Trapped by Inequality: Narratives of Progress and The Politics of Redistribution in Latin America

Laura García-Montoya

University of Toronto, Munk School of Global Affairs

Conference: Origins of Inequality in Latin America
World Bank, April 20, 2023

UNIVERSITY OF TORONTO

munk school
OF GLOBAL AFFAIRS & PUBLIC POLICY

# What is political about economic inequality?

- My work builds on a flourishing agenda recognizing that "[T]he history of the distribution of wealth [inequality] has always been deeply political and cannot be reduced to purely economic mechanisms."(Piketty, 2014)

- My approach opens "the black box" of how politics shapes inequality which requires recognizing that inequality is produced and reproduced by the contentious interactions between winners and losers of inequality.

- Interdisciplinary and multi-method approach: in-depth case studies and econometrics.

UNIVERSITY OF
TORONTO

munk school
OF GLOBAL AFFAIRS & PUBLIC POLICY

Overview of Presentation

1. Introduction
2. Argument
3. Comparative Historical Analysis of State Formation
4. Conclusion

1. Introduction
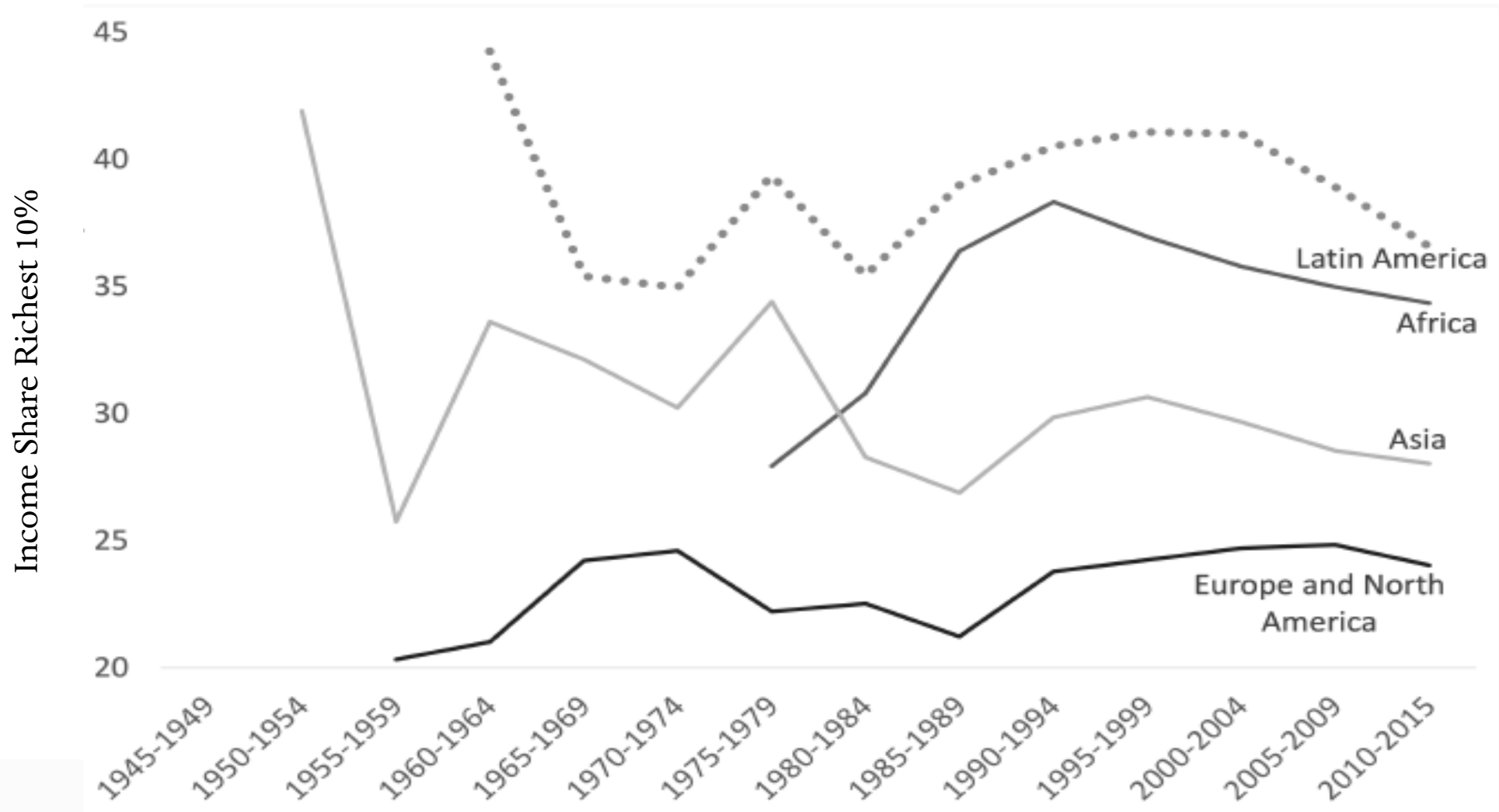
After Celebrating Two Decades of Progress...
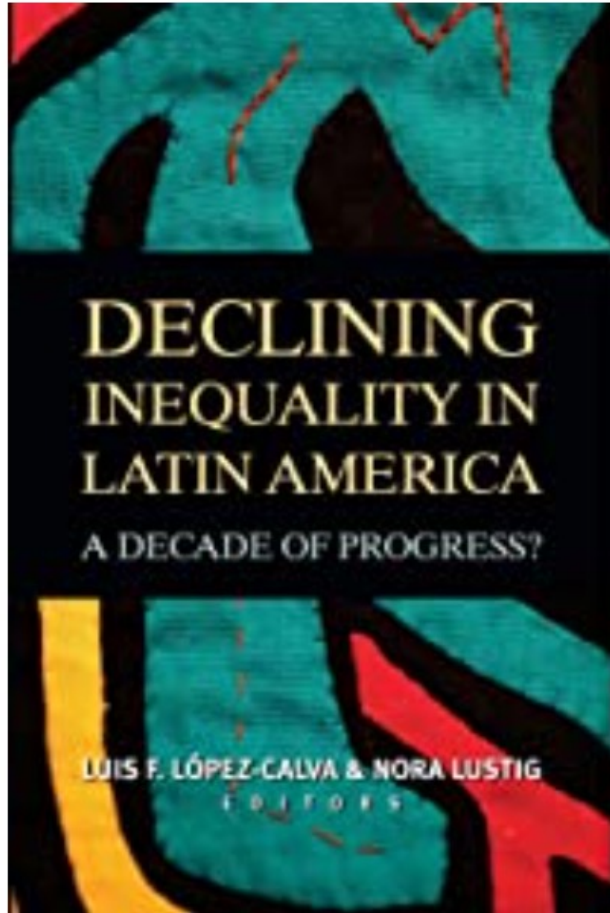
Progress stagnated, and since 2012 we see, "slowing progress in inequality reduction" (UNDP, 2021)

Pandemic Prompts Rise in Poverty to Levels Unprecedented in Recent Decades and Sharply Affects Inequality and Employment

Inequality per Income Share Richest 10%

Source: Own calcalations data from SOLT and World Bank

Factors contributing to high levels at the regional level…

Legacies of colonialism (Engerman and Sokoloff 1997; Acemoglu et al. 2001)

- Weak States (Soifer 2009, 2015) + Strong Elites (Schneider 2013, Acemoglu and Robinson, 2015)
- Position in world economy (Hoffman and Centeno 2003)

Low productivity trap and growth (UNDP, 2021; Kuznets, 1965)

Low Social Mobility:

- Parental education and occupation still predicts children's (UNDP, 2021; Daude 2011; CAF, 2022)

There have been important changes over time…

Economic Historians have shown that Latin America has not always been unequal

- Lower than Europe until the first export boom 1870s (Milanovic, Lindert and Williamson, 2008)

- Increased until around 1920 (Bértola, Castelnovo, Rodríguez, and Willebald, 2009)

- Key reforms and democratization explain decrease (de-globalization), until 1970 when it increased again market reforms (Frankema, 2009)

Recent Decline:

- "Left turn" + Democratization (Huber and Stephens 2012; Kapizewski, Levitsky, and Yashar 2021)

- Social Policy Expansion (Lustig et al. 2013, Garay 2016)

