The vicious cycle of inequality in Latin America

Author(s):	Karl, Terry Lynn, 1947-
Date	2002
Type	Working Paper
Series	Estudios = Working papers / Instituto Juan March de Estudios e Investigaciones, Centro de Estudios Avanzados en Ciencias Sociales 2002/177
City:	Madrid
Publisher:	Centro de Estudios Avanzados en Ciencias Sociales

THE VICIOUS CYCLE OF INEQUALITY IN LATIN AMERICA

Terry Lynn Karl

Estudio/Working Paper 2002/177
October 2002

Terry L. Karl is Kimball University Fellow and Professor of Political Science at Stanford University; and Visiting Professor at the European University Institute, Florence. During the Fall Semester of the Academic Course 2000-2001, she delivered a course on "Comparative New Democracies" at the Center for Advanced Study in the Social Sciences, Juan March Institute, Madrid.

Latin America is the most unequal region in the world. This acute inequality affects virtually all aspects of economic, social and political life; it is fundamental for explaining why the results of the past two decades of development have been so disappointing in this area of the world. Economic growth has been surprisingly low despite having embraced neoliberal economic models, which succeeded almost everywhere in cutting inflation to single digits, reducing budget deficits, and generally lowering public external debt during the 1990s. The quality of services remains poor, unemployment is high, and a sharp rise in crime and violence threatens daily life. As the region enters the 21st Century, more than a third of its citizens live in poverty, and nearly 80 million people suffer from extreme poverty, with incomes less than $1 a day. When asked their opinions, Latin Americans consistently state that poverty seems higher than ever before, their quality of life is lower, their political institutions are unsatisfactory, and they are anxious about the future. Not surprisingly, in a region characterized by the most unequal distribution of income and assets in the world, most believe that their societies are fundamentally unjust (Lora 2000).

Addressing acute inequality is imperative if Latin American democracies are to endure and deepen and their economies thrive -- a reality that some social scientists have been remarkably slow to recognize. In part, this inattentiveness to inequality can be explained by the overwhelming predominance of the neoliberal paradigm (or what some call the "Washington Consensus") over the past two decades, which emphasized the promotion of domestic markets aimed at exports, the retrenchment of the state's productive and distributive functions, and the opening of the economy to foreign trade and investment as top priorities (Williamson 1990). In this list of policies and preferences, equity concerns were either ignored altogether or relegated to secondary importance. This was due in part to long-standing economic beliefs that growth and the reduction of inequality were not compatible at some stages of development (Kuznets 1955) and that any redistribution would deter growth by lowering savings and investment (Kaldor 1957); therefore growth alone should be the mechanism for poverty and inequality reduction. Economists believed, quite wrongly in the Latin American case, that policies aimed at extending and enhancing markets would necessarily generate sustained growth at an acceptable rate, which in turn would reduce poverty and inequality. These beliefs did not necessarily disregard distributive effects; instead, they endorsed a set of empirical assumptions about how to achieve better distribution through sustained growth that identified market efficiency as the immediate priority and saw equity goals as a long-term consequence of policy reform.

But there were also strong political interests and value-laden assumptions behind the beliefs that led scholars to defend above all else efficiency and the maximization of total personal utility, regardless of how resources were distributed throughout society. The U.S.Treasury, the International Monetary Fund, the World Bank, and all other important multilateral funding agencies, and most large economic interests within the region fully embraced neoliberal approaches (often closing out dissenting voices). Both Washington and multilateral agencies explicitly privileged efficiency over distribution by prioritizing their concern for market efficiency over direct measures to improve distribution and by rejecting greater social expenditures (the traditional approach to improving distribution) as inflationary and inconsistent with neoliberal policy choices. This encouraged the avoidance of judgements based on the social justice of different patterns of economic reform and wealth distribution. As John Williamson (1997), who first listed the key tenets of the "Washington Consensus," later wrote: "I deliberately excluded from the list anything that was primarily redistributive, as opposed to having equitable consequences as a byproduct of seeking efficiency objectives, because I felt the Washington of the 1980s to be a city that was essentially contemptuous of equity concerns."

Neoliberals ignored the political context of their reforms in areas where their prescriptions were bound to have adverse consequences for inequality. Thus, while it may be the case that Latin American countries would have had even greater poverty without the macroeconomic adjustments that tamed inflation, there is accumulating evidence that the accentuation of inequality and the failure to reduce poverty is partially the consequence of the types of reforms enacted, and not merely the result of the economic crisis of the 1980s. For example, in their enthusiasm to liberalize financial markets very rapidly, there was little attempt to ensure that regulatory mechanisms aimed at minimizing the risk of financial crises were in place prior to liberalization -- even though any resulting crisis would disproportionately affect the poor. Nor did they heed constant warning that privatizations, when implemented in the context of huge wealth disparities, weak judiciaries and rent-seeking politicians, were very likely to further concentrate wealth, often through the very corruption they sought to correct. Nor were policies designed to stave off the consequences of dismantling labor institutions or to address the growing discontent of the middle strata (civil servants, unionized workers, pensioners, etc.) whose proximity to blatant increases in wealth helped to create an especially corrosive sense of injustice. To the contrary, in a number of cases specific policies unnecessarily increased poverty and further skewed the distribution of income. Subsidies given to Chilean banks in 1983, for example, were ten times the annual cost of the Pinochet regime's emergency employment program.

But such positions are becoming increasingly difficult to sustain in the face of Latin America's record in the struggle against poverty and inequality. A combination of factors – the end of the Cold War with the negative connotations for equity that long had been associated with socialism, growing concerns about globalization's impact on volatility and wages, and sharp critiques coming from Latin Americans themselves, sometimes in the form of armed movements – has contributed to shaping a new consensus: more egalitarian development is both economically and morally desirable in the Americas.[1] Economists now argue that Latin America's highly unequal access to land, education and other assets are not merely untouched by the benefits of growth; they directly contribute to low growth rates and therefore the perpetuation of poverty (Birdsall and Londono 1997, 1998; Deininger and Olinto 1999). In effect, a vicious cycle[2] exists in which poverty and high levels of inequality impede growth, and growth rates are subsequently too low to adequately address the problems of poverty and inequality. Thus, if Latin American countries are to reach the more impressive development records of their Asian counterparts, tackling inequality is an economically self-interested issue.

However welcome this new attention to poverty and inequality, an analysis of Latin America's vicious cycle is still incomplete if it is confined solely to economic understandings. While some economists have so presciently pointed out the links between

[1] Evidence for this newly emerging consensus can be seen in the decision of the World Bank and the Inter-American Development Bank to make poverty reduction the overriding objective of their corporate mission, the move towards debt relief for the world's poorest countries, and the awarding of the Nobel Prize to Amartya Sen in 1998, the statements of heads of state of the Americas in the 1998 summit.

