inequality

The first 'political period' analysed coincides with the period spanning the beginning of the Colonization. For which there is only some fragment of information about Latin America's inequality. In fact, there is no evidence documenting the level of inequality of the Inca, Aztec, and other indigenous empires prior to the arrival of the Iberian conquerors. Engerman and Sokoloff (1997) have suggested that inequality was already high in these indigenous empires, as their political institutions were very hierarchical. Colonization then raised inequality further for the reasons discussed below. However, Williamson (2015) takes issue with this position and argues that at the time of the Conquest, Latin America's income inequality was lower than in the United States and Western Europe at the beginning of their

[1] To appear in by Dutt, Amitava, Nora Lustig, Juan Carlos Moreno Brid and Jose Antonio Ocampo (eds) 'Development and Macroeconomics: Essays in Honor of Jaime Ros' (2022).

[2] The author would like to thank Leonardo Gasparini and Guillermo Cruces for sharing their 2020 study on inequality in Latin America, and Kennet Roberts for sharing a bibliography on the evolution of political regimes in the region.

[3] Part 4.3 draws on my chapter 'Is Latin America's recent inequality decline permanent or temporary?' in P. A. G. van Bergeijk and R. Van der Hoeven (eds.) (2017), 'Sustainable Development Goals and Income Inequality', Edward Elgar.

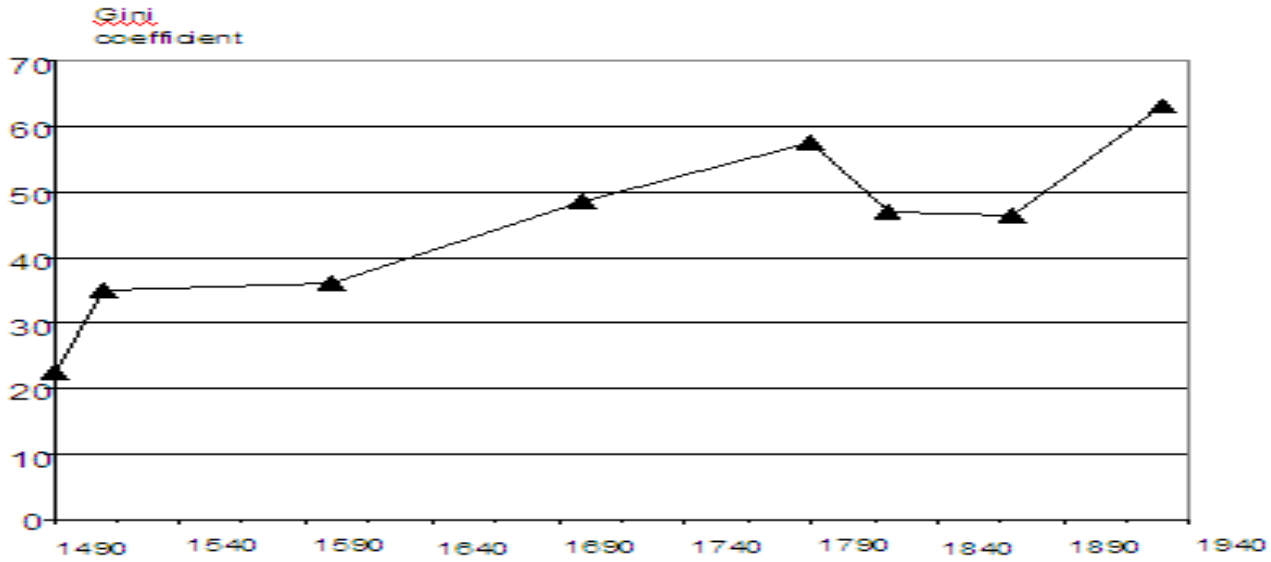
industrialization in the eighteenth century. In these countries inequality fell later on at levels lower than Latin America because of the development of the welfare state and fairer labour institutions.

In brief, according to Williamson (2015) pre-colonial Latin America had a moderate level of inequality. In his view the Gini coefficient rose from 0.23 to 0.35 in the immediate wake of colonization but it then leveled off (Figure 1). Over 1600-1790, inequality rose substantially, as the population recovered from the initial mortality crisis induced by colonization (that carried with it a pool of diseases unknown in the Americas), and due to the inflow of low paid slaves from Africa to work in the plantations. His estimates suggest a peak Gini coefficient of 0.58 around 1790. Inequality then declined as the Latin American economies were crippled by their wars of independence (1825 – 1850) and the political instability that followed them. Figure 1 suggests that the Gini index probably dropped from 57.6 in 1790 to 46.4 in 1870. The biggest force contributing to this fall were, of course, independence and decolonisation. Thus, by 1870, inequality in Latin America was no higher than in the United States and Western Europe. After 1870, however, Latin America saw a rapid increase in inequality – i.e. by 37% over the Belle Epoque of 1870 -1920 - as its boom in commodity exports benefitted the landed elite, and as the colonial policies remained unchanged[4].

What then set Latin America apart is that economic inequality continued to rise from the 1920s to the 1970s in much of the region while it declined in much of the rest of the Western world, including the U.S., thanks to the gradual development of the welfare state (Figure 1). The magnitude of the rise in the region is confirmed by a surge in the rental-wage ratio and in the ratio ‘GDP per worker’/ ‘unskilled wage’.

[4] For a comprehensive treatment of the development of this period see Bertola and Ocampo(2012)

**Figure 1**: Likely inequality trends in Latin America, 1491 – 1940)




Source: Williamson (2015)

In a much cited paper, Engerman and Sokoloff (2005) confirm that colonization worsened inequality via the creation of extractive institutions such as the *latifundia, encomiendas* and compulsory *corvèes* that raised the concentration of land, other physical assets, human capital and power. In this way, colonization created development institutions that perpetuated well after the Second World War the privileges of a small agrarian and commercial oligarchy. In principle, such path-dependent inequality should have been eroded by the withering away of the share of agriculture in GDP. Yet, high inequality persisted due to imperfect financial markets that lent only to wealthy households, the mapping of the initial land inequality into a low and unequally distributed human capital, and the late democratization of most of the region. For Prados de la Escosura (2005) this colonial-type inequality was exacerbated by the boom in commodity exports and prices that took place during the globalization of 1870–1914. Indeed, better export prices raised land rents and the land rental/wage ratio, to the benefit of the landowners. This trend was interrupted during the inter-war years when world trade declined sharply but resurfaced after the Second World War (Prados de la Escosura, 2005, Bertola and Williamson 2003).

## 2.The political evolution of regional policies until the mid-late 1970s

The persistence of high inequality during this long period was guaranteed by the then dominant military dictatorships, like that of Porfirio Diaz in Mexico, or civilian oligarchies such as those of Chile, Argentina, Brazil, and Colombia. Even where democratic reforms were introduced, oligarchic governments used electoral manipulations to keep the control of resources in the hands of political leaders allied with the landed gentry and the commercial elites. The widespread regional political instability was not due to the surfacing of alternative challenges to the existing authoritarian regimes, but originated from disaffected members of the same groups and from an expanding middle class resentful of its exclusion from power and resources. (see *'Challenges to the Political Order'- https://www.britannica.com/place/Latin-America*)

There were, of course, exceptions that influenced region-wide policies and helped reducing income polarization between the elites and the poor. One of such exceptions was the presidency of Lazaro Cardenas over 1934-40. Indeed, Cardenas pushed through the implementation of the *ejido* land reform that had been proclaimed in 1917 but that had hardly been implemented till then. Almost everybody gained from this measure, and Cárdenas' Mexico became a model of justice and political stability in the region.

Another example of political evolution that altered the economic relations between the old agrarian and commercial elites and the middle and lower classes was the Argentinean *justicialismo,* a syncretic nationalist movement meant to represent an inter-classist 'third way', between capitalism and communism.

Peron's[5] economic policies were inspired by the interventionist Keynesian measures adopted by Roosevelt during the New Deal, and by the nationalist-corporatist approach followed by Italy during the fascist era. Peron's objective was to make Argentina less dependent on imports of capital goods and manufactured products from the industrialized countries by adopting a strategy of Import Substituting Industrialization (ISI). The development of a national industry was to be achieved by assigning a greater role to the state and the trade-unions, recognizing the right to strike and introducing social provisions for the working class, including unemployment subsidies and the minimum wage. In broader terms, the new approach aimed at eliminating poverty by nationalizing oligopolistic services (rail,

[5] The *justicialaismo* is a syncretic,political doctrine relying on an authoritarian form of socialism, and on patriotic feelings. It shares many similarities with the Italian fascism, without rejecting, at the same time, democracy[, popular sovereignity and national socialism. For his political opponents however, Peron was a demagogue and dictator.

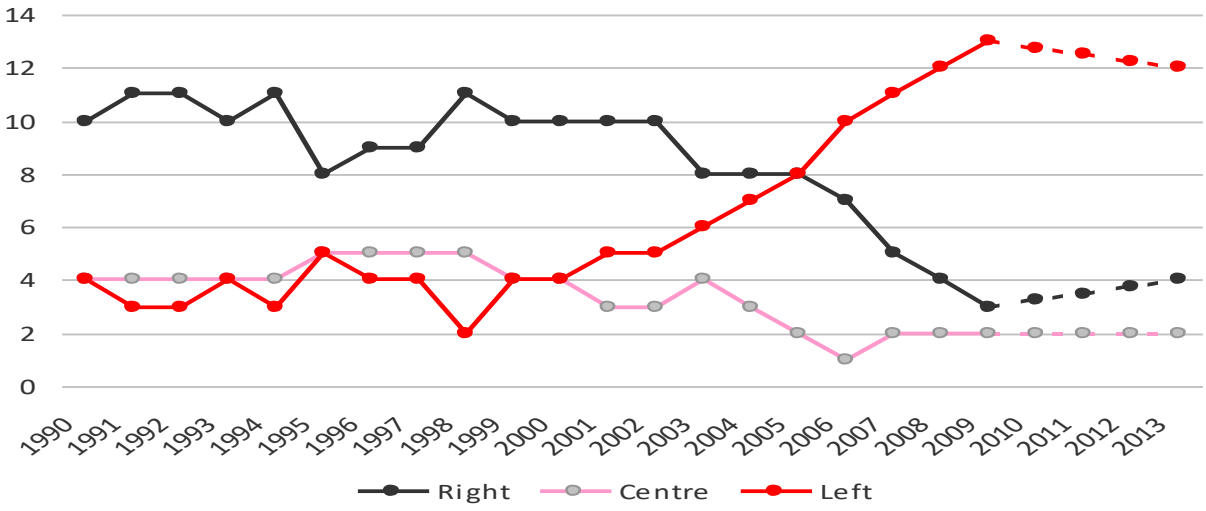
water, gas and telephone), promoting popular housing, educating the poorer classes, and improving their access to health services. Other countries that were able to reduce inequality during this period were Uruguay, Costa Rica, and Chile until 1973.