- Combination of growth and leftist governments (Feierherd, Larroulet, Long, Lustig 2023)
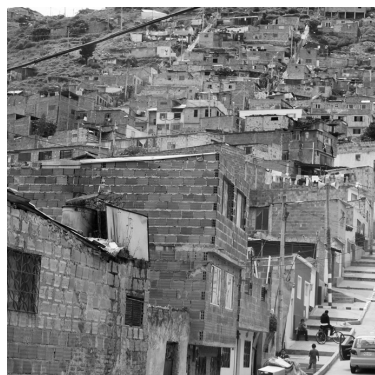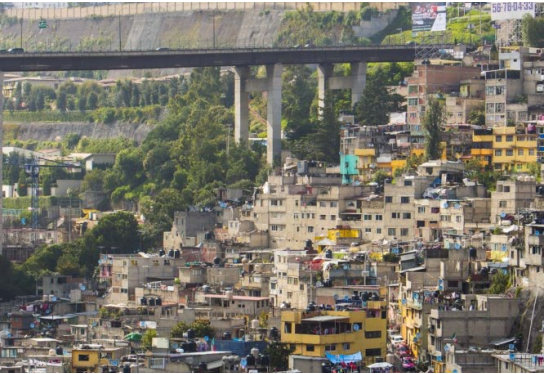
Existing research misses two dimensions of within LA variation:
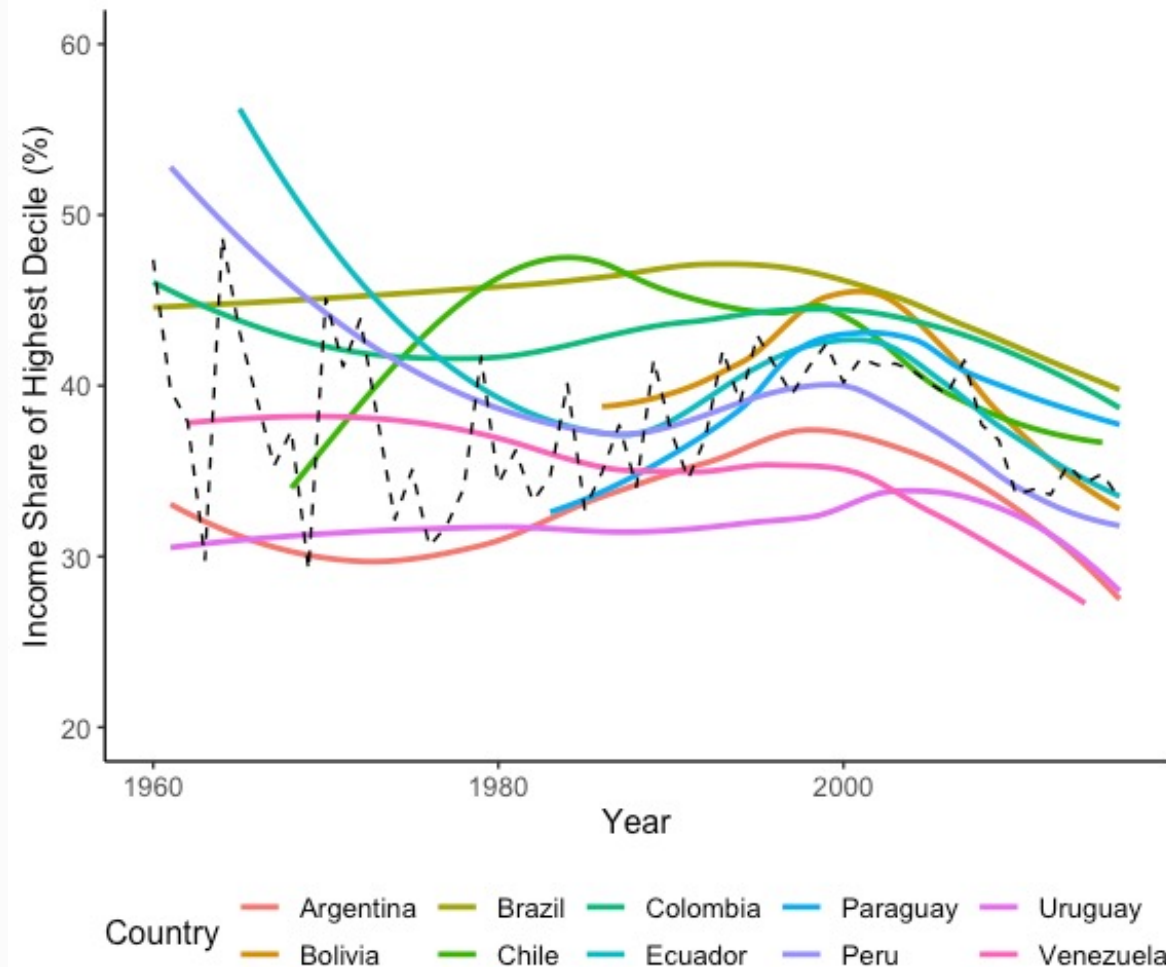
1. Countries maintain their relative position (distance to mean)

2. Some countries manage to flee or escape their "assigned position"

Source: Own Calculations, Wolrd Bank, WIID, SOLT

Research Questions

I.   Why do countries maintain their relative position?

II.   Under what conditions countries escape their position towards new equilibriums?

Key Take Aways:

I. Why do countries maintain their relative position?

State Formation: left state-elite equilibriums which explain initial ranking and resistance to change

- RD: Archival Research + Interviews + **Key Constitutions**

II. Under what conditions countries escape their position towards new equilibriums?

Redistributive pressures + Changing Paradigms of State's role in progress

- RD: Archival Research + Interviews + **Key Tax and Land Reforms**

III. Is the argument generalizable? Yes, effect of state capacity is conditional on elite strength.

- Panel Data Analysis (Yearly observations for 194 countries (and LA) 1960 and 2018
- Subnational Variation within Colombia and Perú

Key Take Aways:

I. Why do countries maintain their relative position?

State Formation: left state-elite equilibriums which explain initial ranking and resistance to change

- RD: Archival Research + Interviews + **Key Constitutions**
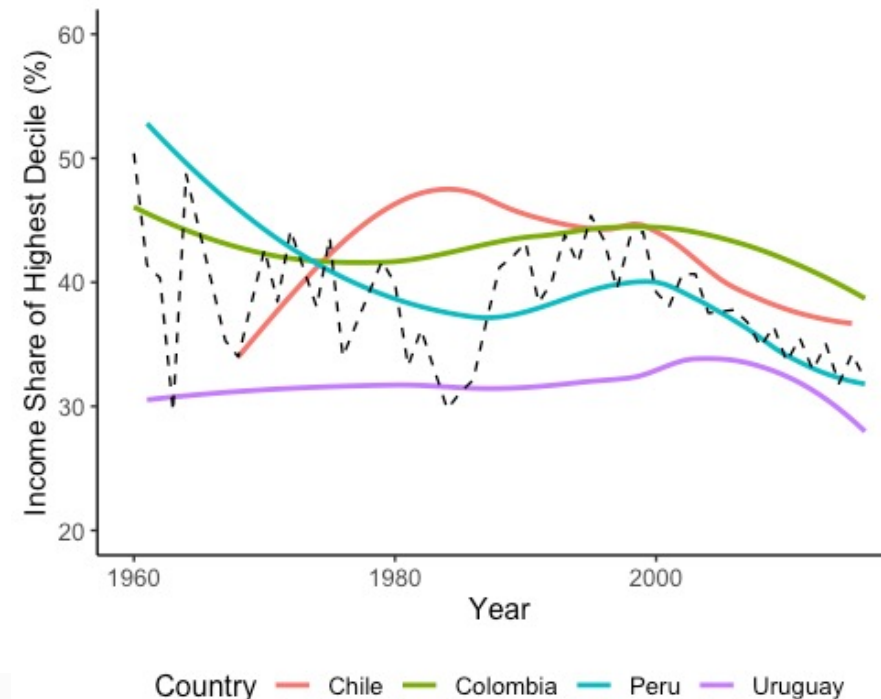
II. Unde

Redistri

RD:

III. Is the

Pane

Subn

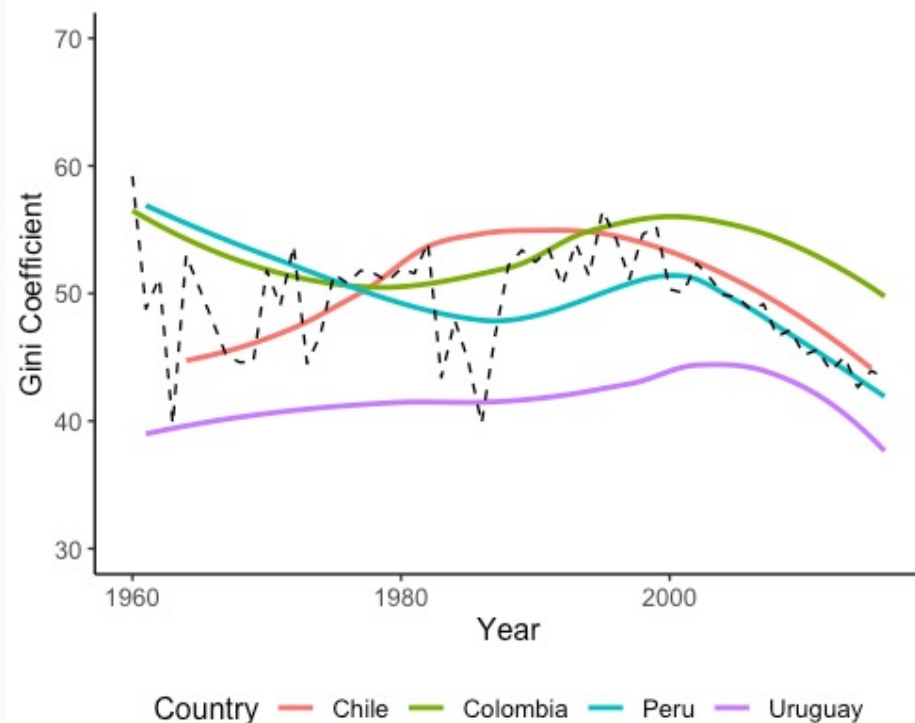# What explains persistence in relative position?

Research Design: CHA 4 cases with distinct trajectories:

◆ Archival Research + Interviews + Constitutional Histories

Source: Own Calculations from World Bank, WIID, SOLT.

2. Argument: State Formation, State-Elite Equilibriums, and Inequality

The period of State Formation left state-elite equilibriums that explain initial rankings and resistance to change

Two key legacies of State Formation:

State Capacity: Mann's "Infrastructural power", refers to capacity of governments to use the power of the state to shape the lives of civilians.

Elite's Cohesion (key to determine government autonomy): Cohesion translates into higher capacity of elites to shape government decisions. The lack of conflict among different factions of the economic elite regarding the role of the state in society means that governments are less autonomous vis-à-vis states.

Typology of state-elite equilibriums:

	High State Capacity	Low State Capacity
Cohesive Economic Elite	Mutualism ≅ Median Inequality	Parasitism ≅ High Inequality
Divided Economic Elites	Commensalism ≅ Low Inequality	Unstable Equilibrium

State-Elite Equilibriums

Commensalism: Low levels of economic inequality and self-reinforcing. states with high administrative capabilities that can govern autonomously from at least a segment of the economic elites, can implement redistributive schemes and channel incoming resources in more equitable ways.

Parasitism: high levels of economic inequality and self-reinforcing. Economic elites will become more powerful with the inflow of resources and benefit from a weak state without the capacity to foster a more equitable equilibrium.

Mutualism: Mid-levels of economic inequality and self-reinforcing. states can implement some redistributive measures without counteracting that inflowing resources will be concentrated in the hands of a cohesive elite. The lack of autonomy means that the preferences of economic elites will de reproduced through policy decisions.

Typology of state-elite equilibriums:

	High State Capacity	Low State Capacity
Cohesive Elite	Mutualism ≅ Median Inequality	Parasitism ≅ High Inequality
Divided Elites	Commensalism ≅ Low Inequality	Unstable Equilibrium

State Formation: left state-elite equilibriums that explain initial rankings and resistance to change

	High State Capacity	Low State Capacity
Cohesive Elite	Mutualism ≅ Median Inequality	Parasitism ≅ High Inequality
Divided Elites	Commensalism ≅ Low Inequality	Unstable Equilibrium

Why going back to the Period of State Formation?

1. Inequality levels were relatively low until the first commodity boom
(Abad, 2013; Williamson, 2015; Bertola et al., 2009).

2. Wars of Independence + deep economic crisis left both bureaucracies and economic elites very debilitated (Mahoney, 2010).

3. Instability and institutional drafting: creole elites were impatiently deciding rules that aligned with their views on the state and protected their power (Soifer, 2015)

4. Enduring legacies on levels of state capacity (Soifer, 2015; Kurtz, 2013; Mazzuca, 2021)

Empirical Approach Around Early Constitutions + Historical Institutionalism

- Comparison is empirically grounded on constitutional assemblies and constitutions
- Critical junctures and path dependencies:
  - Antecedent Conditions
  - Actors
  - Texts
  - Legacies

Empirical Approach: Constitutions

Country	1800										1900									2000		
	10				20	30	40	50	60	70	80	90	0	10	20	30	40	50	60	70	80	90	0	10	20
Chile	11 12 14 18	28	33*									25					80				
Uruguay		25	30*							18	34 42 52	67			
Colombia	19		43	53 58 63 *	86						91		
Perú	21 23 26 28 34 39	56 60* 67			20 33	79	93		

Independence

Constitution (weekly enforced)

Constitution followed by Instability

Constitution (followed by stability)

Constitutional Assembly

Not Studied in this chapter

Antecedent Conditions

Colombia	Chile	Uruguay
Power dispersed in multiple centers	Power concentrated in one center	
Land ownership unified members of distinct factions of the elite	The wealthier class controlled mining, banking and commerce and where land-owners.	Commercial activities were mostly controlled by immigrants, whereas rural elites belonged to traditional elites

First Constitutions

Colombia: Olimpo Radical 1863	Chile: Constitucion 1833	Uruguay: Constitucion 1830
Debilitated a weak central state and empowered local economic elites by granting autonomy	Empowered the central state and the Economic Elites	Empowered rural elites to control their labor force and repress banditry

Legacies

Colombia: Parasitism	Chile: Mutualism	Uruguay: Commensalism
Distribution of land used to mitigate financial pressures, reinforced power land-owners. Despite radical centralist reform in 1886: the state remained relatively weaker	Self-reinforcing sequence of institutional change that fed both state strength and the strength of the economic elites	Constitution feed the existing dispute, initiating a reactive sequence of instability, weakening state and economic elites. Renewal 1900s

5. Conclusion

Book

1. Introduction and Argument

Part I: State-Elite Relations and Inequality

1. State Formation and State-Elite Equilibriums

2. State-Elite Relations and First export booms:
   - "The price of growth is then inequality." (Boix, 2015)
   - Archival documents on decisions to regulate exports (tariffs and taxes) vis-à-vis state-elite relations

Part II: Escaping state-elite equilibriums

1. Argument: redistributive pressures + narratives of progress

2. 1920 and 1930s

3. 1960S-1970s

Part III: Testing Generalizability of Argument

Contributions

Interdisciplinary + multi-method approach:

- Historical + Statistical: position traps and divergence

Zoom into Insittutional Change:

- First Constitutions:
  - Winners and losers are critical to understand politics of redistribution
  - Geographic distribution of power matters
  - Narratives of role of the state are critical to understand elite's cohesion
- Institutional Reform + Changing Narratives of Progress and Role of the State (1930s, 1960s)

Policy Implications:

- Explanations for short-term variations ≠ Explanations for long-term trajectories

- State-elite equilibriums are difficult to break and self-reinforcing.

- Policy paradigms on the definitions of progress and development can maintain inequality trajectores.

Why do some countries escape inequality traps?

- Triggered by systemic redistributive pressures,
- Will the State engage in redistributive reforms?