[2] As far as I can tell, this term was first used by economists in Birdsall, Pinckney and Sabot (1996).

growth, poverty and inequality[3], this is not merely an economic phenomenon. To the contrary, where virtuous cycles of development occur, there is a complementarity between equity and economic growth, on the one hand, and democracy and social justice, on the other. Where cycles are vicious, economic problems often originate at the political level, and they are often perpetuated or exacerbated through the normal functioning (or non-functioning) of political institutions. As I have argued elsewhere (Karl 1997), economic patterns of development shape the structures of the state, the prospects for collective action, and sometimes even the rhythms of stability and instability, and this in turn sets the contours of economic policy. Thus this newly emerging economic consensus needs to better incorporate the notion of power into its argument if it is to succeed in challenging Latin America's record of low growth, high inequality, and persistent poverty.

This paper argues the following: If inequality is based on differences in initial endowments of wealth or family connections, as it surely is in Latin America, these inequalities will not only affect the prospects for growth, but they will also shape social and political life. High inequalities bias the political rules of the game and mold polities in favor of the wealthy and privileged and they do so (to different degrees) whether regimes are authoritarian or democratic. Exceptionally high inequalities of wealth and income are the basis for exceptionally inequitable distributions of political power and representation, even in the continent's young democracies, and these power arrangements are subsequently unlikely to address the basic problem of high inequality. This means that Latin American public policies cannot be understood as the product or equilibrium outcome of democratic voting among rational individuals, as models based on the "median voter" claim, because such models assume that the distribution of political power is relatively egalitarian. As scholars of comparative politics have repeatedly shown, politics in Latin America work only in limited ways through the democratic process, and then votes are often "delivered," especially in rural areas. Instead, economic and social policy operates largely through the exercise of private influence and the skewed functioning of politicized bureaucracies structured to favor large

[3] See especially the work of Nancy Birdsall and her colleagues and the Working Papers of the Inter-American Development Bank, particularly the excellent report "Persistent Poverty and Excess Inequality: Latin America, 1970-1995," by Juan Luis Londoño and Miguel Szekely, who have been path-breakers in this respect. Also see the volume by Andres Solimano et al (2000).

economic "grupos."[4] The unequal power distributions they both reflect and reproduce, in turn, help to secure economic privileges, undermine competition and efficiency, encourage corruption, undermine productive growth and, in the end, subvert democracy. Transforming this vicious cycle into a virtuous cycle will not be easy because, as we shall see, this inevitably involves both asset redistribution and the reordering of political priorities – no easy task in Latin America.

Disturbing Development Record

Evidence about Latin America's economic performance in the past two decades is disturbing. Despite significant monetary and fiscal discipline, an enormous surge in private capital inflows into the region, and an expansion of export and investment volumes, real GDP growth was just 3 percent a year for the decade, and just 1.5 percent per capita. As Birdsall, de la Torre and Menezes (2001: 7) note, this is not much better than the 2 percent rate during the "lost decade of the 1980s, and it is well below the rates of 5 percent or more during the import substitution decades of the 1960s and 1970s."

Inequality measures reveal an even more distressing trend. Latin America not only has the dubious distinction of being the most unequal region in the world, as we have already noted, but equality indicators have sharply deteriorated over time. A quarter of all national income is received by a mere 5 percent of the population, and the top 10 percent own 40 percent of the wealth—a level of inequality that can be found only in a few African countries whose per capita income levels are half that of Latin America! To underline the magnitude of these inequalities and the concentration of wealth and power they represent, suffice it to note that in the developed countries (no bastions of equality themselves) the wealthiest 5 percent receive on average only 13 percent of all national income—about half the Latin American norm (Karl 2000). Income distribution, which had become more equal during the 1970s,

[4] Case studies of the exercise of power repeatedly show this pattern, as do larger comparative studies. See for example, Leff (1968), Cardoso and Faletto (1969), Cavarozzi and Petras (1974), Collier (1976), Handelman (1979), O'Donnell (1994), Evans (1979, 1995), Weyland (1996), and Karl (1997).

worsened considerably in the 1980s and remained stagnant in the 1990s, despite positive growth rates throughout the decade. When examined over a two-decade period beginning in 1980, almost all of Latin America showed deterioration, especially Venezuela, Guatemala, the Dominican Republic, Panama, Chile, and Brazil. Only Costa Rica, Peru and possibly Colombia showed slight improvement **(**World Bank 2000: 13).

This record is powerful evidence of a new round in Latin America's vicious cycle of development, which has taken place during the past two decades of neoliberal economic policies. In 1970, the richest 1 percent of the population earned 363 times more than the poorest 1 percent; by 1995, this had risen to a whopping 417 times. Inequality in Latin America is not only the steepest in the world in absolute terms; it is also much greater than would "normally" accompany this level of development, with an especially acute concentration of wealth toward the top. Such a skewed distributional profile means that the poor face greater barriers to escaping their deprivation because, first, extreme inequalities reduce growth and, second, the alleviation of poverty becomes less responsive to the growth that does occur. Thus although Latin America's per-capita GDP grew by almost 6 percent in real terms between 1990 and 1995, the years of highest growth over the past two decades, the number of extremely and moderately poor actually *increased* by 1.5 and 5 million people, respectively, over the same period. No other region in the world shows this pattern. If income and wealth had been distributed more equitably, poverty would have been reduced dramatically. Indeed, Juan Luis Londoño and Miguel Szekely (1997) estimate that poverty would be practically eliminated if Latin America had the same distribution observed in either Eastern Europe or South Asia, and it would be the lowest in the developing world if inequality patterns were similar to those of the Middle East, North Africa, or Central Asia.

This dismal record is neither inevitable nor necessary, as comparisons between East Asia and Latin America demonstrate. In general, the Latin American pattern is one of low growth and low equality with persistent poverty while Asia displays the opposite characteristics: high growth and the reduction of inequalities.[5] While Latin America's real GNP per capita was barely growing at all throughout the 1980s, East Asia and the Pacific

[5] The exception is the Philippines, which follows the Latin America pattern.

showed a whopping 27.2 percent increase in real GNP per capita over the same period. In Latin America, the richest 20 percent of the population captured, on average over the period 1965-1992, about 16 times the income of the poorest, whereas in East Asia the difference is 7.9 times (Stallings, Birdsall, and Clugage 2000: 103). In effect, while poverty and inequalities increased just about everywhere in Latin America, the trends in East and Southeast Asia were completely different: between 1975-1995, the absolute number of poor was reduced in half, an achievement the World Bank claims is unprecedented in human history.[6] Indeed, South Korea, Taiwan, Hong Kong, Singapore, and to a lesser extent Malaysia and Thailand virtually eliminated absolute poverty as a national concern in this period – a far cry from the Latin American picture.