## 3. Inequality changes during the 20 years of the Neoliberal Revolution, (mid 70s to late 1990s)

*3.1 Political changes*

During this period, the political situation was characterized by a dominance of military and authoritarian regimes (Figure 2) due to the perceived need to control a growing demand for democracy, equity and inclusion emanating from progressive popular groups and, in some cases, guerrilla movements. The political scene was influenced also by the 'Red paranoia', that is the fear of a surge of communist regimes supported by the Soviet Union during the years of the Cold War. Rightwing military regimes - that overturned democratically elected governments – came to power during this period in all the Southern Cone countries, Peru, (1968–1980), Panama (1968-1989), Bolivia (1969-72), Honduras, (1972–1982), El Salvador (1979-1984) and other countries (Figure 2, Loveman 2020).

**Figure 2.** Trends in the number of incumbent governments according to their political orientation, Latin America 1990-2013




Source: Cornia (2014) updated by the author to 2013.

*3.2 Policy reforms*

Since the mid-late 1970s, most of the Latin American countries run by military dictatorships or conservative civilian governments abandoned the ISI strategy

followed during the first three decades after World War II and adopted neo-liberal policies in the fields of macroeconomic stabilization, domestic liberalization, privatization and labor and social policy. Neo-liberal policies had been adopted in the USA, United Kingdom, New Zealand and other OECD countries in the aftermath of the 1973-78 oil crisis, increase in inflation and severe recession of 1978-82. Monetarism and the shift from the objective of full employment to that of maximizing shareholder value provided the theoretical underpinning of this approach. Labor, social and distributive policies were also modified. The initial bout of neoliberal reforms paved the way to the liberalization of international trade, FDI and portfolio flows. The supporters of such approach claimed that such policies would have created the conditions for rapid growth and that, in line with the predictions of the Stolper-Samuelson corollary to the Hecksher Ohlin theorem, trade and capital account liberalization would have raised foreign and overall investments and reduced domestic inequality in countries endowed with an abundant supply of unskilled labor.

In the region, the most radical example of neoliberal reforms was that followed by the Chilean military regime over 1973-1990. The reforms consisted in an abrupt import and financial liberalization, labor reforms biased against workers, privatization of state assets, reform of social services and pensions and an agrarian counter-reform.

Public employment was cut, wages were under-indexed to inflation, while real minimum wages declined and their coverage was reduced. Norms on workers dismissal were relaxed, labor tribunals were abolished, trade-unions were suspended for years and later on excluded from collective negotiations. In addition, the rights of union leaders were restricted, and the segmentation of unions was encouraged (Contreras and Ffrench Davies 2014).

Similarly, family allowances went into a steady decline, together with per capita public spending on health, education and average pensions. Social spending was targeted at the poorest members of society, a measure which partially offset the decline in their labor income and wellbeing. For instance, the nutrition policy focused on severely malnourished and sick children who were cared for in a hospital setting. This helped reducing a surge in their IMR, but not in that of the rest of the mildly malnourished child population.

To stimulate the incentives to invest, the neoliberal reformers reduced taxes on firms and high-income individuals, while the tax base was broadened. Wealth and income taxes on capital gains were abolished and the tax on profits was reduced. In

addition, generous tax privileges were granted for purchases of the stock of firms being privatized, while a remaining 10 percent income tax was eliminated for reinvested profits. On the other hand, the VAT exemptions on basic consumer goods were abolished, while the VAT on several luxury goods was reduced or suppressed (Contreras and Ffrench Davies 2014).

All these measures affected significantly the trend of inequality and the fluctuation of income growth. A surge in the skilled/unskilled wage ratio and overall social polarization, was a main source of the overall increase of inequality recorded over that period. This derived from the adoption of 'dual systems' in education, health and pensions, which split the population between those with access to quality private services and others being covered by underfinanced public services. The pension reform of 1981 entailed an abrupt transition from a pay-as-you-go system to an individual capitalization account that caused major transitional and distributive distortions, did not cover informal sector and self-employed workers, and caused a ballooning of the social security deficit.

Finally, the land reform of 1962-73 that had redistributed land ownership from large estates to small farmers, rural labourers and cooperatives was abolished. After 1973 the military dictatorship initiated an agrarian counter-reform, by which the land expropriated was returned to its former owners, or was auctioned or divided into individual plots in the case of land that had been transferred earlier on to cooperatives. By 1997 land ownership was more concentrated than in 1955.

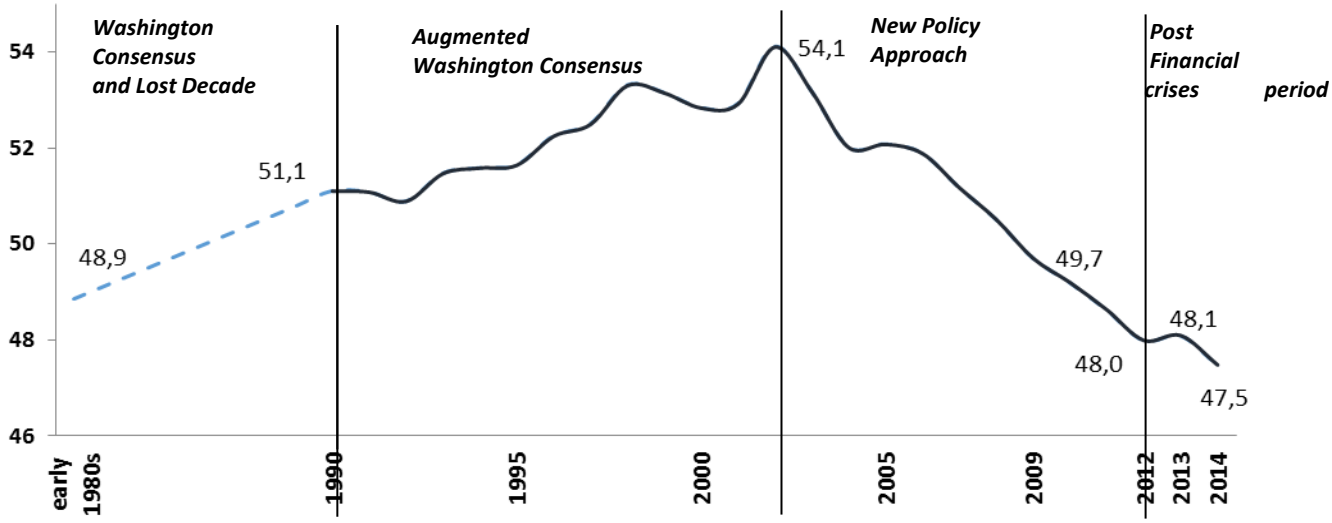
*3.3. Distributive impact*

As a result, during the turbulent mid '70s, '80s and '90s, inequality fell only in Colombia, Costa Rica, Honduras and Peru (Altimir, 1996). Despite the return to moderate growth and extensive internal and external liberalization, during the 1990s (the years of the Augmented Washington Consensus), income concentration worsened further in two-thirds of the countries of the region, albeit at a slower pace than during the 1980s (Gasparini et al., 2009; see also Figures 3 and 4) . As a result, the average regional Gini index rose by 2.2 points from the early 1980s to 1990, by another 1.7 points between 1990 and 2000, and by 1.2 points during the recession of 2001–2002, that is by 5.1 points for the two neo-liberal decades taken together (Figure 3). A key feature of this trend was a decline of the labor share in total income and a parallel rise in the capital share (Sainz and Calcagno, 1992). Five structural changes explained this shift. First, during the economic stagnation of the 1980s, the regional unemployment rate rose sharply. Second, there was a

substantial expansion of the low-wage informal sector. Third, formal sector wages rose more slowly than GDP per capita while the minimum/average wage ratio fell, and wage differentials by skill level widened (Sainz and Calcagno, 1992).