Yes, if:

- If it has Infrastructural Capacity to implement reforms
- Economic Elites' Wealth Defense becomes Divided

Structure of Analysis:

Redistributive Pressures → State Response ⇄ Economic Elite Defense

State Response → Elite Maintains Cohesion → No Redistributive Policy / Coercion → Persistent Inequality

Trapped in Low RSP

Economic Elite Defense → Divided Elite → Redistributive Policy → Change Inequality

Increase RSP
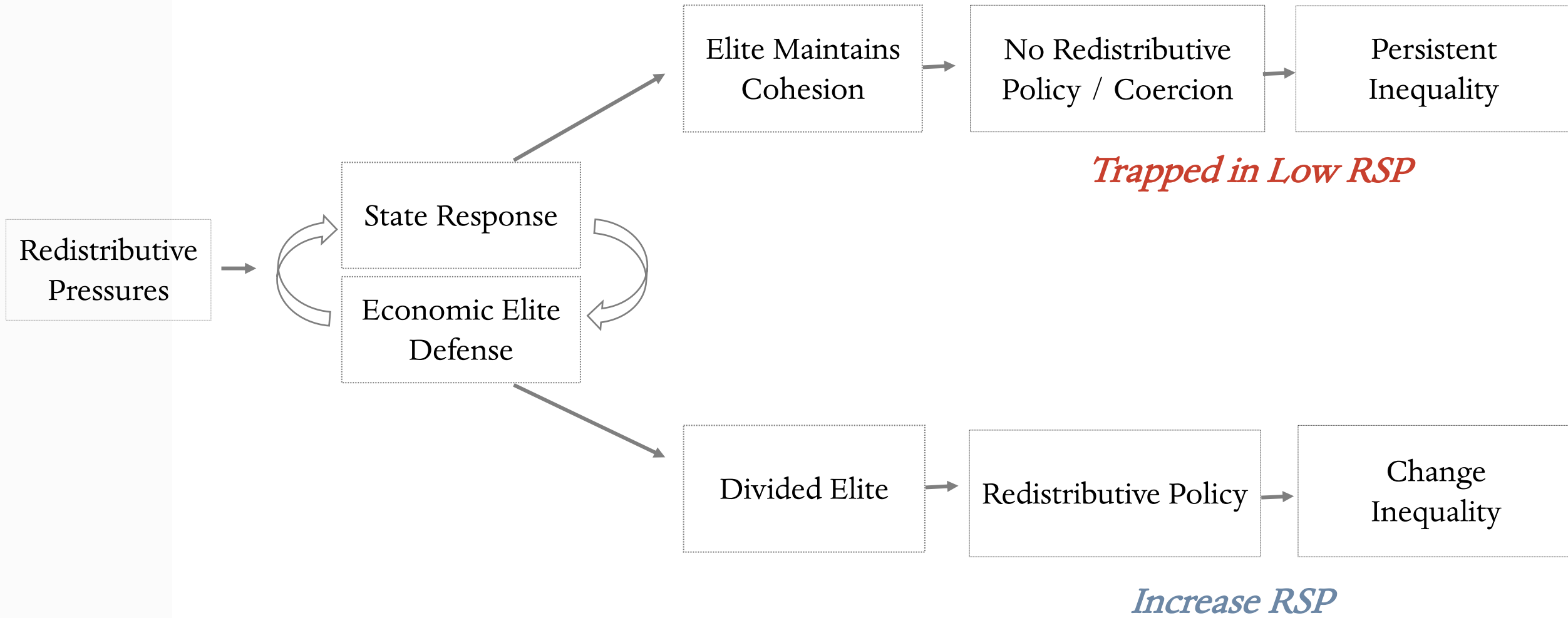
Why did Perú escape an inequality trap?
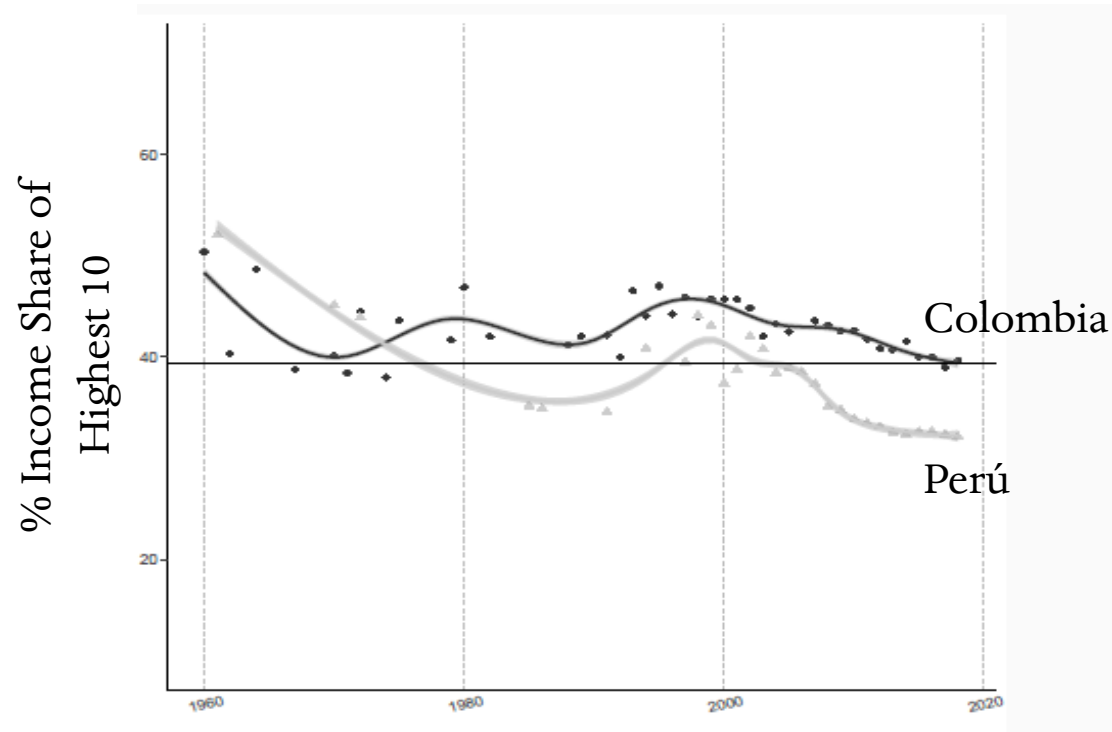
Source: Own Calculations from Multiple Imputation.
World Bank, WIID, SOLT.

Critical event analysis to understand Perú [1969-1975]

Critical Event Analysis

From García-Montoya and Mahoney, 2020

Critical Event Led to Inequality Decrease in Perú

1. Event: Elite Division During Velasco's Redistributive Agrarian Reform [1969-1975]

2. Contingency:

    *   Yes: Elite Division was very unexpected. They had acted cohesively and limited Belaunde's Agrarian Reform (1962)

3. Causal Properties:
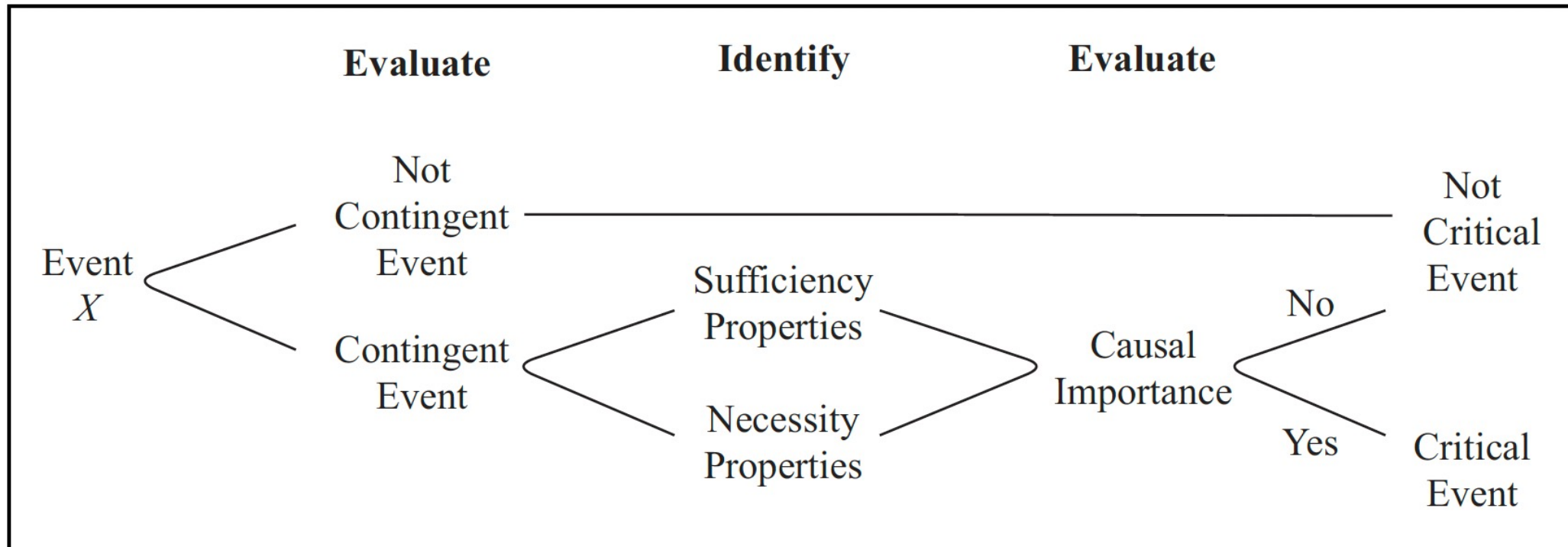
    *   Sufficiency Properties: Elite Division allowed increased RSP -> chipped away from the wealth of the richest 10%.