The Origins Of The Vicious Cycle

Why is Latin America so different from other regions? Elsewhere (Karl 1997) I have argued that Latin America's poverty and inequality is paradoxically linked to the asset distribution of its natural wealth, especially its mineral riches. Most certainly a key explanation for the difference between East Asian and U.S. patterns of development, on the one hand, and Latin America, on the other, lies in the difference in the nature of their 'natural capital' or assets and the manner in which these assets were initially divided. In Latin America from the very beginning, mineral and agricultural riches were a mixed blessing; in the context of a specific form of colonial rule they produced concentrated rents that centralized economic and political power and established the region's patterns of inequality. This initial asset inequality not only had a significant negative impact on long-term growth, but it established stable patterns of skewed distributions of political and economic power that persist to this day.

[6] Poverty dropped from 716.8 million to 345.7 million in these years, according to World Bank statistics cited in *the Wall Street Journal*, August 22, 1997, A8.

The concentration of political and economic power in Latin America is a legacy of colonialism. The colonizers who arrived from Spain and Portugal encountered highly developed and complex indigenous societies; the population of the Americas in 1492 was probably greater than that of all of Europe. The goal of these colonizers was ownership of Latin America's rich endowment of natural resources, and conquest was the means to that end. Granted control over huge tracts of land and huge concentrations of minerals, these settlers superimposed themselves by force at the top of existing social structures. Initially through the *encomienda* system, which "granted" huge numbers of Indians to the conquerors as laborers, and later through the slave trade, which aimed at guaranteeing a labor supply after the indigenous communities had been decimated, colonizers were able to cultivate vast expanses of land and work the mines. In contrast to the northern United States, where colonizers sought to expel natives from their lands rather than use their labor and organized relatively small holdings, this labor-intensive mode gave rise to a very unequal distribution of income and assets.

This past has its claws in the present. Colonizers captured concentrated rents by establishing hierarchical political structures based on arbitrary executive dominance, an extremely weak rule of law, and excessive militarism – patterns that persist to this day. In order to guarantee its rents, the Crown built an elaborate bureaucracy and military structure, overseen by viceroys who had broad authority to collect taxes, administer justice, and defend property. Thus, from the beginning, the colonial state was highly centralized and intricately tied to the extraction of rents. Both mining and the *hacienda* or plantation system, reinforced by laws of descent founded on the right of primogeniture, permeated the state, whose very *raison d'etre* was the redirection of tribute into the colonizers' hands. This fortified the link between family, centralized power, and wealth that has formed the basis for aristocracy everywhere.

From all accounts, political institutions were both strong and weak at the same time. On the one hand, they had tremendous capacity to control labor and enforce laws that were in the interests of landowners or miners, usually through the exercise of brute force, and they were extremely efficient as mechanisms for extracting mineral wealth from the Americas. On the other hand, they had few mechanisms for authoritative or legitimate allocation and were highly exclusionary. Efficiency in the extraction of rents was bought through the utilization of power and influence; it came at the cost of a substantial share in the rents that were given by the Crown to miners, landowners and provincial authorities in order to sustain their cooperation (Bakewell 1997). These are the earliest roots of centralized but weak states, permeated by private interests and clientelism that manage to capture the overwhelming share of the surplus.

Contrast this centralization of political and economic power with events in the north.[7] In the United States, an exceptionally egalitarian social and economic structure based on small landholders established certain patterns of material equality, producing egalitarian sentiments, which in turn formed the basis for the principle of equal citizenship—the mutually recognized right of individuals to participate equally in the making of binding political decisions. Since people's economic circumstances, educational backgrounds, and everyday experiences were so similar, they were able to reach and sustain collective choices through majority rule. Politics in the United States became the province of the "common man" rather than the stronghold of an aristocracy deriving its position from superior education, status, or wealth. Furthermore, because all men (though not women or slaves) were created equal, they were equally eligible to hold government positions. Thus the institutional bulwarks of elitism could be removed. Property restrictions on suffrage were lifted, terms of office were limited, and many qualifications for office were removed.

The structure of property was the principal factor that made these developments possible. "The soil of America," Tocqueville (1990) noted, "was opposed to a territorial aristocracy." Because cheap labor was available rather belatedly and then only in the less dominant South, and because production was insufficient to support both an owner and tenant farmers, land was broken up into small portions, thereby destroying the basis for a new landed elite that *haciendas* provided in Latin America. The colonizers of New England, who initially sought religious freedom rather than riches, were exceptionally well educated, and thus were given the unique right to form themselves into a political society and to govern themselves under the protection of England. They established schools in every township and

[7]The rest of this section is taken from Karl (2000).

taxed inhabitants to support them, so primary instruction was accessible to everyone at a very early stage. The replacement of primogeniture with new laws of inheritance, the last major step in this egalitarian progression, brought about a virtual revolution in notions of property. By destroying the intimate connection between families and the preservation of landed estates, such laws helped to “divide, distribute and disperse both property and power” (Tocqueville 1990: I, 48), while creating the basis for the subsequent growth of democratic manners and customs.

The difference is striking. In most of Latin America, the historical dispersal of economic resources that is the precursor to a plurality of political power never occurred. Thus there was no institutional balance of power from the start and no conception of the state (or any branch of it) as an independent adjudicator of interests. If democracy advances as asset ownership expands, as Tocqueville claims, then Latin America’s point of departure did not bode well for either its inclusiveness. Only Costa Rica, Uruguay, and to some extent Chile, where indigenous labor was so scarce that land was divided more evenly, initially managed to escape this hyper-concentrated pattern. Not surprisingly, two of these countries, Costa Rica and Uruguay, still have the strongest non-presidential political institutions and the least inequality today, and Chile might have ranked with them had it not been for the reconcentration of asset distribution that occurred during the Pinochet regime.

The Persistence Of The Vicious Cycle

Patterns persist, especially if the designers of economies and polities do not change them, or are not forced to do so. Independence may have rearranged property ownership and the terms of trade but it did not change the emphasis on commodity exports or the distribution of property. Throughout the 19th Century the great agrarian transformations brought about by the export of cacao and later coffee, sugar, cotton and other products, as well as the modes of development fostered by mineral exports, perpetuated the marked concentration of political and economic power. Wherever landed aristocracies were in command, they set up labor-repressive agriculture as the dominant mode of production and established authoritarian regimes to control the workers—a reality best exemplified by the difference between the development trajectories of Guatemala, El Salvador, and Nicaragua, on the one hand, and yeoman-farmer–based Costa Rica, on the other. Where the dominant class arose primarily from mining and its associated commercial and industrial interests, its need for considerable physical capital and relatively few workers left the majority of people in a difficult situation by lowering real wages and worsening the distribution of income. The confiscation of more lands and the tightening of coercive labor systems in turn reinforced the bias toward exports because the number of beneficiaries was far too few to develop stronger domestic markets. Because the region's exports were subject to strong external shocks, which contributed to a highly volatile macroeconomic environment, this reduced the rate of long-term growth and worsened the distribution of income.