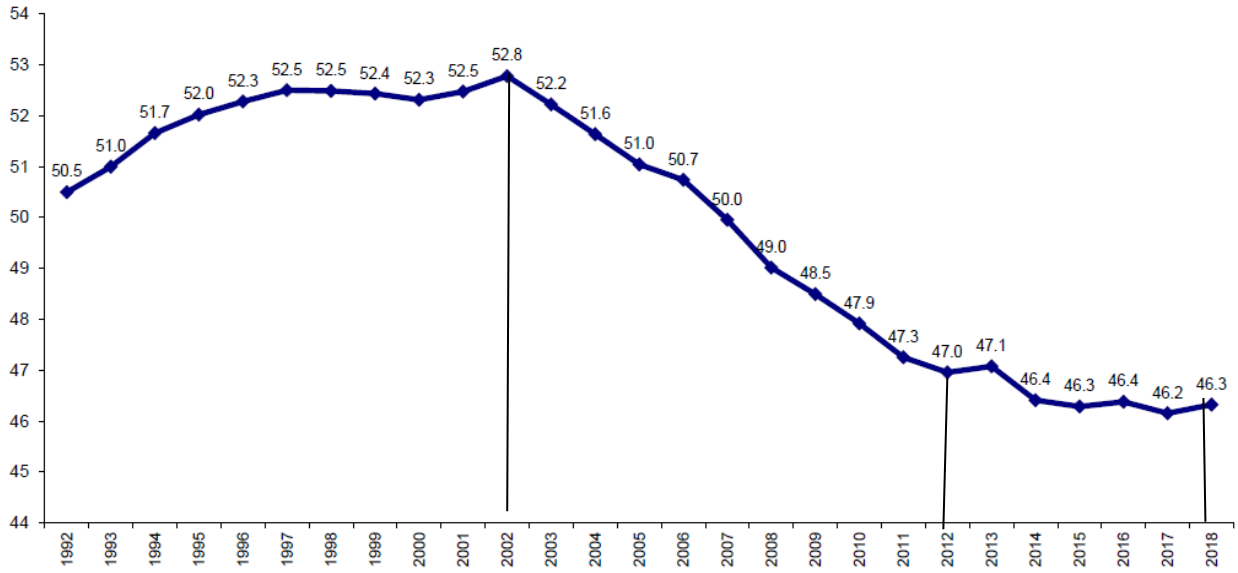
What were the underlying causes of the inequality increase of the 1980s and 1990s? The literature focuses on two alternative explanations: the impact of the skill-biased technical change (SBTC) and the impact of neoliberal policies. An increase in the SBTC was the result of the liberalization of imports of capital and skill-intensive investments that raised the demand for skilled workers capable of operating modern machinery. However, prior to the import liberalization, the supply of skilled workers had risen slowly because of limited public spending on education and the inability of most households to finance the secondary education of their children. As a result, the relative wage of skilled workers rose in the 1990s (Cornia, 2014). However, it is not obvious that this was due solely to the SBTC. Indeed, institutional changes, such as the abandonment of collective bargaining and the fall of minimum wages mentioned above, contributed to the rise of the skill premium. As for the second explanation, there is consistent evidence that other neo-liberal policies affected income inequality. In a study covering the years 1980–1998, Behrman, Birdsall and Székely (2000) found that such policies caused an overshooting of inequality that was particularly marked on occasion of domestic financial reforms, capital account liberalization and tax reforms. Similar results were found by Taylor (2004), Koujianou-Goldberg and Pavcnik (2007), and Cornia (2004). Though with different emphases, these studies concluded that trade and financial liberalization generated adverse growth and distributive effects due to the intensified competition by low-cost Asian exporters and the limited inter-sectoral mobility of domestic production factors that scarcely moved from the declining import-competing sector to the labor intensive sectors. The informalization of employment due to the appreciation of the real exchange rate, following the liberalization of the capital account, the regressive effects of devastating financial crises[i] and regressive tax reforms were also key in pushing inequality upward (Figure 3 for 1980-2014, and Figure 4 for 1992-2018).

**Figure 3.** Average regional Gini index of the distribution of household income per capita, early 1980s -2014




*Source*: Author's elaboration on SEDLAC data (http://sedlac.econo.unlp.edu.ar/esp/estadisticas.php, accessed on 10 June 2016) *Note*: The trend for 1990–2006 covers 18 countries. That for 2006–2014 covers 15 countries, as it excludes Venezuela, Guatemala and Nicaragua for which there are only few data for this period. Over these years in Guatemala and Nicaragua the drop was respectively 6.4 and 4.1 Gini points. If interpolated data for these two countries were included, the Gini decline over 2006-2014 would be slightly more pronounced.

**Figure 4.** Average unweighted Gini Coefficient of the Distribution of Household Income per Capita, Latin America, 1992- 2018




Source: Gasparini and Cruces (2020). Note: this figure differs slightly from those of Figure 4, as in the latter the period considered is 'early 1980s -2014 while in in Figure 4 they are 1992- 2018. The data for the overlapping years of the two figures differ slightly due to small differences in computational assumptions.

# 4. The 'Left Turn' and inequality decline of 2002-2012

*4.1 Political changes*

The 2000s were characterized by a major shift in the political orientation of many Latino governments. Since the early 1990s the region experienced a gradual return to democracy and, from the late 1990s, a widespread 'Left Turn' or 'Inclusionary Turn' (Roberts 2019). As a result, the number of countries run by a center-left regime rose from 2 to 13 between 1998 and 2009, and remained almost unchanged until 2013, while the number of center and center-right regimes fell from 16 to 5 (Figure 2). As suggested by various issues of the Latino Barometro (http://www.latinobarometro.org/lat.jsp), a major factor behind this political turnaround was a growing frustration with the disappointing results of the Washington Consensus policies implemented in the 1980s and 1990s. These policies, as well as the world recession and debt crisis of the 1980, led to an initial sharp GDP contraction followed by sluggish growth for all the 1980s, a shrinkage of manufacturing and public services, and rising unemployment, informality and inequality. In addition, Roberts (2014) indicates also that 71 percent of the people polled by the Latino Barometro expressed dissatisfaction with the privatization of basic utilities.

Growth recovered moderately in the 1990s when the WC evolved into its 'Augmented' version. Yet, inequality kept rising. Satisfaction with the *performance* of the market economy reached as low as 16 percent in 2003—during the final stages of the regional economic downturn that followed the Asian financial crisis (Roberts 2014 on the basis of Latino Barómetro 2005: 63). Thus, more than a perspective ideological realignment of the electorate, the Left Turn of the 2000s was the result of a retrospective economic voting and of a demand for a more active role of the state in the provision of public goods.

As noted by Panizza (2005), Lustig (2009), Birdsall, Lustig and Mc Leod (2010) and Roberts (2014 and 2019), the new left regimes differed substantially among each other. Some could have been defined as '*social-democratic*', as in is the case of Chile's Partido Socialista, Uruguay's Frente Amplio and Brazil's Partido dos Trabalhadores. These parties had their roots in organizations of the working class, but evolved into broad coalitions comprising the organizations of the urban and rural poor, the unemployed, informal sector workers, community organizations and indigenous groups that replaced the official trade-unions and left parties on the forefront of social mobilization. The new coalitions included also part of the business community

that had traditionally voted for the conservative parties, but that then switched their political allegiance after experiencing a decline in their level of income per capita and income share during the prior period (Table 1, left panel)[6]. A second group of countries (such as Argentina and Ecuador) developed *left-nationalist* platforms, while a third (Venezuela and Bolivia, and Nicaragua since 2007) was characterized by a *radical-populist* approach entailing also the redistribution of assets.

In all countries of the New Left, matters of social justice and economic development were at the core of their new identity, while, at the same time, they retained during this period a prudent approach to macroeconomics. Except for the last three countries, the policy models of the Left-Turn countries resembled more the 'Redistribution With Growth' model proposed by Chenery et al. (1978) than the more radical 'Redistribution Before Growth' (Adelman, 1979) which considers the redistribution of assets as a necessary first step to avoid the under-consumption trap and economic dependence afflicting developing countries.

**Table 1.** Changes in the income shares of the low income group (deciles 1-5), middle class (deciles 6-9) and upper class (top decile), 1990-2002, 2002-9 and 2009-13.

| | 1990-2002 | | | | 2002-2009 | | | | 2009-2013 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Deciles | 1-5 | 6-9 | 10 | **Δ Gini** | 1-5 | 6-9 | 10 | **Δ Gini** | 1-5 | 6-9 | 10 | **Δ Gini** | **Δ Gini 2013** |
| | | | | | | | | | | | | | |
| Argentina c/ | -4.68 | + 0.94 | +3.74 | +7.7 | +5.01 | + 2.81 | -7.82 | -9.0 | +1.8 | 0.2 | -1.9 | -2.5 | -0.3 |
| Brazil | +1.32 | +0.07 | -1.39 | -2.1 | +2.49 | +1.63 | -4.12 | -4.6 | +0.9 | -0.1 | -0.7 | -1.0 | +0.3 |
| Dom. Rep. | -1.61 | -0.74 | +2.35 | +2.8 | +0.97 | - 0.86 | -0.05 | -1.1 | +1.0 | +0.3 | -1.3 | +0.1 | +1.4 |
| El Salvador | -0.45 | +2.78 | -2.33 | -0.5 | +3.76 | -0.98 | -2.78 | -5.6 | +1.4 | 0.1 | -1.8 | -1.8 | +1.9 |
| Mexico | +0.42 | +0.85 | -1.27 | -1.1 | +0.25 | + 044 | - 0.68 | -0.5 | +0.7[b] | -0.3[b] | +0.4 | -0.6 | +1.8[a] |
| Paraguay | + 0.86 | +1.54 | -2.40 | -1.8 | +3.20 | +2.11 | - 5.41 | -5.9 | +0.8 | -0.1 | -0.6 | -0.6 | +0.3 |
| Venezuela | -2.97 | -0.62 | +3.68 | +5.0 | +2.45 | +0.45 | -2.90 | -4.0 | … | ….. | … | … | …. |
| | | | | | | | | | | | | | |
| Bolivia | -1.24 | - 0.66 | +1.90 | +2.1 | +1.87 | +0.04 | -1.91 | -2.9 | +0.7 | +0.8 | -1.5 | -3.0 | +1.3 |
| Ecuador | +1.82 | -1.49 | -0.33 | -2.3 | +2.87 | +2.65 | - 5.51 | -5.6 | +0.8 | +0.5 | -1.7 | +0.1 | +0.8 |
| Chile | +0.51 | -0.28 | +0.23 | -0.5 | +1.44 | +0.79 | -2.23 | -2.7 | +0.8 | +0.5 | -1.3 | -1.9 | -0.4 |
| Colombia | +0.36 | + 0.84 | -1.24 | -0.9 | - 1.89 | -1.21 | +3.11 | +3.4 | +1.1 | +1.5 | -2.6 | -3.0 | -0.2 |
| Peru | - 0.67 | -2.12 | +2.79 | +2.9 | +2.99 | +4.17 | - 7.18 | -6.5 | +1.8 | +0.8 | -2.7 | -3.9 | -0.5 |
| Uruguay | -2.15 | +0.16 | +1.99 | +3.0 | +0.87 | - 0.85 | - 0.01 | -1.0 | +2.3 | +1.9 | -4.4 | -5.9 | +0.7 |
| | | | | | | | | | | | | | |
| Costa Rica | -2.82 | -3.23 | +6.05 | +5.8 | -0.18 | -0.53 | + 0.71 | +0.4 | +0.5 | +1.8 | -2.1 | -0.6 | +0.8 |
| Guatemala | +1.53 | - 2.92 | +1.40 | -4.0 | - 0.47 | +1.16 | -0.70 | -3.6 | … | … | … | … | …. |
| Honduras | -2.66 | + 0.89 | + 1.78 | +5.3 | - 0.82 | +2.46 | - 1.78 | -1.4 | -0.8 | -1.5 | +2.3 | +3.2 | -4.1 |
| Nicaragua | +3.63 | + 1.00 | -4.63 | -4.1 | - 0.78 | -2.05 | + 2.82 | +2.1 | … | … | … | … | …. |
| Panama | -0.33 | - 2.46 | +2.79 | +1.4 | +2.52 | + 0.88 | -3.40 | -4.3 | +0.1 | +0.5 | -0.6 | 0.0 | -0.3 |
| Average | -0.63 | -0.30 | +0.93 | | +1.40 | +0.73 | -2.13 | | +0.93 | +0.50 | -1.43 | | |

Source: author's elaboration on CEDLAS data accessed in late 2015. Notes: a/refers to 2012, b/refers to 2010-2. c/ In the first seven countries in Table 1 the share of the middle class declined over 2009-13 and Gini rose in 2013.