    *   Necessity: Without elite division, the reform would have failed (as Perú in 1962 and Colombia 1961) or a counter-reform (as happened in Colombia 1972)

4. Reforms led to Inequality Decrease in Perú

Colombia as a Counterfactual

Similarities:

- Levels of RSP and Inequality until the 1960s
- Similar Redistributive Pressures + changing ideas about justice
- Similar International Pressures
- Structure of the Economy (~40% GDP Agro-exports)
- Multi-sectorial Elites
- Oligarchic Structures of Power
- Key *alternative explanations*

Alternative Explanations:

State Capacity

Economic Growth

GDP per capita (USD)
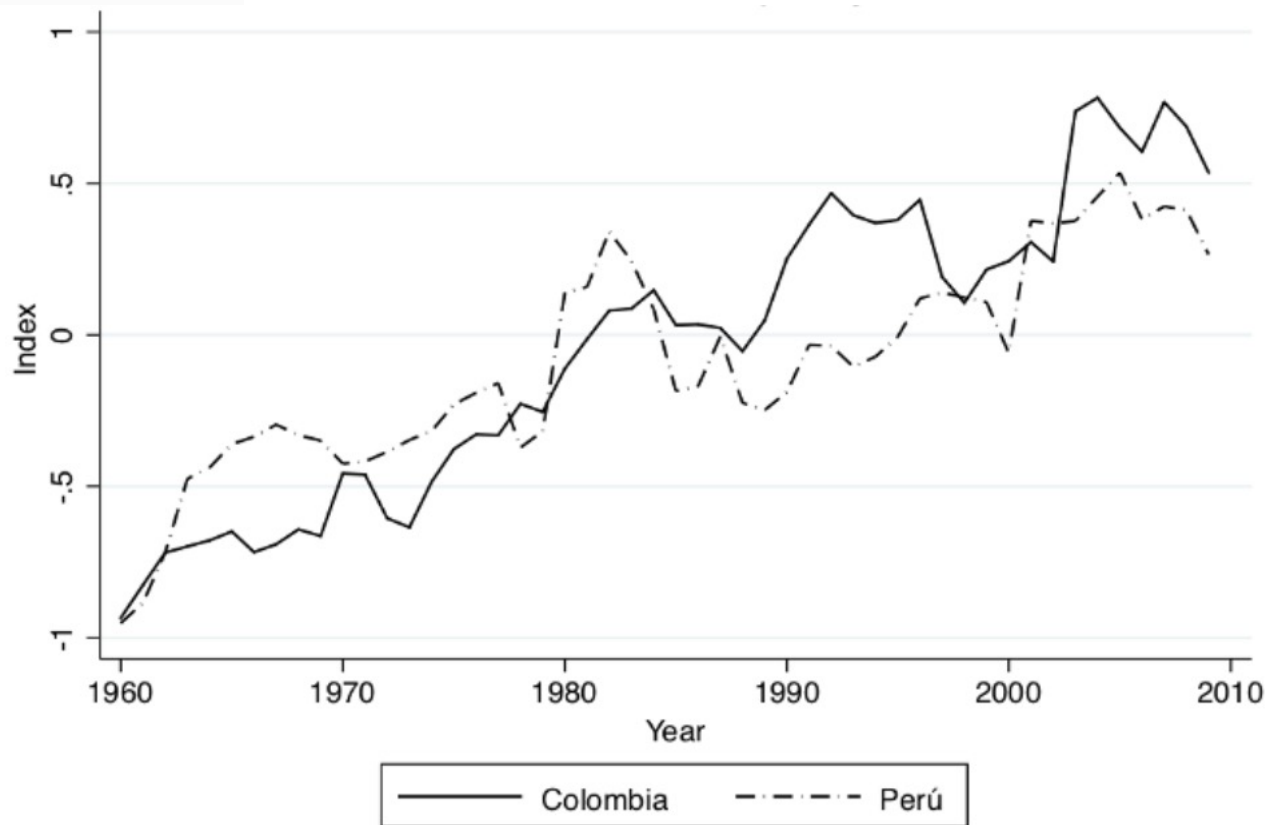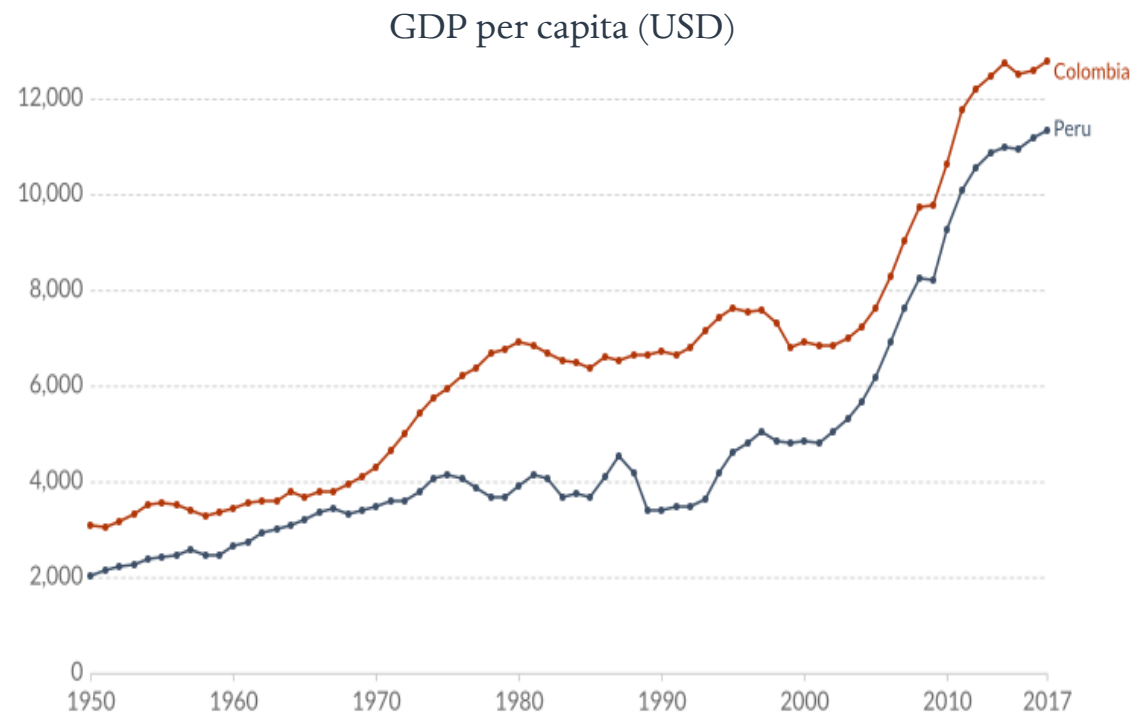
Source: Own calculations based on Hanson and Sigman (forthcoming)