Such exclusion paved the way for elite control of political power. Despite having similar levels of per capita GDP as the British colonies in the Americas at the beginning of the 19th Century, Latin America soon fell far behind the U.S. and Canada, experiencing no per capita GDP growth; during the same time, the U.S. GDP per capita grew between four and sixfold (Atack and Pasell 1994). Evidence suggests that at least part of this poor performance was due to the region's exceptionally high inequality. The extent of this inequality is hard to convey; Bakewell (1997,424) shows that a few families "who inhabited four square blocks of central Santiago" controlled Chile The structure of property gave dominant economic interests the political power necessary to control labor, prevent taxation and limit any fiscal or economic reforms that might have established a permanent and stable revenue base for the state (Graham 1990). Dominant classes whose interests were based on labor repression had no interest in building up human capital; to the contrary, this could be dangerous. The regimes they built and influenced largely reflected these priorities. Even in the rare cases that governments sought reform, without a tax base they could not fund sufficient investments in education or health, thus they could provide neither the public goods nor the human capital accumulation which are the key to sustainable development.[8]

The polities built in this context were simultaneously strong and weak. On the one hand, the concentration of political power, in part for the purposes of complementing, sustaining and bargaining with economic power, gave the impression of great power. *Caudillismo,* and the heritage of personalism and presidentialism it produced, was a response to the persistent need for strong central authority. Presidents stood at the top of networks formed by their cronies, regional political bosses and armies, and they were the main contact points for foreign investors and domestic elites. The constitutions that replaced the colonial system contained provisions for turning this arrangement into a lasting legacy; they institutionalized especially strong executives and ultra-presidentialism. These presidents sat atop states that would become very large, with ever-expanding jurisdictions since late development tended to exacerbate the tendency toward intervention, but the appearance of strength was deceptive. Because power was so concentrated, Latin American states, to varying degrees, developed no separation of powers and a very weak rule of law (Karst and Rosenn 1975, Rosenn 1990, Nino 1996). Moreover, because dominant economic interests blocked taxation, states could never develop their own extractive capacities vis-à-vis their own populations. This in turn circumscribed the growth of administrative capabilities (Karl 1997, 44-70).

By the beginning of the 20th Century, all Latin American states had "hitched their economic star to a dominant commodity," but the fruits of these commodities were not widely shared. Economic development models, especially the free-trade experiments of the 1920s, perpetuated the concentration of income among elites and sustained these patterns of social exclusion. Designed in the interests of ruling families who were concentrated in export activities and therefore benefited from economic openness, these models did manage to achieve a growth in exports as a response to increasing demand, especially from Europe and

[8] Nowhere is this more apparent than in Central America.

the Americas (Bulmer-Thomas 1994). But they also were the economic basis for an exclusionary political alliance between export elites, foreign investors, and the state, best exemplified by Juan Vicente Gómez in Venezuela, Gerardo Machado in Cuba and Porfirio Díaz in Mexico. Such regimes were kept in place largely by force, and by the 1920s military institutions became fundamental political actors, possessing the capacity to topple governments and create new ones (Rouquie and Suffern 1998). Not surprisingly, political regimes with this social base never challenged the concentration of asset distribution -- except its distribution among themselves – and they never questioned the overall benefits of free trade in a highly oligopolistic setting. Indeed, they used its benefits to strengthen both the political and economic concentration of power.

Throughout most of the twentieth century, these gross material inequalities provided the social basis for exclusionary authoritarian regimes, which, in turn, promoted economic models that disproportionately benefited the rich and powerful. Political power was concentrated through super-presidentialism that lacked any meaningful form of accountability. To different degrees in different countries, both foreign governments and multinational companies were able to bend political decision making to serve their interests, usually by bargaining directly with powerful presidents and their representatives; the influence of giant, domestic family-based *grupos* also distorted decision-making processes. In effect, Latin American countries were ruled by a "triple alliance" of foreign and domestic entrepreneurs and state officials that retarded the region's democratic maturation. To some extent this pattern was altered with the fall in world demand for Latin American products during World War I, which catalyzed the rise of industrialists, urban labor unions, and the formation of political parties, and it was more thoroughly changed with import substitution industrialization, which produced solid economic growth between 1925 and the late 1970s.

Only countries that managed to build strong party systems and very influential labor unions, and hence a tradition of social-welfare policies followed somewhat different trajectories. Not surprisingly, these were countries where property was distributed more equitably from the start (Uruguay and Costa Rica), where agrarian oligarchs were divided and competed with mining and other interests (Chile, Peru, and Venezuela), or where there was no peasantry at all (Argentina). Whatever democratization and redistribution that did occur took place in the context of an interventionist state, economic protectionism, and organized mass pressures from below—a decidedly illiberal model. Under these conditions, which prevailed in the democracies of the 1960s, the incomes of the poor and middle classes slowly expanded at the expense of the richest 20 percent of the population (Londono and Szekely (1997), although this process was neither efficient nor especially democratic. But in South America these developments were terminated by a wave of authoritarian regimes that put a brutal end to political democracy and further concentrated wealth; in Central America (with the exception of Costa Rica), they never took place at all.

How Inequality is Reinforced

What is especially disturbing about Latin America's economic and political development patterns is that they are largely self-reinforcing, even in the contemporary period. This is not unique to Latin America. Considerable evidence exists that inequality varies far greater across countries at a given time than over time for a given country. In other words, the inequality rankings of countries are highly stable over decades, and past inequality may be the most important predictor of current inequality (Bruno, Ravallon and Squire 2000,47). But the consequences for the region are not advantageous; they lead to what the late Fernando Faijnzylber called a "pathology of inequality."

Reinforcement mechanisms lie in the nature of the economic model, not only in its contemporary neoliberal form but also in its past forms. What I have elsewhere called "the paradox of plenty" (Karl 1997) is, in part, the surprising finding that extensive natural wealth may reduce economic growth in the long run – at least under certain conditions. Countries with bountiful arable land per capita and various types of natural wealth (oil, minerals, and numerous agricultural products) grow more slowly that those with fairly limited natural wealth. Indeed, Auty (1998) argues that between 1970-1993 countries with fairly limited natural wealth grow more than four times as rapidly as their resource-rich counterparts. Where countries are small in size and resource rich, only four from Auty's entire group of 85 countries achieve per capita growth exceeding 4% per year on an average between 1990-

1997. This is not a coincidence. Resource rich countries in the developing world suffer from a host of economic problems associated with dependence on mineral or agricultural wealth for exports, including "Dutch Disease," factor market distortions, and high volatility of prices. These translate into low investment rates when compared to world standards, and the region's success in attracting foreign direct investment is insufficient compensation. Thus between 1960-1997, the region's investment rate was two percentage points below the world average and a full seven percentage points below less well-endowed East Asian countries (World Bank 1999)! Latin America's resource-rich countries simply do not grow fast enough to address inequalities or the reduction of poverty, nor are they likely to do so in the current context.