[6] On this see also Bogliacino and Riojas-Lozano (2017)

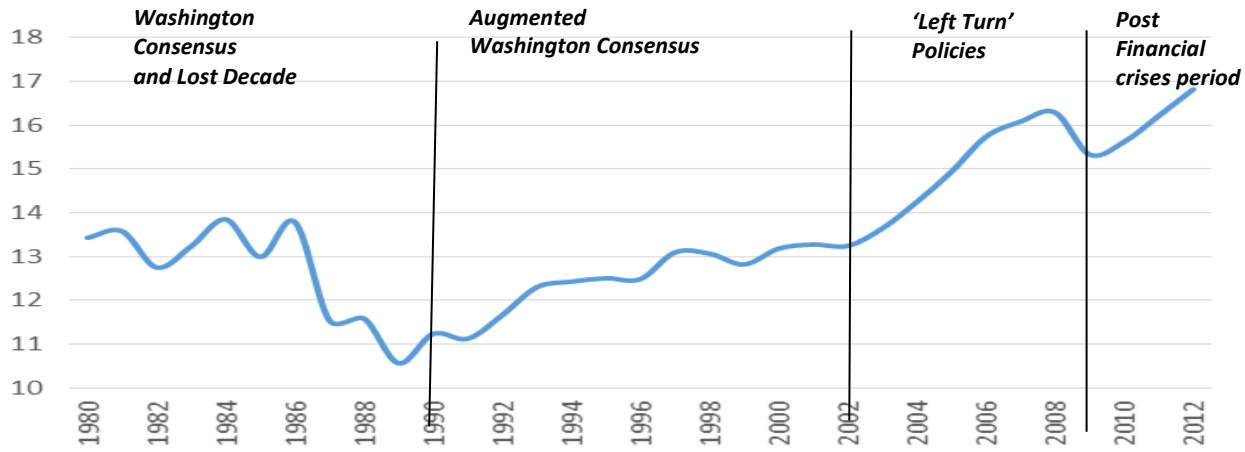
The support of the middle class to the Left Turn was important for the sustainability of the new policy model. Indeed, as it is often argued in the literature, the middle class plays a significant role in promoting capital accumulation, entrepreneurship, human capital formation, political stability and redistributive policies. In this paper, the middle class comprises the groups belonging to the $6^{th}$ to $9^{th}$ income deciles. It is assumed that its incentives to support governments depends on changes over time in its income share. In this regard, it must be underlined again that the slow growth and rising inequality of 1990-2002 affected not only the low-income groups (deciles 1 to 5) but also the middle class (Table 1, left panel). Symmetrically, in most countries the distributive gains recorded over 2002-2009 benefited not only the low-income groups (Table 1, middle panel) but also the middle class that recorded a rise of its income share in 12 of the 15 countries that experienced a fall in inequality.

*4.2 Policy changes during the 'Left Turn' of 2002-2012*

A central pillar of the left policy package was an increase of public spending on education, which almost doubled in relation to the 1990s (Gasparini et al. 2016). Such expenditure was targeted at the low-middle income households and led to an increase in completion rates in secondary and (at times) tertiary education among the children of this group. Over the medium term, the focus on education entailed an overall gradual decline in human capital concentration, and a reduction of the skill premium and wage inequality (Cruces, Domench and Gasparini, 2014). The drop in the skill premium was also due to a rise in the demand for unskilled workers, changes in labor policies (see later) and a decline in the supply of unskilled workers due to a prior slowdown of population growth that – by itself - reduced the national Gini coefficient over 1990-2012 by between 0.7 to 2.0 points, with half of the decline taking place in the 2000s (Badaracco *et al*., 2015).

Tax policy mobilized public resources for several redistributive efforts. It emphasized revenue collection, reduced exemptions, direct and presumptive taxation, lower excises, higher taxes on luxuries, a surrogate tax on financial transactions and a selective export tax. As a result, the regional tax/GDP ratio rose by 3.5 points over 2002–2012 (Figure 5). The increase in commodity prices of the 2000s contributed to the revenue rise in six commodity exporting countries, but the revenue/GDP ratio had begun rising before the commodity boom and involved also non-commodity exporters. Studies of tax incidence for 11 countries suggest that improvements in tax progressivity reduced on average the Gini index of the post-tax income distribution by two points (Cornia 2014).

**Figure 5**. Average regional tax/GDP ratio (excluding social security), 1980-2012,




Source: Martorano (2016)

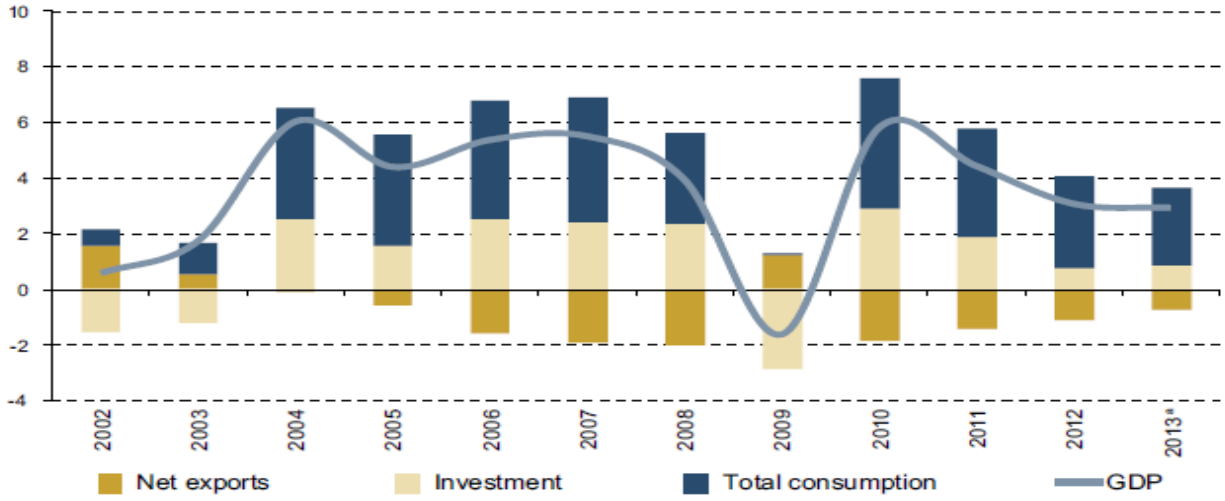
In turn, public expenditure on progressive social assistance programs accelerated its upward trend of the 1990s. This period is defined in the literature as the 'easy stage of redistribution', as cash transfer programs were cheaper (and required a simpler administrative infrastructure) than permanent measures such as unemployment insurance and support to popular housing that are typical of the 'hard stage of redistribution' (Holland and Ross Schneider, 2017) .

Such policy switch generated positive redistributive effects directed to new political constituencies such as the urban and rural poor. The social assistance programs included conditional and non-conditional cash transfers, as in the case of Brazil's famous *Bolsa Familia,* public works, employment support and (in some countries) non-contributory social pensions. Such programs gained popularity and political support in the region, especially among those social classes that had never received anything from the state. They were thus sustained also during difficult times.

Labor policy addressed the problems inherited from the neo-liberal years, i.e. high unemployment, informalization, falling unskilled and minimum wages, declining social security coverage, and weakening of institutions for wage negotiations. Most Left governments, and a few conservative ones, decreed hikes in real minimum wages and attempted to deal with unemployment and informalization. With the 2009-10 recession (Figure 6), unemployment rose in eight of 11 countries analyzed by a World Bank (2010) study, but the average jobless increase was only 0.9 percent, while labor informality rose by only 0.4 points. Real wages remained relatively strong except in hard-hit oil exporters. In addition, the skilled/unskilled, formal/informal and male/female wage gaps continued to fall because of the steady support to progressive labor market policies and the growing supply of educated workers. Finally, as noted, the countercyclical fiscal policy implemented over 2009-

2013 permitted to sustain domestic consumption and investments (Figure 6) and equalizing social assistance programs that had gained a large political support in the region. Thus, despite the 2009 recession and subsequent growth slowdown (from 5 percent a year over 2002-8 to 3 percent over 2009-2013), inequality continued falling until 2012 (Figures 3 and 4).