Source: World Bank

Democracy and Redistribution
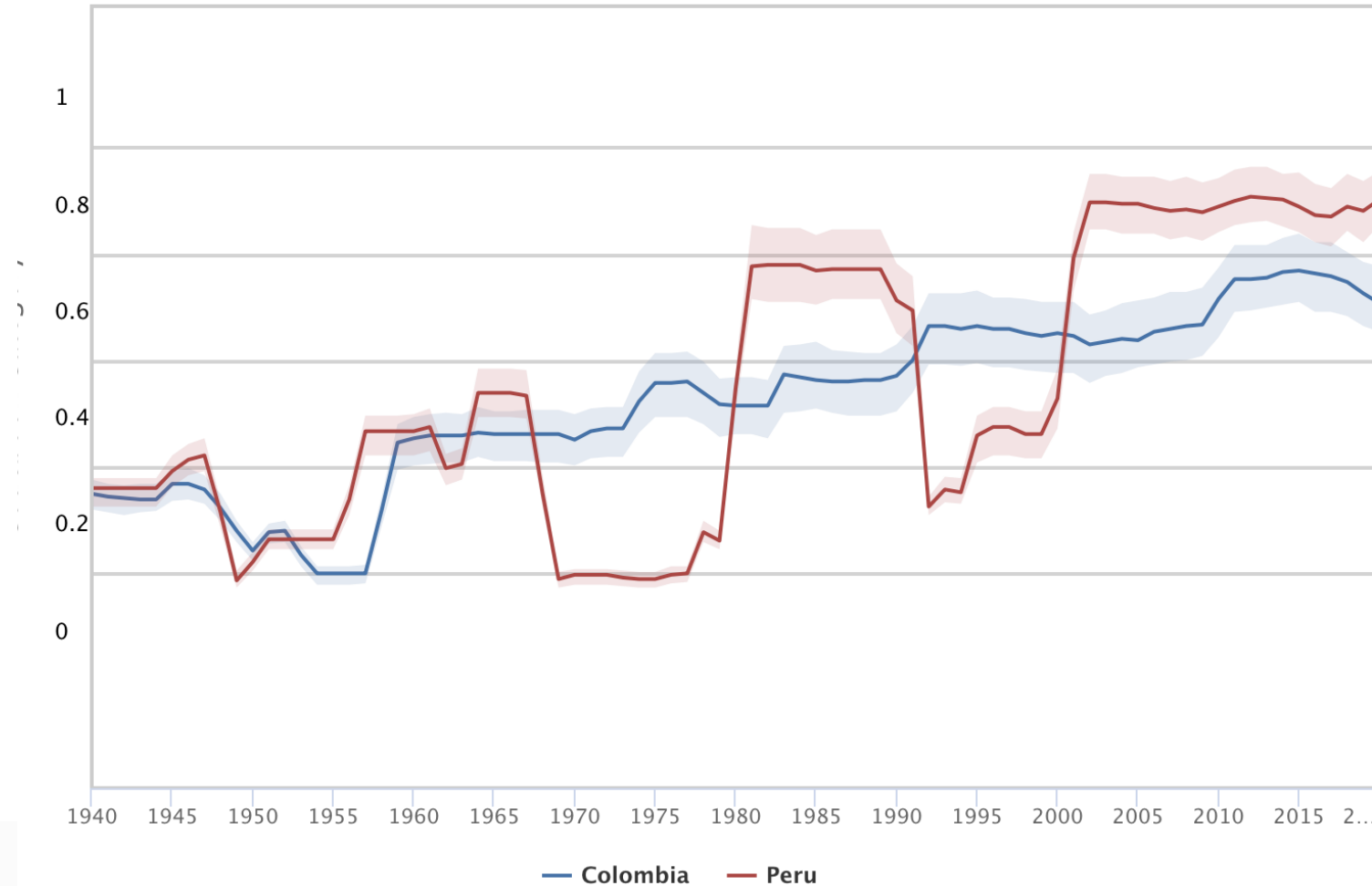
Source: V'Dem's Electoral Democracy

RSP

State Capacity

Low   High

Elites

Divided

Unstable   High RSP

United

Low RSP   Medium RSP
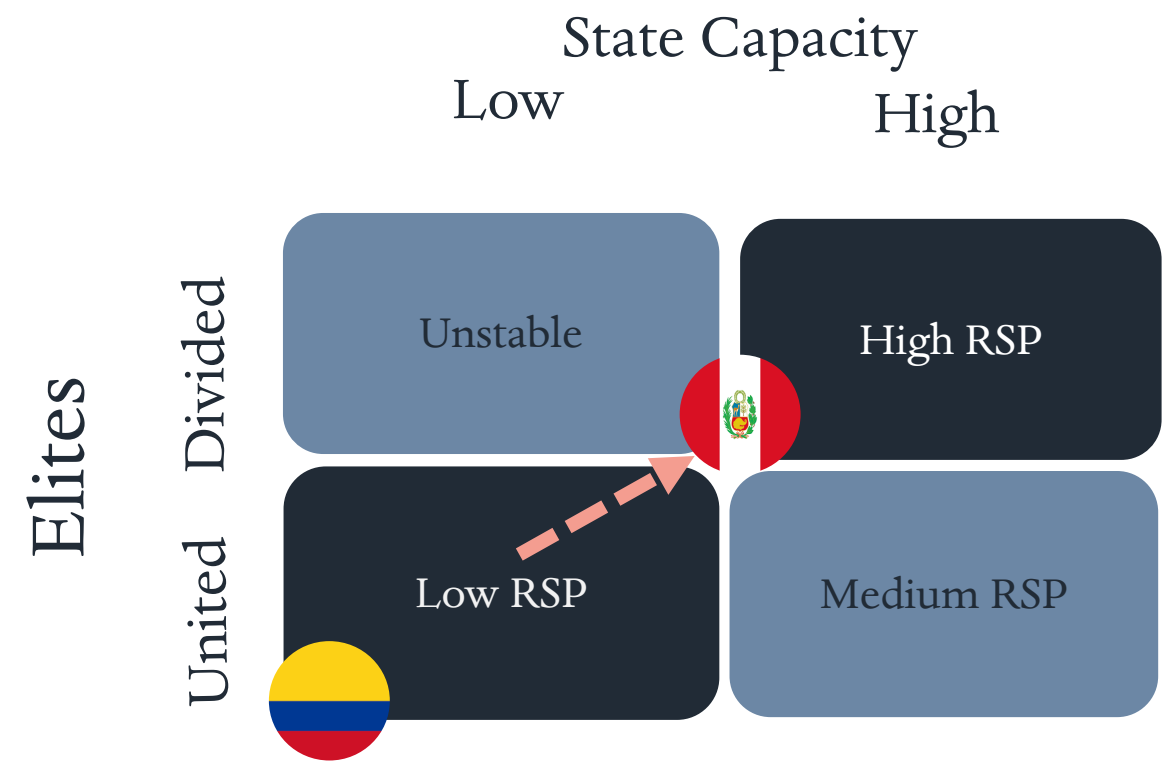
Archival Research on Key Institutional Reforms

Perú	Colombia
1. Partial Agrarian Reform (1962) 2. Agrarian Reform (1969)	1. Regressive Tax Reform (1960) 2. Partial Agrarian Reform (1961)

- Congressional Archives: congressional debates, from bills to law
- News Coverage
- Correspondence + Speeches
- Secondary Sources

Structure of Analysis:

Colombia

Cohesive Elite → No Redistributive Policy → Persistent Inequality

Trapped in Low RSP

Redistributive Pressures →

State Response

Economic Elite Defense

Perú

Divided Elite → Redistributive Policy → Change Inequality

Increase RSP
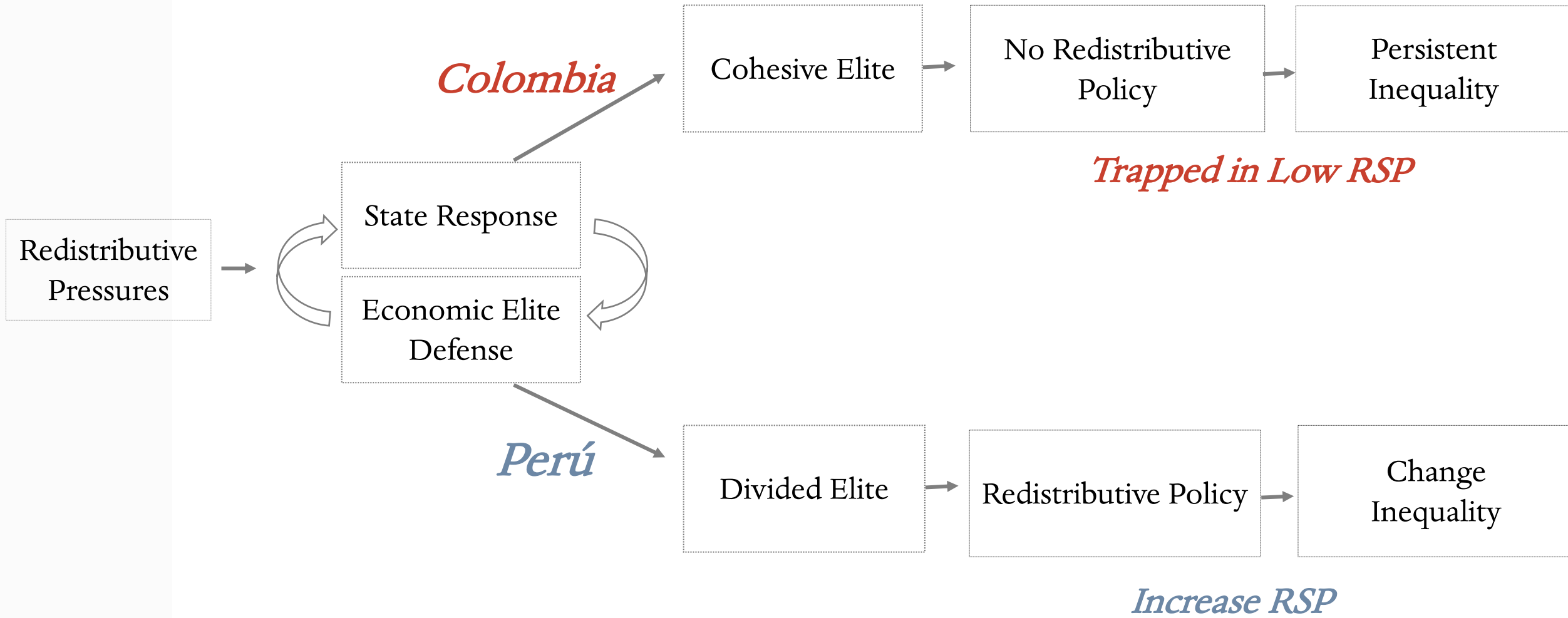
Narratives of Progress and Modernization: Key for Elite Cohesion / Division

Both: Peasant Mobilization = obstacles to progress and modernity

In Perú, industrial elites support reform:

* Land reform seen as necessary for modernization and industrialization
* Redistribution is compatible with increased productivity

In Colombia, elites unite to block reform

* Land reform seen as impediment for growth and modernization
* Redistribution is incompatible with productivity

Elite Division was key for Velasco's Agrarian Reform in Perú, 1969

"[…] there is full awareness in the revolutionary government that Peru will be able to achieve **development through industrialization**" (Translated from Revista Industria Peruana, June 1969).

"[…] it is important to surround the government and not to confront it, to obtain concrete concessions, and to let **outmoded sectors** wear themselves out in an unequal struggle" (Conferencia Anual de Ejecutivos 1969)

Elite Cohesion was key for partial Agrarian Reform in Colombia, 1961

- From Press Coverage: Sociedad de Agricultores Colombianos + President of Banco de Bogotá + ANDI were vocal against reform. Their responses emphasize on dangers of **expropriation.**

- A change in the wording and focus of the reform: from redistribution of large estates to distribution of *baldíos* (empty, not private property) with the goal of increasing productivity.

Perú Increased RSP:

Adjudicated Lands (Hectares) and Benefitted Families (1969 to 1978)

Modality		Adjudicated Lands		Families	
		Number	Percentage	Number	Percentage
Sais	60	2,773,435	37	60,990	46
Caps	502	2,127,166	29	103,699	31
Grupos Campesinos	743	1,586,363	21	43,922	13
Comunidades Campesinas	403	728,227	10	109,709	33
Individual		190,317	3	15,878	5
Total	1,708	7,405,508	100	334,108	100

Colombia's RSP did not change…

Structure of Land Ownership before and after

Size in hectares	Percentage of Owners			Percentage of Area		
	1956	1960	1970	1956	1960	1970
Less than 5	56	62.5	59.5	4.5	4.5	3.7
5 – 10	16.6	14.0	13.6	4.8	4.3	3.5
10 – 50	20.2	16.6	18.5	18.4	15.4	15
50 – 100	3.6	3.3	4.1	10.5	9.8	10.3
100 – 500	3.1	3.0	3.6	35.3	25.6	26.6
More than 500	0.7	0.5	0.7	26.8	40.4	40.8

Source: Muestra Nacional Agropecuaria (1956) Censos Agropecuarios (1960, 1970)

Tax Reform (1960) in Colombia: More Regressive
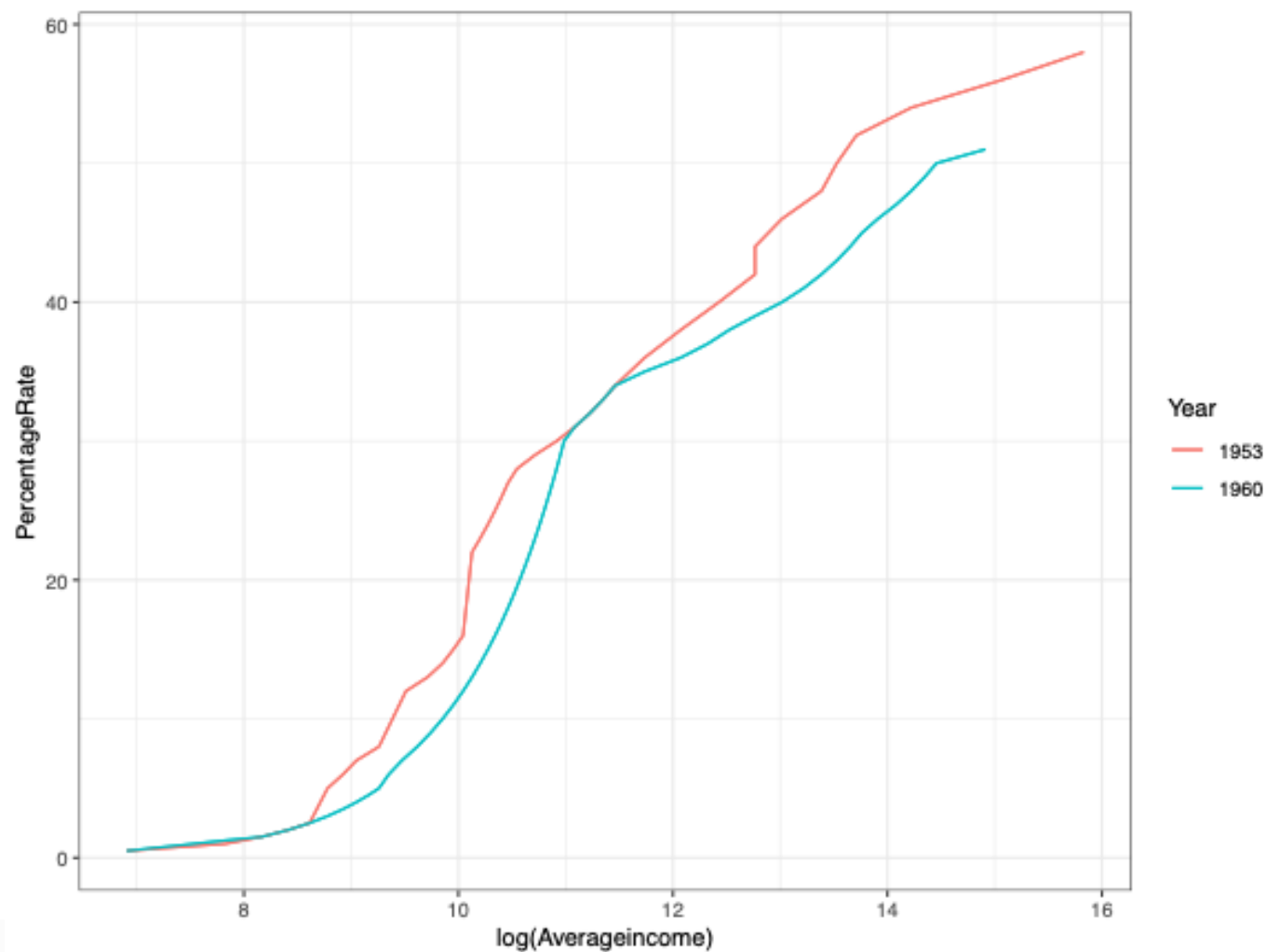
Source: Own Calculation based on Tax Reforms 1953 and 1960.