Other inequality effects exacerbate these growth problems. A number of analytical models have demonstrated the importance of the initial distribution of endowments by showing how changes in more equitable directions potentially yields large increases in social welfare. These findings are verified by the experience of Japan, Taiwan and Korea, where high growth followed externally imposed land reform. The more inequitable the initial distribution, the more severe the constraints on growth. Deininger and Squire (1996) demonstrate significant adverse effects of higher land inequality on inequality of incomes, showing how especially inequitable distribution of land is associated with lower capital accumulation and growth, a finding that has been confirmed by others (Person and Tabellini (1994). Such inequality in asset distribution is also at the root of many models that relate inflation to inequalities in the distribution of income. In effect, inflation taxes both rich and poor, but the access of the former to foreign currency and capital flight allows them to shift the burden of inflation to the poor. Credit constraints preventing the poor from making productive investments also reinforce the high inequality/low growth cycle.

Even very modest changes in overall inequality can bring about sizable changes in the incidence of poverty, but social exclusion makes such reforms very difficult. The clear result of Latin America's history of high inequality, low growth and concentrated political power has been dualistic development, the coexistence of two distinct but linked worlds within the same national territory: the rich (along with portions of the middle class and some workers) and the poor. What distinguishes these two groups, besides a huge disparity in wealth, is the enormous *social* distance between them, despite their close proximity. The wealthy have built their own schools, attend their own churches, and segregate themselves in walled neighborhoods. The poor have had no schools at all or schools of poor quality, especially in rural areas; they attend separate religious institutions, have virtually no social services, and live in urban shanty towns which are physically proximate to wealthy neighborhoods but worlds apart in every other way.

Social exclusion does more than perpetuate inequality; it retards the accumulation of human capital that is so crucial for reducing human misery. Recent studies have found significant correlations between initial educational inequality and slower income growth (Birdsall and Londono 1997) and the poverty reducing impact of growth (Ravallion and Datt 1999), especially for women and girls. In this sense, the educational system is a key reinforcement mechanism in the region's vicious cycle. The average education of the workforce has advanced more slowly in Latin America than in any other area of the world; by the early 1990s it had not even reached five years of schooling. Contrary to what is often believed, this is not due to exceptionally low levels of public spending, except in some countries in Central America. The region's comparative performance is good in this respect, spending even more on education than East Asia.

But patterns of spending are skewed towards higher income groups and favors higher over primary education. The figures are startling: while the top 10 percent of income earners in Latin America have an average of 11.3 years of education (somewhat less than completing secondary school in the United States -- a striking reminder of inequalities between the North and the South), this is a full seven years more than the poorest 30 percent of the population. There is a dramatic difference in completion rates between the poorest ten percent and the richest ten percent of Latin America's population; one World Bank study (2000: 56) showed that of the 14 countries examined, 12 demonstrated a gap between the percentage of the richest children who finished secondary school and the percentage of the poorest children of over 50 percent! In Brazil and Panama in 1995 and Greater Buenos Aires in 1996, the gap in completion rates topped a whopping 70 percent. In human terms, this means that profound stratification of education fortifies the enormous social distance between rich and poor in Latin America, and it guarantees that the poor, and the children of the poor, are unlikely to be able to escape their situation. Access to education is even a matter of life and death; in Bolivia, for example the inability of parents to speak Spanish is associated with higher mortality rates for children under two years old (World Bank 2000: 63).

These expenditure patterns reflect power arrangements and the manner in which political institutions function – another set of reinforcement mechanisms. In effect, when it comes to expenditures on public services the wealthy win the alliance of middle classes at the expense of the poor. While in principal fiscal policy could provide the necessary tools to protect the poor and redistribute income towards the disadvantaged, over the past 25 years the outcome in Latin America has proved otherwise. Instead, the budget has been a key mechanism through which urban middle classes, directly or through government jobs, have captured benefits for themselves while preventing significant changes in income distribution. As growth rates stopped entirely or slowed in the 1980s –1990s, the impact of total social expenditures in health, education, social security, public housing, water and housing was either neutral or regressive for the poorest 20 percent in many Latin American countries. In effect, the region with the highest levels of inequality in the world is also characterized by the low quality of government spending.

This bias of the political system is best exemplified by the fact that taxation of private assets has never been a major part of government revenue in Latin America. Indeed, Hirschman (1971) argued that the principal reason governments turned to overvalued exchange rates on primary exports in the postwar period could be found in the effective opposition on the part of elites to paying taxes on land or other property. This is surely an explanation for excessive foreign borrowing as well (Karl 1997). Even when tax reform does occur, it takes the form of consumption taxes, mainly the VAT, rather than taxes on income or assets (Majon 1997).

Extreme income inequality has an insidious impact on the way democratic institutions actually operate in other ways. Observers as diverse as Human Rights Watch, Freedom House, Transparency International and the Inter-American Dialogue have all pointed out how powerful economic and political elites have bent laws to their bidding, enfeebled courts, violated rights, corrupted politicians, and run roughshod over constitutions and contracts. In countries where mineral and agricultural exports produce concentrated rents and thus disproportionate access and influence over politicians, greater wealth buys greater influence. Exceptionally high inequality makes the state especially susceptible to influence-trafficking by producing the incentives and the resources for greater rent-seeking; essentially money contributions and job promises are exchanged for political favors, affecting the direction of the most important economic decisions. Thus in Transparency International's latest surveys, most countries in the region end up in the bottom half of the 99 countries in this corruption measure – with Argentina 52nd, Ecuador 74th, Venezuela 75th, and Honduras 94th (Transparency International 2000). Such poor rankings capture behavior that hurts any type of strategy to overcome equity by undermining competition, limits the chances of small businesses and consumers, and thoroughly undermines confidence in government.

But if the rich are politically favored through exceptional access to power, the poor most decidedly are not. In general, they are simply too weak economically and politically to demand pro-poor policies. As informal sectors have grown and family incomes within them have fallen, the permanent struggle to survive does not bode well for opportunities to organize collectively, especially for women. Nor are memories of the recent authoritarian past, where they were the greatest victims of repression, conducive to mobilization to protect their interests. When compared to the rich, the poor are significantly more reluctant to engage in political action (Mori International 1998). In surveys conducted in Chile, Mexico and Costa Rica, the lowest income sector would never sign a letter of protest (41% compared to 27% of the highest income sector) or attend a demonstration (52% compared to 37%). Especially high crime rates in poor *barrios* also explain this participation bias. Where crime lords rule, they destroy local bases of governance, including non-governmental organizations that seek to promote anti-poverty goals, and substitute new patterns of clientelism based on different patterns of force and fear. This skews incentives for legal economic gains and, by leading to increased militarization, removes state revenues that could be more productively and equitably invested in human resource development.[9] Finally, the poor report feeling disempowered and humiliated by their governing institutions, they distrust their effectiveness

[9] André de Mello e Souza (2001) describes this dynamic by examing violence in the shantytowns of Rio de Janeiro, showing how crime, while distributing resources differently, also gives rise to a greater militarization of both army and police forces.

and relevance, and they believe they are being excluded from participation. Because they tend to vote less, they are less able to utilize the potential benefits of democracy to improve their lot (Narayan et al. 2000: 197). Indeed, unlike the rich, only a small majority is likely to hold the government accountable for its actions (57% compared to 74%).