**Figure 6.** Regional growth rate of GDP and its main components, 2002-2013




Source: ECLAC (2014)

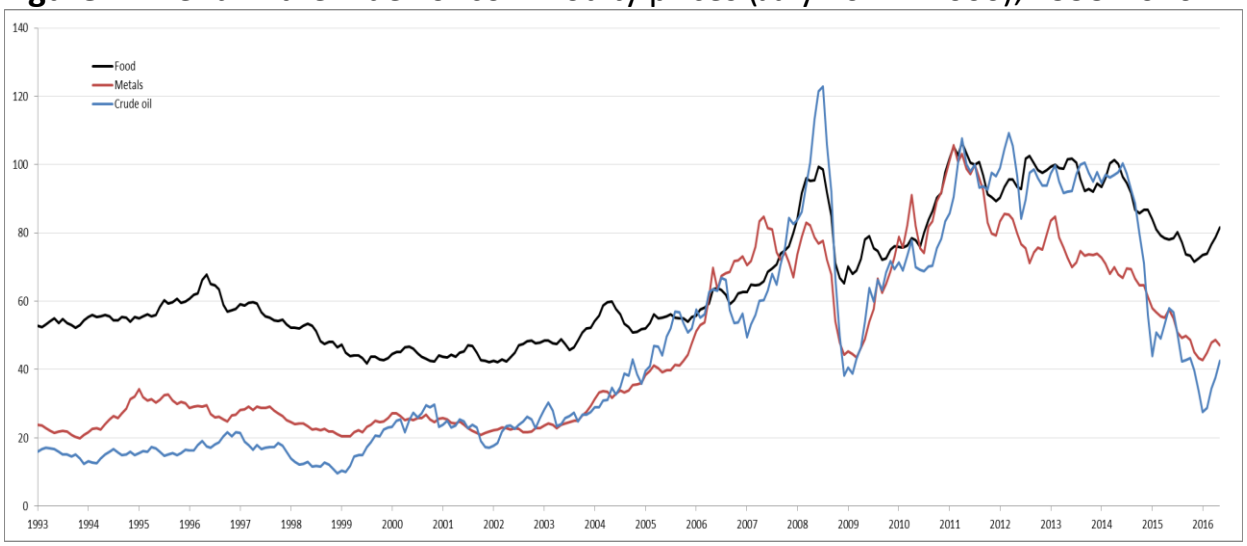
The redistributive policies discussed above could not have been sustained in the absence of prudent macroeconomic policies that averted the un-equalizing macroeconomic and financial crises of the past. External policy reduced the exposure to external shocks. To do so, the Latin American governments avoided large budget deficits and foreign borrowing by raising tax/GDP ratios and imposing in some cases capital controls. With three exceptions, all countries abandoned the crisis-prone free floats and fixed peg exchange rates, and opted for managed exchange rates aiming at preserving a competitive real effective exchange rate while limiting its appreciation in periods of *bonanza*. The fiscal and monetary stance of most countries avoided the traditional pro-cyclical biases of the past. With few exceptions, budget deficits were reduced below one per cent of GDP (ECLAC 2014). There was also a drive to expand money supply, reduce interest rates and expand lending by public banks in periods of crisis. Finally, the financial sector was strictly regulated to avert a repeat of the banking crises of the 1980s and 1990s.

*4.3 An alternative explanation of the inequality decline*

The above explanation of the inequality decline over 2002-2013 emphasizes the role of policy changes in the aftermath of the Left Turn, the beneficial effect of favorable international conditions, and the faster relative decline of the fertility rate among

the poor over 2002-2013. An alternative view has been presented by Lopez Calva and Lustig (2012) who have argued that inequality declined mainly because of 'luck', i.e. an improvement in global economic conditions. These authors have argued that the commodity price boom (Figure 7), enhancement of international terms of trade, increase in migrant remittances and portfolio inflows produced beneficial effects for growth, the balance of payments, revenue generation and inequality.

**Figure 7.** Trend in the index of commodity prices (July 2011= 1000), 1993-2016




Source: IMF, World Economic Outlook Database. World Economic Outlook Database,

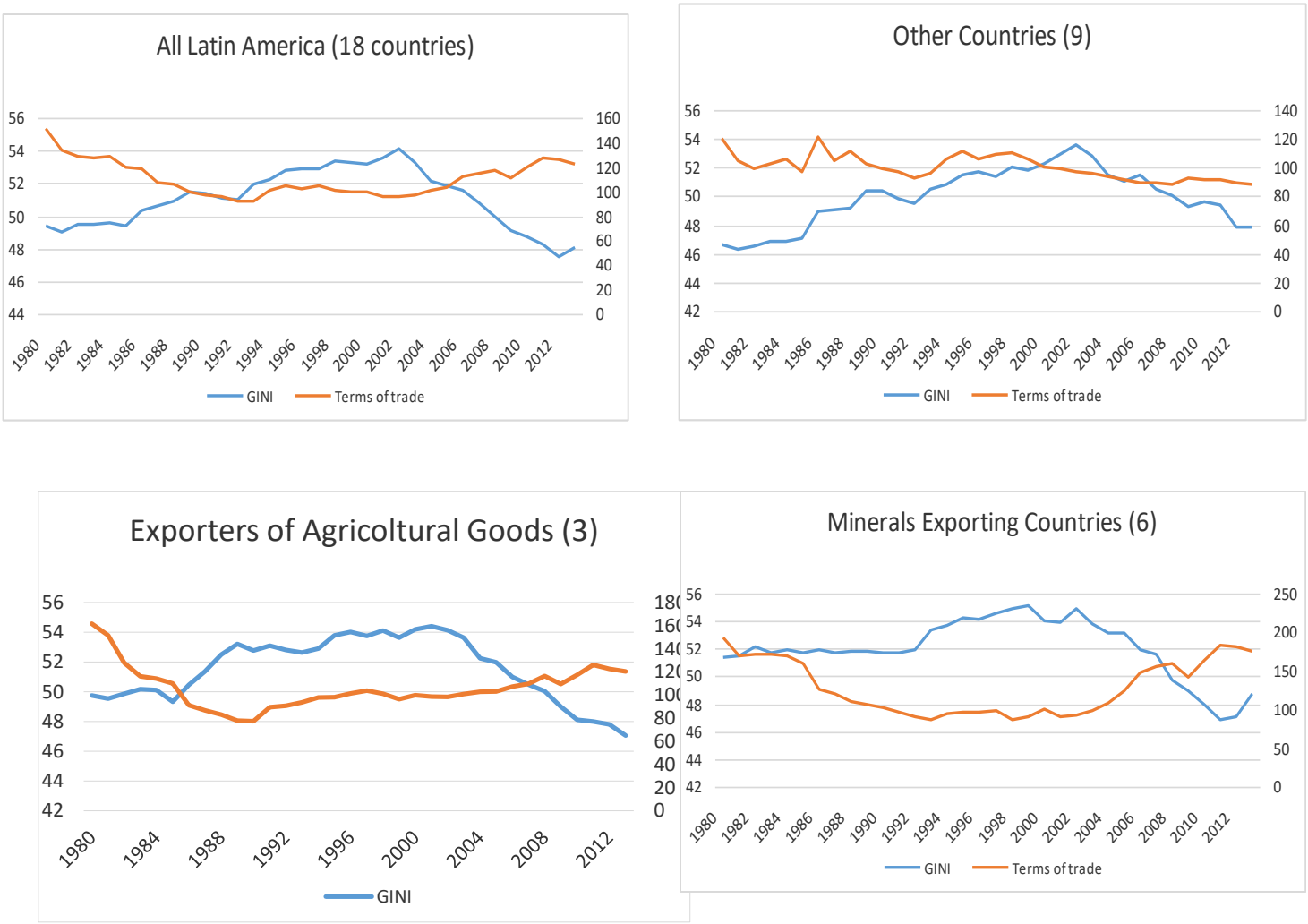
The relevance of this explanation is examined hereafter. To start with, given the high assets and income concentration existing in the export sector, and its high land, capital- and skill-intensity of production, the partial equilibrium effect of the improvements in external conditions generated, *ceteris paribus*, an un-equalizing effect. Yet, these improvements also generated a positive income effect, a rise in tax revenue, a broadening of fiscal space and a relaxation of the balance of payments constraint to growth.

Yet, faster growth *per se* is no guarantee of falling inequality, as shown by Latin America in the 19$^{th}$ century (see section 2) and the recent growth spurt of China and India, where fast GDP growth went hand in hand with an equally rapid rise of income polarization. The point made here is that the beneficial effects of better external conditions on inequality would not have materialized without the introduction of the policy changes discussed above.

Indeed, *ex-ante*, the relation between inequality and changes in external conditions is undetermined, as it depends on the political priorities of governments and the existence of appropriate taxation, redistributive, social and macroeconomic institutions. For instance, Figure 8 shows that until 2002 in all three groups of

countries considered (oil/mineral exporters, agricultural exporters and 'other countries' mostly dependent on remittances), the Gini coefficient and the international terms of trade were uncorrelated. Indeed, with rare exceptions, over 1980-2002 inequality rose while the terms of trade stagnated or improved. It is only since 2002 that inequality fell in parallel with gains in terms of trade, as the New Left regimes introduced policies to redistribute the terms of trade gains.

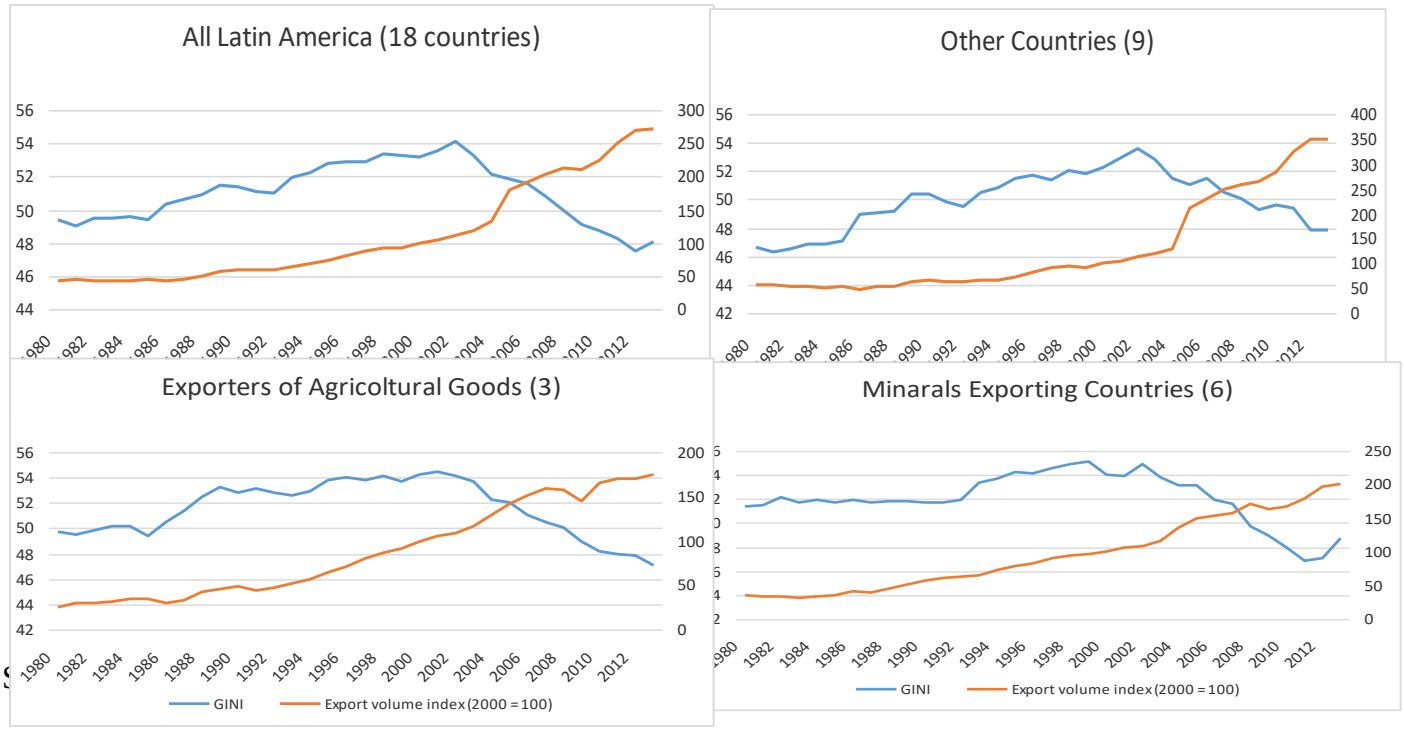
**Figure 8**. Relation between the terms of trade index (in red, right scale) and Gini coefficient (in blue, left scale) for Latin America as a whole and three country subgroups, 1980-2012




Source: author's elaboration on UNCTADSTAT and CEDLAS data.

Likewise, until 2002 an increase in the volume of exports correlated *positively* with the Gini coefficient, while such relation became negative for all groups of countries since 2002 (Figure 9). Obviously, the inequality decline over 2002-2012 was influenced also from the other factors discussed above, but the evidence suggests that there was a correlation between external conditions and inequality only after 2002.

**Figure 9**. Relation between the export volume index (in red, right scale) and Gini coefficient (in blue, left scale) for Latin America as a whole and three country subgroups, 1980-2012




Source: as in Table 8

To validate these conclusions, the relation between the Gini coefficient on the one side and the international terms of trade and export volumes on the other was tested on the basis of a panel of 18 Latin American countries over the years 1980-2013. The regression does not include all the usual determinants of inequality, as the test aimed only at assessing the bivariate relation between the Gini coefficient and the two determinants mentioned above[7]. Given the panel structure of the dataset, the test was conducted with a fixed effect estimator that takes the form:

$$Gini_{i,t} = \beta_0 + \beta_1 T.O.T_{i,t} + \beta_2 Export\ Volume_{i,t} + \alpha_i + \epsilon_{i,t}$$

where the term $\alpha_i$ is the country fixed effect, $\varepsilon_{i,t}$ the random error and $\beta_1$ and $\beta_2$ parameters to be estimated. A bold parameter in Table 2 indicates that an increase in the international terms of trade and export volume reduced income inequality, while an italic parameter suggests it raised it. The non-bold/non-italics parameters are not significantly different from zero. The above model was estimated for the 1980-2002 years of Washington Consensus policies, the 2003-2008 years of Left

[7] For a detailed regression analysis of the determinants of income inequality over 1990-2009 see Cornia (2014).

Turn policies and stable global conditions, and for 2009-2013. The latter period is highly heterogeneous as in 2009 exports, terms of trade and growth collapsed, while they rebounded in 2010 and 2011, to stagnate again since 2012-13 (Figure 8). During this period growth slowed down and in 2013 there was a modest uptick, a statistically non-significant effect on inequality. In addition, during the same years, an increase in the export volumes was significantly un-equalizing, as export rents accrued mainly to the owners of land and mines. In contrast, during the years of the Center-Left regimes improvements in terms of trade and export volumes had (again, with the exception of the 'other countries') a clear equalizing effect due to the creation of redistributive institutions financed – *inter alia* - with the revenue generated by higher export proceeds. Finally, the last column shows that the statistically significant equalizing effects of changes in global conditions registered over 2003-2008 continued in part over 2009-2013.

While only a few parameters of this period are statistically significant, their signs (except in part for the 'other countries') are negative and only little smaller than those for the prior period. The standard errors however increased due to large variations in terms of trade and export volumes between 2009 and 2013 (Figure 7), reducing in this way the significance of the parameters estimated over this period.

**Table 2**. Regression of international terms of trade and export volumes on the Gini coefficient, 1980- 2013

| | | 1980-2002 | 2003-2008 | 2009-2013 |
|---|---|---|---|---|
| Mineral exporters (6) | Terms of Trade | 0.0048 | **- 0.0319*** ** | **-.0228*** |
| | Export Volume | *0.0428**** | **-0.0341*** ** | -.0130 |
| | ***n. of observations*** | 131 | 36 | 29 |
| | ***R-squared*** | 0.17 | 0.59 | 0.32 |
| Agricultural exporters (3) | Terms of Trade | 0.0055 | **-0.0936**** | -.0124 |
| | Export Volume | *0.0531**** | **-0.0498*** ** | -.0324 |
| | ***N. of observations*** | 69 | 18 | 14 |
| | ***R-squared*** | 0.31 | 0.80 | 0.24 |
| Other countries (9) | Terms of Trade | **- 0.0257*** ** | 0.0787 | .0604 |
| | Export Volume | *0.0235**** | -0.0023 | -.0020 |
| | ***N. of observations*** | 163 | 54 | 39 |
| | ***R-squared*** | 0.13 | 0.11 | 0.03 |
| All countries (18) | Terms of Trade | -0.0022 | **-0.0434*** ** | **-.0253*** |
| | Export Volume | *0.0353**** | **-0.0043*** ** | -.0040 |
| | ***N. of observations*** | 363 | 108 | 82 |
| | ***R-squared*** | 0.16 | 0.28 | 0.08 |

Source: author elaboration. Notes: Mineral/oli exporters include Bolivia, Chile, Colombia, Ecuador, Peru, Venezuela. Agricultural exporters include Argentina, Brazil, Mexico. Other countries include Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Paraguay, Uruguay. *, ** and***denote that the estimated parameters are significantly different from zero at the 90%, 95% and 99% probability levels.

Overall, Figures 8 and 9 and the results of Table 2 suggest that, until the early 2000s, the terms of trade were unrelated to inequality while a surge in export volumes raised it. Since 2002, improvements in these variables helped reducing inequality via the pathways discussed above. This was particularly true in the nine countries exporting mineral and agricultural commodities.

*4.4 Impact on inequality*

Whatever are its underlying causes, the inequality decline of 2002-2012 is clearly illustrated in Figures 3 and 4. Overall, since the end of the Argentinean crisis of 2001-2, the region enhanced its growth performance, improved macroeconomic stability and avoided the recurrent financial crises of the past. The most striking gain was a 6.6 points average decline of the Gini index (Figure 3) over 2002-2012 (that is 0.61 Gini points a year), that more than offset in only ten years the 5.1 Gini increase of the two prior decades. Such decline was recorded under various types of center-left regimes[8]. The fastest decline (0.54 Gini points for each year in power) was recorded by the social-democratic regimes, followed by the radical left (0.42), and the centrists (0.20). Even the center-right regimes registered some inequality decline (i.e 0.08 Gini points per year of government rule). Similar results were found in Birdsall et al. (2010). In turn, Milanovic (2019) confirmed that the orientation of the legislature to the left increased the extent of redistribution and the decline in inequality. Finally, Bogliacino and Riojas Lozano (2017) argued that – worried about the wave of victories of the left regimes in many countries - also the center-right governments introduced some redistributive programs.

## 5. The 'Half Right-Turn' of 2013-2018 and slowing inequality decline

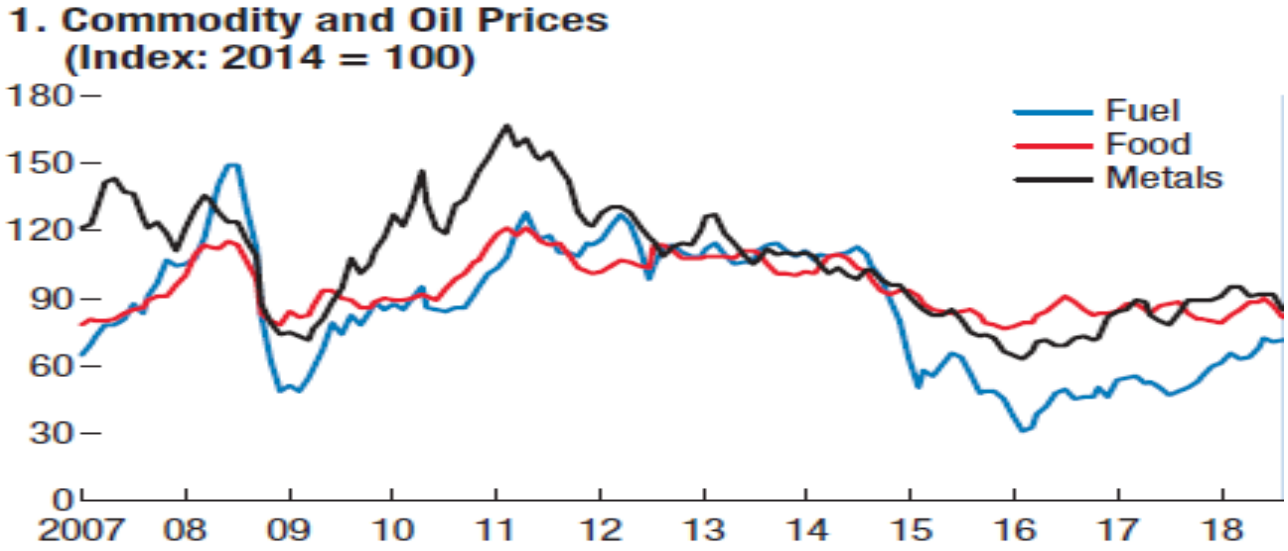
*5.1 Political changes*

The period 2013-2018 was characterized by a Right-Turn in the three most important economies of the region - that is Argentina, Brazil and Mexico – as well as in another four countries (Table 3, left panel). Such Right-Turn was due to a deterioration in the international environment (Figure 10) that affected the growth of Incomes, the delayed political effects of 'policy mistakes' in main countries during the center-left years (see later), and local factors such as the spread of the conservative Evangelical and Pentecostal movements that now account for 22 percent of the electorate of Brazil (Polimedio, 2019). The Centre-Left continued governing eight medium and small countries (Table 3, right panel). Colombia and

[8] The social democratic regimes include Chile, Uruguay and Brazil. A second group, which includes Argentina and Ecuador, developed left-nationalist platforms, while Venezuela, Bolivia and Nicaragua since 2007 followed a radical populist approach that entailed some redistribution of assets.