Social scientists are often preoccupied by showing how this type of skewed polity may lead excluded actors to pursue their objectives outside normal channels, fostering violent political movements, riots and protests. But they often fail to note that such actions are most often in response to the refusal of <u>elites</u> to operate through normal democratic channels, which may favor them less openly than the use of influence. Even when dominant interests do not circumvent political institutions and choose to work within them, these institutions were originally built by them to protect their interests; thus they are still biased in favor of dominant interests despite the principle of "one person, one vote." For example, Snyder and Samuels (2001: 147-159) convincingly show that Latin America has the highest proportion of malapportioned legislatures in the world, which in turn, causes negative consequences for democracy that are relatively hidden from public view. This leads to an overrepresentation of rural interests, producing a distinct rural and conservative bias in the polity (especially in Argentina, Bolivia, Brazil, Chile, Colombia and Ecuador).

The failure of democratic institutions to address these economic problems or function properly weakens their legitimacy in the eyes of all their citizens, whether rich or poor. Compare, for example, the high proportion of Spaniards (81 percent) that claim that "democracy is preferable to any other form of government," with a ten-nation average of Latin Americans (63 percent). Where income inequality is greatest, people are more willing to accept authoritarian rule, less likely to be satisfied with the way democracy works, less trusting of their political institutions, and more willing to violate human rights. Thus the two historically most equitable countries – Costa Rica and Uruguay—show levels of support for democracy and trust in their democratic institutions that are comparable to the stable democracies of Western Europe, while the other 14 countries surveyed by Latinobarometro demonstrate more ambivalent attitudes. Some countries even exhibit what Lagos (2001: 137) has called "a crisis in public attitudes towards democracy;" especially in Brazil, Paraguay, Venezuela and Colombia, where democracy (at least measured by attitudes) is in serious trouble.

Comparing attitudes in Uruguay, perhaps the region's most equitable country, to those of Brazil, one of the most inequitable, is striking. While Uruguayans favor democracy as "the most preferable form of government" over authoritarian rule by 84 percent to 9 percent, the comparable figures in Brazil are 39 percent to 24 percent (Lagos 2001: 139). In Uruguay, an impressive majority (69 percent) is satisfied with the performance of democracy, while in Brazil the proportion is less than a quarter. Most of Latin America as a whole is much closer to the Brazilian pattern; only 37 percent of the public are satisfied with the way democracy works (compared with 57 percent, for example, in the newer democracies of Southern Europe). Levels of trust in institutions are especially low, leading some analysts to equate this to low levels of personal trust that exist in the population as a whole and "a common regional heritage of distrust" (Lagos 1997: 126). But such explanations based on attributes of culture do not adequately consider how these perceptions actually capture the hierarchical nature of economic and political power in the region and the very real subversion of judiciaries, political parties, the congress, the police and the presidency by income and asset inequality.

Inequality and Democracy

The combination of what Rawls (1971) has called the "birth lottery" with what is sometimes referred to as Latin America's "commodity lottery" is the fundamental basis for the vicious cycle of unequal development in the region. This is a self-reinforcing economic and political dynamic based on the concentration of both assets and power, the institutionalized bias this creates in political structures, and the permanent exclusion of large segments of the population today. This means that, at least in Latin America, mitigating asset and income inequities is the principal task facing policymakers.

The reasons for addressing inequality are clear from the development record. Latin America has simply not grown fast enough to reduce human misery in the region, in large part because badly needed macroeconomic policies are not implemented at all, implemented too late, or reversed. But the reluctance to administer such policies has its roots in the way that inequalities in political power, based on highly distorted patterns of property, permit the capture of gains -- first from the policies that exist prior to reform and later from the reform process itself. When majorities understand that the brunt of stabilization will be born most heavily by them in what are blatantly unjust outcomes, they in turn resist economic reform – even when it might ultimately benefit them. Where social safety nets have been inadequate, corruption flourishes, the rule of law is weak, and government institutions are not accessible to them, this is logical behavior. But the social conflict that is engendered from unequal income and asset distribution is especially destructive for both macroeconomic stability and political stability, and vice versa. The net result of this vicious cycle is other cyclical behavior. Thus the countries of Latin America are characterized by marked procyclicality in their fiscal policies, contributing to its high inflation rates and the inability of governments to stabilize their budgets. They swing between populist and orthodox macroeconomic policies throughout their history. Most dramatically, they move between democracy and authoritarianism, in part because macroeconomic instability helps to produce political systems characterized by frequent regime changes, party fragmentation, and political exclusion.

Can the latest round of democracy in Latin America reverse the region's historic pattern? In some respects, the prognosis is not good. What is most striking when examining the approaches taken to economic reform over the past two decades is that no government and no multilateral agency was prepared or able to protect the poor from the impact of adjustment policies, and most did not even try until some time after the distributive consequences became painfully clear. The results are evident in the urban riots in Venezuela and Argentina, the Chiapas uprising in Mexico, the election of populist former coup leaders in Venezuela and Bolivia, the inability to consolidate any type of governance in Ecuador, the assassination of political leaders in Paraguay, and growing warfare in Colombia. Such dramatic events demonstrate how difficult it is for democratic institutions to function correctly or be maintained in a polity sharply divided by income and wealth, and they illustrate the limits to what a universal franchise can deliver, especially against the current backdrop of retreating states, highly mobile capital intent on reducing tax burdens, and unorganized majorities. Because the globalization of economies in this context can erode the social consensus so tentatively forged in new democracies, especially where inequalities are so stark, the basis for demagogic populist solutions is being reproduced in a number of countries. Unless this is counteracted by socially just and intelligent redistributive policies that consciously do not replicate the populist policies of the past, protectionist pressures are likely to soar in the longer term, economic progress can be jeopardized, and threats to democratic stability will grow. This seems to be the fate of much of the Andes.

But there are more hopeful signs as well. Most democracies show a greater commitment to gradually changing deeply entrenched patterns of inequality, especially those with strong party systems, and there are new opportunities that may help to redress the political imbalances wrought in the past. First, despite the paucity of real debate in the past over development policy, debate is growing as well as the knowledge about what permits development and democracy to coexist. There is a newly emerging consensus that openness, combined with effective regulation and social protection, e.g.,support for primary education, income transfers to the poor to improve nutrition, better access to social infrastructure, preferential credits for low-income housing, and improved health care, can simultaneously raise labor productivity, reduce poverty, and create more capable citizens – as long as they are financed in a balanced way. Most important, there is a new effort to distinguish between populist policies, on the one hand, and badly needed redistributive policies, which are not the same thing and do not lead to the same results. To the extent that this knowledge can be transformed into the new prescriptions of multilateral lending and development agencies, such policies are much more likely to be implemented. This is especially true if conditionality, which has focused on measures like freeing prices and holding down wages, instead is aimed at fostering tax systems at the expense of unwilling entrepreneurs, making budgetary processes transparent, and targeting spending towards the poor.