Panama continued to be ruled by the centrist pro-business regimes of Presidents Santos and Varela.

**Figure 10.** Trends in Commodity and Oil Prices (2014= 100)




Source: IMF (2018)

Unlike the 2000s, the 2013-18 period was characterized by considerable political instability, as shown by the many shifts between Left and Right regimes in the case of Argentina, Peru, Mexico, Chile, and so on. The post 2018 data (not included in Table 3) show that the shifts in political preferences continued over 2018-2020, as the pendulum swung back again to the Left in Argentina and Mexico, while in Peru the shift was from the Left to the Right. With the exception of Brazil, the right's surge was not the result of the sort of general political backlash with common driving forces that brought the Left to power in the 2000s, but a routine alternation in power. Argentina and Chile are the two clearest examples of routine electoral alternation in power explained by retrospective, anti-incumbency voting in contexts of economic slow-downs, corruption scandals, and social policy discontent.

*5.2 Policy Stance*

Social policies did not change substantially during the Half Right-Turn, because of the continued rule of Left regimes in half of the countries of the region (Table 3), and because the successful programs introduced during the 2000s in the field of health, education and cash transfers had become very popular among the population, regardless of their political preferences. In a world of electoral competition to attract the votes of those previously excluded from state subsidies, their abolition or sharp reduction would have likely entailed a large electoral loss.

This was particularly true for inexpensive means-tested cash transfers and non-contributory pensions that together absorbed on average 0.93 percent of the GDP

**Table 3.** Countries with political changes to the right (left panel) and continued rule by the left, 2012-18

| Country | **Right-Turn over 2013-18** | Country | **Continued Left Rule over 2013-18** |
|---|---|---|---|
| Argentina | *Kirchener L* (2012-15), Macri (2015-18), *Fernandez L 2018.* | Bolivia | Evo Morales (2012-18) |
| Brazil | *Roussef L (2012-16)*, Temer 2016-18 | Chile | Bachelet (2012-18) then *Pinera*-R |
| Guatemala | Morales 2016-18 | Costa Rica | Miranda (2012-4), Quesada-Solis (2014-18) |
| Honduras | Hernandez 2014-18 | Dom. Rep. | Medina (till 2018) |
| Mexico | Pena-Nieto 2012-18, *Lopez Obrador L* (since mid 2018) | Ecuador | Correa (2012-17), Moreno (2017-18) |
| Paraguay | Cartes 2013-18 | El Salvador | Sanchez-Ceren (2014-18) |
| Peru | *Humala-L* (2012-16) Kuzcinsky 2016-18 | Nicaragua | Ortega (2012-18) |
| | | Uruguay | Mujica (2012-15), Tabaré Vasquez (2015-18) |
| **Stable Centrist regimes** | | | |
| Colombia | Santos (2012-2018) | | |
| Panama | Martinelli (2012-14)Varela (2014-18) | | |
| | | | |

Source. Author's compilation on the basis of country reports available on the internet (accessed on 7/11/2020). Venezuela is not included in the analysis as the political consultation in that country did not comply with international standards.

Note: the country's names n italics shows that over 2013-2018 some of the years were dominated by governments with an opposite political orientation, indicated by an L or an R.

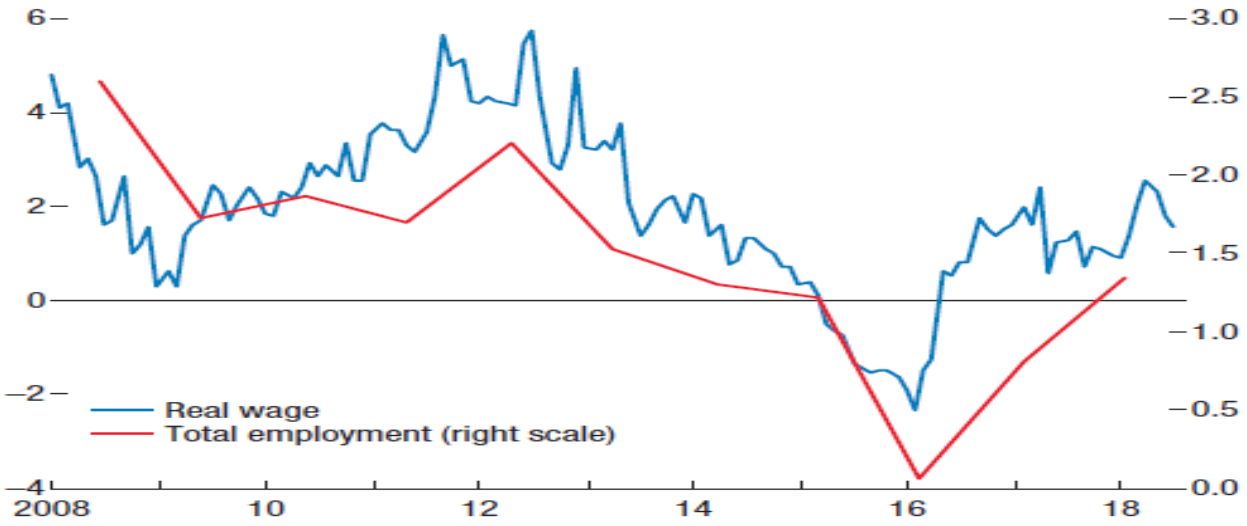
of the region (with a median of 0.44 percent). Since the early 2000s such 'easy redistribution' was a way to extend at low cost and without cleavages between insiders and outsiders the past 'truncated welfare system' of the region where the entitlement to cash transfers and pensions (and in rare cases unemployment insurance) depended on a stable formal employment (Holland and Ross Schneider 2017). Thus, expenditures on cash transfers and non-contributory pensions continued to absorb a bit over 4 percent of total government expenditure (or about 0.83 percent of average GDP, (as opposed to the 3.1 percent of GDP for statutory pensions alone). Targeted cash transfers and non-contributory pensions have also been much less costly than the minimum wage. Holland and Ross Schneider (2017, Table 2) show that on average they accounted only for 20 and 41 percent of the minimum wage. Overall, public spending/GDP on social protection, education and health that had risen from 8.5 to 10.5 of GDP over 2002-2012, continued their gradual climb, i.e. from a regional average 10.5 to 11.2 over 2012-2017 (ECLAC 2018, Figure III.1). This suggests that the priority assigned to social spending in the 2002-2012 period was sustained, despite the Half Right-Turn.

As a result, over 2012-2016, the average overall social public spending per capita in constant 2010 dollars in these three areas rose from 1007 dollars in 2012 to 1175 in 2016 in South America, and from 519 to 579 dollars in 2016 in Mexico and Central America (*ibid*., Figure 6). In the case of monetary transfers the increase in the number of beneficiaries continued to rise, if at slower pace than in the 2000s .

As a result of these changes in social policy and public spending, the 2013-2018 period witnessed a steady increase in the average school enrolments in the region at all levels. While the reduction in the educational gap between quintiles was less impressive than during the 2000s, it still continued in most countries. Primary enrolment rates converged towards 100 percent for all income quintiles and the gap between the enrolments of Q1 and Q5 stabilized over 2012 and 2018 at around 5 percentage points. Over the same years, the gap in secondary education fell from about 18 to 14 points (Gasparini et al 2020 Fig. 5.7). For both primary and secondary education, there remains however a 'qualitative gap' between the top quintiles (whose children generally attend better-quality private schools) and the children of the bottom quintiles (who attend underfunded public schools). In turn, the average quintile gap in access to tertiary education remained around 15 points *(ibid*, Figure 5.9). Substantial improvements were recorded also in the field of water and sanitation, electricity and social infrastructure that also recorded an increase in public expenditure. It is important to stress that these policies were sustained despite an important slowdown in GDP growth of about 1.7 percent over 2014-18). In per capita terms, average GDP growth came close to zero.

The growth slowdown affected also labor market policies that in the crisis year of 2016 absorbed only 0.45 % of GDP (CEPAL 2018) and mainly focused on training programs, and incentives for employment creation but not on (the costly) unemployment compensation, that represent a form of 'hard redistribution'. The participation into the labor force has increased slowly and the gap between skilled and unskilled wages has diminished modestly (Gasparini et al 2020). As shown in Figure 11, total employment continued rising till 2015 but contracted in 2016-17 because of the GDP decline triggered by the fall in commodity prices. In contrast labor informalzsation increased during the 2016 crisis and average regional wages fell by two percent.

**Figure 11**. Trends in total employment and the average real wage




Source: IMF (2018)

An additional explanation of the slowdown in the inequality decline since 2012 focuses on macroeconomic policy mistakes in the aftermath of the world crises of 2009 and 2016. Indeed, the longevity of the social-democratic experiment started to be threatened by the difficulty of sustaining a broad-based redistribution, in a way compatible with an acceptable macroeconomic equilibrium, during a period of slow growth, unfavorable terms of trade and stagnant revenue. The SEDLAC data in Table 1 suggest that state redistribution favored the poor and neglected the middle class in Brazil, Argentina, Venezuela, Mexico, El Salvador and Paraguay, that the inequality decline of 2010–13 benefited mainly deciles 1-5, while the income share of the middle class (deciles 6-9) stagnated or fell modestly. These are the countries that suffered electoral reversals in 2015-6[9].