Second, just as markets have become more gloablized, so too have democracies, and this provides powerful new opportunities for transnational progressive coalitions to improve the quality of democracy. In effect, as capital and labor become more nomadic, so too does citizenship, and the sites for democratic struggles change. This means that reformers, hoping to win support for their policies, do not have to depend merely on appeals to the enlightened self-interest of elites or obfuscation in presenting their programs. If the struggle for meaningful social policies was once purely domestic, this is no longer the case. Thus those reformists who once sought to broaden the social base of new democracies through a range of measures, including the lowering of barriers to entry to the electoral system, the opening of political parties to new constituencies, and the creation of new sources of municipal power, now find themselves with some unlikely allies. Take, for example, the growing consensus that economic models need to be reoriented in order to emphasize social protection. Because survey data consistently show that women are more likely than men to support environmental regulation, controls over business, programs that assure the survival of society's weakest members, and a general softening of the harshest aspects of markets in virtually every polity, appeals to the women's vote is one effective means of building new coalitions for change.[10] The aggressive recruitment of women leaders, the leap in women's representation due to quotas in countries like Argentina and Brazil, and the expression of explicitly female voices in politics is largely a phenomenon of a now globalized women's movement whose efforts at combatting discrimination lend weight to the battle against inequality. But it is also the product of some economists who want to build human capital as a means to achieve better development performance, thus (at least for the moment) reformers have new prospects for achieving political alliances powerful enough to promote equity.

Democracies seem to endure past their initial (and often very fragile) two decades if they are capable of generating moderate levels of economic growth with moderate to low levels of inflation (Przeworski, Cheibub and Limogi 1996). They also appear most likely to survive in countries that have declining income inequalities over time. Put another way, democracies with especially high income distribution are unstable (Muller 1988). Democracies that neither grow nor reduce human misery over a protracted period probably do not have much of a shelf life. This is already evident by examining what has happened to the status and quality of democracy in Latin America: essentially, the gap between formal or electoral democracy, on the one hand, and the respect for rights, on the other, has grown. This is a worldwide phenomenon, but it is especially significant in Latin America. Of the 22 countries below the Rio Grande with populations over one million, almost half have experienced a significant decline in their levels of freedom over the past decade. Whether the

[10] This is not to argue that women are more progressive voters or replicate the gender gap in advanced industrialized societies. In most cases, where data are still available, women tend to vote more conservatively than men in Latin America.

scoring of Freedom House or Americas Watch is utilized, there has been a notable downward trend in the measuring of democracy in Argentina, Venezuela, Colombia, Brazil and Peru. In Latin America, the economy and the polity go hand in hand. To the extent that both are reformed in order to benefit the worse off in society, Latin America's vicious cycle can be stopped. The alternative is not pretty.

REFERENCES

Alesina, Alberto, and Dani Rodrik. 1994. "Distributive Politics and Economic Growth." *Quarterly Journal of Economics,* May: 465-490.

Alesina, Alberto, and Roberto Perotti. 1993. "Income Distribution, Political Instability and Investment". Working Paper 4486. Cambridge, M.A.: National Bureau of Economic Research.

Atack, Jeremy, and Peter Passell. 1994. *A New Economic View of American History*. New York: W.W. Norton.

Auty, Richard M. 1998. "Resource Abundance and Economic Development: Improving the Performance of Resource-rich Countries." UNU-WIDER Working Paper. Helsinki.

Avelino, George. 2000. "Economic Reforms, Social Spending and Democratization." Ph.D. Thesis, Stanford University.

Bakewell, Peter. 1997. *A History of Latin America.* Oxford: Blackwell Publishers.

Birdsall, N., and J.L. Londono. 1997. "Asset Inequality Matters: An Assessment of the World Bank's Approach to Poverty Reduction." *American Economic Review 87:* 32-37.

Birdsall, N., and J.L. Londono. 1998. "No Tradeoff: Efficient Growth Via More Equal Human Capital in Latin America." In *Beyond Tradeoffs: Market Reforms and Equitable Growth in Latin America,* eds. Nancy Birdsall, Carol Graham, and Richard Sabot. Washington, D.C.: Brookings Institution Press and Inter-American Development Bank.

Birdsall, Nancy, and Augusto de la Torre, with Rachel Menezes. 2001. *Washington Contentious: Economic Policies for Social Equity in Latin America.* Washington, D.C.: Carnegie Endowment for International Peace and the InterAmerican Dialogue.

Birdsall, Nancy, Thomas Pinckney, and Richard Sabot. 1996. "Why Low Inequality Spurs Growth." IDB OCE Working Paper. Washington, D.C.

Bruno, Michael, Martin Ravalliion, and Lyn Squire, 2000. "Equity and Growth in Developing Countries." In *Distributive Justice and Economic Development: The Case of Chile and Developing Countries,* ed. Andrés Solimano, Eduardo Aninat and Nancy Birdsall. Ann Arbor: University of Michigan.

Bulmer Thomas, Victor. 1994. *The Economic History of Latin America since Independence.* Cambridge: Cambridge University Press.

Cardoso, Fernando Henrique, and Enzo Faletto. 1969. *Dependencia y Desarrollo en América Latin.* Mexico City: Siglo XXI.

Cavarozzi, Marcelo J., and James F. Petras. 1974. "Chile." In *Latin America: The Struggle with Dependency and Beyond*, ed. Ronald Chilcote and Joel Edelstein. Cambridge: Schenkman.

Collier, David. 1976. *Squatters and Oligarchs: Authoritarian Rule and Policy Change in Peru.* Baltimore: Johns Hopkins University Press.

Deininger, Klaus, and Lyn Squire. 1996. "A New Data Set Measuring Income Inequality." *World Bank Economic Review* 10(3): 565-91.

Deininger, K., and P. Olinto. 1999. "Is Broad Asset Growth Good for Growth? Panel Evidence from 62 Countries." World Bank, Washington, D.C.

de Mello e Souza, André. 2001. "The Perils of Exclusion: Politics and Violence in the Shantytowns of Rio de Janeiro." Stanford University Department of Political Science Field Paper.

de Tocqueville, Alexis. 1990. *Democracy in America.* New York: Vintage Classics.

Evans, Peter. 1979. *Dependent Development: The Alliance of Multinational, State and Local Capital in Brazil.* Princeton: Princeton University Press.

Evans, Peter. 1995. *Embedded Autonomy: States and Industrial Transformation.* Princeton: Princeton University Press.

Gelb, Alan, and Associates. 1988. *Oil Windfalls: Blessing or Curse?* New York: Oxford University Press.

Graham, Richard. 1990. *Patronage and Politics in Nineteenth Century Brazil*. Stanford: Stanford University Press.

Haber, Stephen, ed. 1997. *How Latin America Fell Behind: Essays on the Economic Histories of Brazil and Mexico, 1800-1914.* Stanford: Stanford University Press.

Handelman, Howard. 1979. "Economic Policy and Elite Pressures in Uruguay." American Universities Field Staff Reports, South America Series no. 27.

Hartlyn, Jonathan, and Arturo Valenzuela. 1998. "Democracy in Latin America since 1930." In *The Cambridge History of Latin America,* ed. Leslie Bethel. Cambridge: Cambridge University Press.

Hausman, R., and M Gavin. 1998. "Growth with Equity: The Volatility Connection." ." In *Beyond Tradeoffs: Market Reforms and Equitable Growth in Latin America,* eds.

Nancy Birdsall, Carol Graham, and Richard Sabot, Washington, D.C.: Brookings Institution Press and Inter-American Development Bank.

Hirschman, Albert. 1968. "The Political Economy of Import-Substituting Industrialization in Latin America."

Kaldor, N. 1957. "A Model of Economic Growth." *Economic Journal* 67:591-624.

Karl, Terry Lynn. 1997. *The Paradox of Plenty: Oil Booms and Petro-States.* Berkeley: University of California Press.

Karl, Terry Lynn. 2000. "Economic Inequality and Democratic Instability." *Journal of Democracy* 11, 1.

Karst, Kenneth, and Keith Rosenn. 1975. *Law and Development: A Case Book.* Berkeley: University of California Press.

Kuznets, Simon. 1955. "Economic Growth and Income Inequality." *American Economic Review* 45: 1-28.

Lagos, Marta. 1997. "Latin America's Smiling Mask." *Journal of Democracy* 8, 93.

Lagos, Marta. 2001. "Between Stability and Crisis in Latin Amerca" *Journal of Demcracy 12,1..*

Larrain, Felipe, and Rodrigo Vergara. 1992. "Distribucion del ingreso, inversion y crecimiento." *Cuadernos de Economia* 87:207-28.

Leff, Nathaniel. 1968. *Economic Policy Making and Development in Brazil, 1947-1964.* New York: Wiley Press.

Lora, E. 2000. "Development Challenges for Latin America in the 21st Century." Unpublished draft, Inter-American Development Bank, Washington, D.C.

Londono, J.L., and M. Szekely. 1997. "Distributional Surprises after a Decade of Reforms: Latin America in the Nineties." In *Latin America After a Decade of Reforms: What Comes Next?* eds. R. Hausman and E. Lora. Washington, D.C.: Inter-American Development Bank.

Loveman, Brian. 1993. *The Constitution of Tyranny: Regimes of Exception in Spanish America*. Pittsburgh: University of Pittsburg Press.

Majon, James E. 1997. "Tax Reform and Its Determinants in Latin America, 1977-1994." Paper presented at the 1997 meeting of the Latin American Studies Association.

Mainwaring, Scott, and Matthew Shugart. 1997. *Presidentialism and Democracy in Latin America*. Cambridge: Cambridge University Press.

MORI Internacional. 1998. "Vision Latinoamericana de la Democracia: Encuestas de Opinión Pública en Mèxico, Chile y Costa Rica." Hewlett Foundation.

Muller, E. 1988. "Democracy, Economic Development and Income Inequality." *American Sociological Review*, 53.

Narayan, Deepa, Robert Chambers, Meera K. Shah and Patti Petesch. 2000. *Voices of the Poor: Crying Out for Change.* New York: Oxford University Press.

Nino, Carlos Santiago. 1996. "Hyperpresidentialism and Constitutional Reform in Argentina." In *Institutional Design in New Democracies: Eastern Europe and Latin America,* eds. Arend Lijphart and Carlos H. Waisman. Boulder: Westview.

O'Donnell, Guillermo. 1994. "Delegative Democracy." *Journal of Democracy* 5, 1.

Oxhorn, Philip, and Graciela Ducatenzeiler. 1995. "The Problematic Relationship between Economic and Political Liberalization: Some Theoretical Considerations." Paper for the XIX International Congress of the Latin American Studies Association, Washington, D.C. (September 28-30).

Persson, Torsten, and Guido Tabellini. 1994. "Is Inequality Harmful for Growth?" *American Economic Review* 84:600-21.

Przeworski, Adam, Michael Alvarez, Jose Antonio Cheibub, and Fernando Limongi. 1996. "What Makes Democracies Endure?" *Journal of Democracy* 7, 1.

Ravallion, Martin and Gaurav Datt. 1999. "When is Growth Pro-Poor? Evidence from the Diverse Experience of India's States". Policy Research Working Paper, World Bank. Washington, D.C.

Rawls, John. 1971. *A Theory of Justice.* Cambridge: Harvard University Press.

Rodrik, D. 1997. *Has Globalization Gone Too Far?* Washington, D.C.: Institute for International Economics.

Rosenn, Keith. 1990. "The Success of Constitutionalism in the United States and its Failure in Latin America: An Explanation." *University of Miami Inter-American Law Review* 22, no.1.

Rouquie, Alain, and Stephen Suffern. 1998. "The Military in Latin American Politics since 1930." In *The Cambridge History of Latin America*, ed. Leslie Bethel. Cambridge: Cambridge University Press.

Snyder and Samuels. 2001. "Devaluing the Vote in Latin America." *Journal of Demcracy 12,1*.

Solimano, Andres, Eduardo Aninat and Nancy Birdsall, eds. 2000. *Distributive Justice and Economic Development: The Case of Chile and Developing Countries.* Ann Arbor: University of Michigan.

Stallings, Barbara, Nancy Birdsall and Julie Clugage. 2000. "Growth and Inequality: Do Regional Patterns Redeem Kuznets?" In *Distributive Justice and Economic Development: The Case of Chile and Developing Countries*, eds. Andres Solimano, Eduardo Aninat and Nancy Birdsall. Ann Arbor: University of Michigan.

Transparency International. 2000. *Annual Report 2000*. Berlin: Transparency International.

Weyland, Kurt G. 1996. *Democracy without Equity: Failures of Reform in Brazil*. Pittsburgh: University of Pittsburgh Press.

Williamson, John. 1990. "What Washington Means by Policy Reform." In *Latin American Adjustment: How Much Has Happened?*, ed. John Willliamson. Washington, D.C.: Institute for International Economics.

Williamson, John. 1997. "The Washington Consensus Revisited." In *Economic and Social Development into the XXI Century*, ed. Louis Emmerji. Washington, DC: Inter-American Development Bank.

World Bank. 1999. *World Development Report 1998/1999*. Oxford and Washington DC: Oxford University Press.

World Bank. 2000. *The Quality of Growth*. Oxford and New York: Oxford University. Press.