As a result of this neglect of the middleclass, on March 2015 hundreds of thousands of people took to the streets of Brazil to protest against the center-left government (Saad-Filho 2015). For over a decade the latter had delivered growth, formal jobs, minimum wages, and social transfers that helped reducing inequality by a remarkable 7.1 Gini points between 1998 and 2012. The global commodity boom sustained redistribution, a modest expansion of infrastructure, industrial restructuring and the creation of 21 million low-wage service jobs. Continuation of such trend was however hampered by the global stagnation of the early and mid 2010s and by a conservative macro policy focusing on inflation targeting, free capital movements, a floating exchange rate, and a tight stance that precluded fiscal expansion, industrial restructuring and a devaluation of an overvalued *reais*. Because of such overvaluation, the country de-industrialized and 4.5 million middle class

[9] The initial SEDLAC data for 2013 and 2014 reported in Table 5 are likely to be revised in the future, and the new revised data may alter the empirical evidence presented in Table 5 for the period 2009-13. The hypothesis about the weakening of the middle-class support to center-left regimes is however supported by other data and arguments.

manufacturing jobs disappeared in the 2000s while urban services deteriorated *(ibid*). As shown by the Latino Barometro already in 2013 the country showed the highest rate of perceived regression in relation to 2011. Such policy mistakes and a corruption scandal lead in 2016 to the impeachment of the head of state and to a Right Turn.

Argentina is another case of worsening external environment, domestic shocks, and domestic policy mistakes that led to middle class disaffection and the electoral reversal of 2015 (Table 3). The slow growth of the world economy reduced the demand for and prices of Argentinean exports while the exhaustion of the domestic oil deposits raised the import bill of oil and further worsened the balance of payments. In addition, the continuation of an expansionary fiscal policy (that had fueled a steady decline in inequality but that should have been moderated) pushed the effective rate of inflation to around 25 percent starting from 2010-11. Yet, the government continued posting an inflation rate of 10 percent. Such policy of 'repressed declared inflation' led to a large real appreciation of the exchange rate, the emergence of a parallel peso market, and an erosion of the incentives of exporters and professional groups, including part of the middle class working in the traded sector, which in this way lost employment opportunities and income share (Table 2, right panel).

*5.3 Impact on inequality*

Over 2012-8, the Gini coefficient fell marginally in all countries of Table 4 with the exception of Brazil. The countries with a right of center government in 2018 (excluding Brazil) experienced an average decline of 0.3 Gini points a year over 2012-2018 while the countries with a left of centre regime recorded a 0.24 average decline (Table 4). Relatively larger declines were recorded in the Central American countries that had recorded smaller inequality gains over 2002-2012.

For all countries in Table 4, the average Gini coefficient declined by around 0.2 points per year for the entire period 2012-2018 i.e. less than half as fast over 2002-2012 (see above). However, if the exceptional 4.4 Gini points decline recorded in Honduras over 2013-4 is excluded, the regional Gini fell over this period by only 0.07 points. This slowdown is not surprising given six years of slow GDP growth (1.7 per cent a year over 2014-18, or less than 1 per cent on a per capita basis), unstable terms of trade, mounting uncertainty, and domestic policy mistakes in some key countries. In fact, under such conditions, it would have been plausible to expect a reversal of the downward inequality trend. This, however, did not happen because of the stability of social policies. Thus, the decline in the Gini trend seems to have a structural 'social component' represented by continued support – despite a worsening of the global environment and of growth, and some policy mistakes – in

favor of equalizing policies in the field of social transfers, education, public infrastructure and – to a lower degree – labor policies.

**Table 4**. Change in the Gini coefficient of household income per capita between 2012 and 2018 in countries run in 2018 by a right–of-centre regime (left panel) or a left of centre country (right panel)

| Gini in countries with **centre —right** regimes in 2018 | | | | | Gini in countries with a **centre—left regime** in 2018 | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Country** | **2012** | **2018** | **Differen** | **2002** | **Country** | **2012** | **2018** | **Differen** | **2002** |
| Argentina | 0.415 | 0.413 | - 0.2 | 0.533 | Bolivia | 0.465 | 0.422 | -.4.3 | 0.593 |
| Brazil | 0.531 | 0.538 | + 0.7 | 0.580 | Chile | 0.458* | 0.444* | - 1.4 | 0.512 |
| Guatemala | ….. | ….. | …. | 0.563 | Costa Rica | 0.486 | 0.483 | - 0.3 | 0.517 |
| Honduras | 0.561 | 0.519 | - 4.2 | 0.556 | Dominican Rep | 0.461 | 0.457 | - 0.4 | 0.494 |
| Mexico | 0.487 | 0.454 | - 3.3 | 0.501 | Ecuador | 0.460 | 0.454 | - 0.6 | 0.532 |
| Paraguay | 0.476 | 0.462 | - 1.4 | 0.573 | El Salvador | 0.418° | 0.386 | - 3.2 | 0.517 |
| Peru | 0.444 | 0.428 | - 1.6 | 0.536 | Nicaragua | …. | …. | …. | 0.529 |
| | | | | | Uruguay | 0.399 | 0.397 | -0.2 | 0.455* |
| Average of 6 | 0.48.5 | 46.9 | - 1.00 | | Average of 7 | 0.450 | 43.4 | - 1.48 | |

Source: author's elaboration on the basis of CEDLAS-SEDLAC data accessed on 10 November 2020. see: www.cedlas.econo.unlp.edu.ar//up/en/estadisticas/sedlac/- Notes: 1. Venezuela and Guatemala are not included in the table because of lack of data after 2006 and 2004. Colombia and Panama are included in a 'centrist' group' not reported in the above table. Between 2012 and 2018, the Gin coefficient of household income per capita fell in Colombia from 0.526 to 0.503. In Panama, the fall was from 0.517 to 0.492. 2. For countries without data for the years 2002, 2012, 2018 in Table 4, the data of the closest adjacent year were used.

Other explanations argue that the policies of 'easy redistribution' that drove the inequality decline of 2002-2012 exhausted their potential in parts of the region, particularly in South America (Gasparini et al. 2016). Indeed, an expansion of the successful cash transfer programs faced a natural limit, as in the early 2010s much of the target population had been covered, except possibly in Mexico and Central America. Likewise, the steady increases in real minimum wages introduced during the Left Turn could not continue forever, and indeed, minimum wages stabilized around 2010. Finally, the equalizing effect of the decline of the fertility rate in poor families (that reached on average 1.9 in the 2000s) decelerated in the 2010s, implying a reduction of its equalizing impact (*ibid*). The suggestion that the redistributive potential of the social democratic policies has been weakening is true in most South America. But the main question is what caused such weakening, that is the macro crises of 2009 and 2016 or the near complete coverage of social policies.

Another explanation of the very slow decline in inequality over 2012-2018 is that almost nowhere in the region structural, if politically difficult, reforms were introduced to tackle the region's historical inequality in access to land, assets, credit and tertiary education. For instance, in the early 2000s land redistribution was a key component of the electoral manifesto of Lula in Brazil, Morales in Bolivia, and Lugo in Paraguay. But such measure was not implemented anywhere due to the opposition of the agrarian elites. Meanwhile, while the access to secondary

education became more egalitarian, this was not always the case for tertiary education (see above). In addition, the 2009 and 2016 crises exposed once more the dependent nature of the region's development strategy. The foreign-financed, commodities-driven exports growth strategy promoted by the neoliberal reformers if the 1980s and 1990s was not abandoned during the center-left decade. Even during years of rapid growth, the region experienced a large-scale deindustrialization, that led to the re-primarisation of exports and output (Ocampo, 2012).

## 6. Conclusions: hard redistributive policies are needed for a continued inequality decline

This paper has tried to highlight the inequality impact of changes in political orientation of incumbent governments. It is essential in fact to understand the forces leading to changes in the political shifts of each country and the role of the various social classes in this regards. The paper has also argued that exogenous shocks (in the global environment, endowments, technology and demography) inevitably trigger demands for political change (Anria and Roberts 2019).

In section 1 the paper has shown that at the time of the Conquest by the Iberians, inequality was not too high. But colonization gradually created extractive institutions that raised inequality, with effects that have been long lasting owing to the transformation of the early agrarian elites into industrial and financial elites supported by military or conservative regimes. However, during the century leading up to WWII there were cases – as in Mexico with Lazaro Cardenas and Argentina with Peron – where the new political strategies of democratization reduced inequality. In turn, Part 3 showed how the importation of the Neoliberal Revolution from the US and UK led to a substantial increase in an already high inequality in most Latin America. Such rise had nothing to do with the structural characteristics of the region but derived from the strong ideological orientation of such strategy. Likewise, Part 4 has discussed how the return to democracy of the 1990s, the Left Turn of 2002-2012 and a favorable global economic environment led to a massive 7.1 average regional Gini decline that more than offset the increase recorded during two decades of Neoliberalism. In turn, Part 5 has discussed the Half Right-Turn in the political orientation of the region after 2012, as only in half of the countries conservative candidates were elected to lead the countries. Interestingly, however, with the exception of Brazil, there is no evidence of major shifts in social policies during the difficult years of 2012-2018. These years were characterized by a very low GDP growth and falling terms of trade. Despite this unfavorable environment and the election of conservative regimes in half of the region, inequality continued its decline, if at a very slow rate.

Despite the unparalleled inequality decline over 2002-12, and its continued if extremely slow decline over 2012-18 Latin America remains one of the regions with the highest inequality in the world. In most countries, additional if politically costly reforms may be needed to tackle the region's historical biases in the field of unequal access to land, credit and tertiary education, excessive dependence on foreign capital and low domestic savings. Inability to deal, if in part, with these problems are likely to hamper the future decline of inequality and a shift to a sustainable long–term equitable growth

Finally, the 2009 and 2016 crises have brought to the fore the limitation of the region's export-led, foreign-financed and dependent-economy approach that was not modified even during the social-democratic experiment of 2002-2012. The latter produced remarkable results in terms of inequality reduction, human capital formation and avoidance of financial crises. But such approach did not tackled the structural problems of the Latin American economy and did not prevent a large-scale deindustrialization that sacrificed middle class jobs, and intensified the dependence on the export of primary commodities.

Reversing the recent deindustrialization and reducing the dependence on commodity exports is a key policy challenge with important implication in terms of middle class support for progressive regimes aiming at reducing a still high inequality. A continuation of a rapid integration in the world economy with no changes in structural policies will not help reducing inequality further. Such problem could be tackled by adopting an open-economy industrial policy or soft industrial policies that support the re-development of labor-intensive, high-value added manufacturing and service jobs, and correct the trade asymmetries with China and other emerging economies (Ocampo 2012).

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[i] Between the early 1980s and 2002 the region experienced 26 major banking crises involving 15 countries.