Pandora Papers and RSP Colombia

Director General
DIAN
POR UNA COLOMBIA MÁS HONESTA

LISANDRO MANUEL JUNCO RIVEIRA

An ICIJ Investigation

PANDORA PAPERS
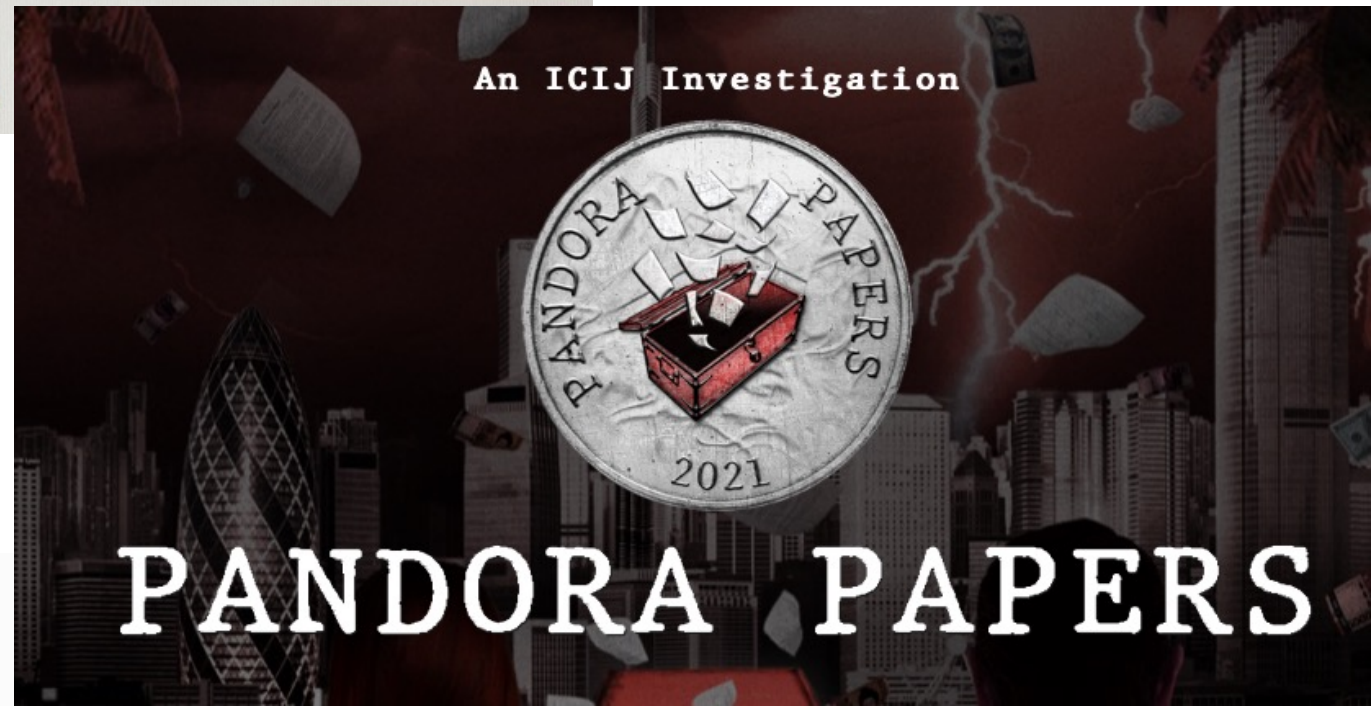
Taxes on income, profits and capital gains (% of revenue)
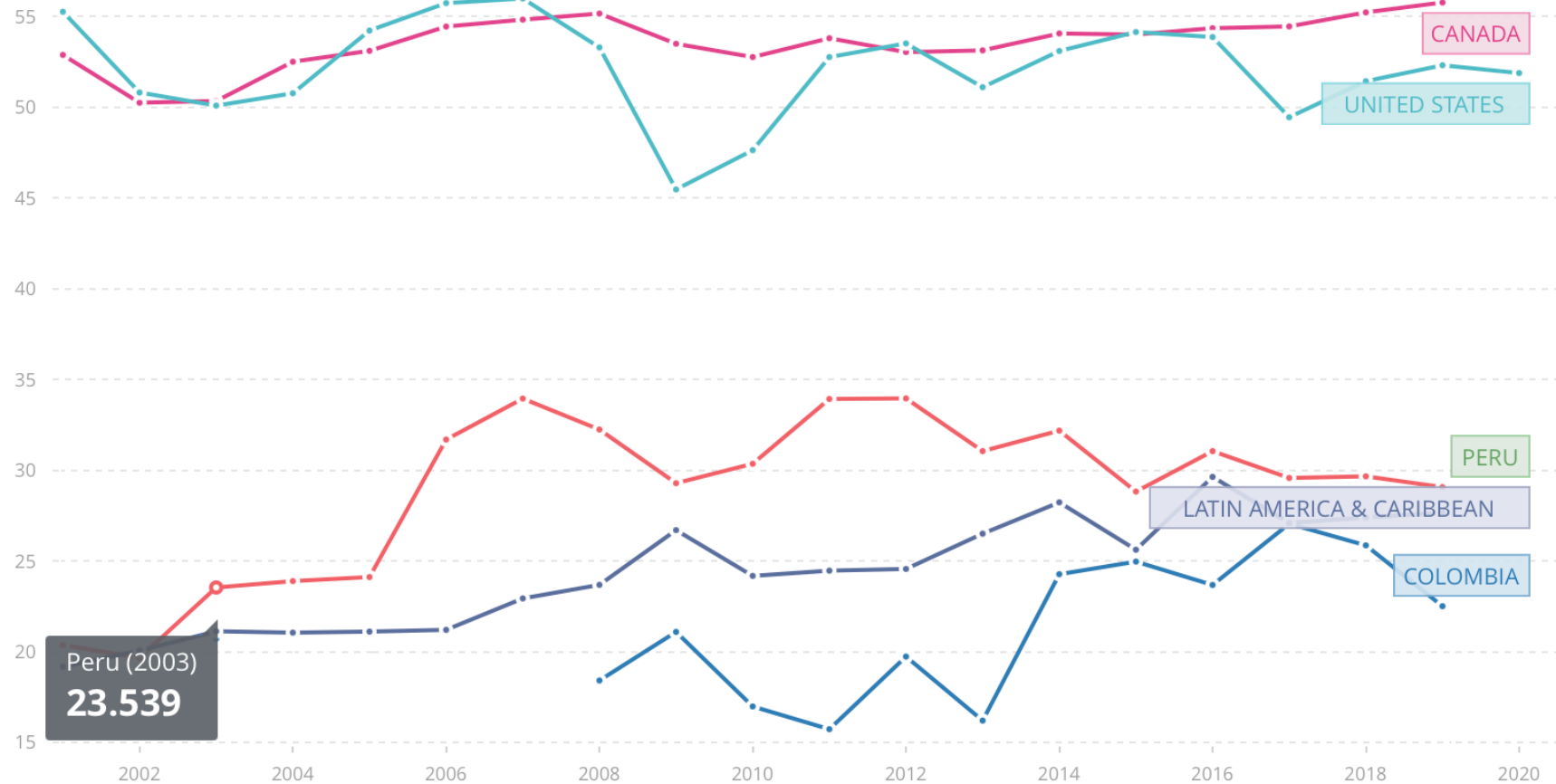
Source: World Bank (2021)

4. Testing the Generalizability of the Argument

Testing generalizability of argument:

Higher levels of RSP are associated with lower levels of Inequality. We know that RSP:

- Increases with state's infrastructural capacity, BUT:
- It is relational and bounded by elites' capacity to challenge the state.

$$\text{Inequality}_{i,t} = f(\text{RSP}_{i,t}) = f(g(\text{State Capacity}_{i,t}, \text{Elite Strenght}_{i,t}))$$

Testable Hypotheses:

H1: Higher levels of state capacity are associated with: (a) **lower inequality** and (b) higher probability of **changes** towards less inequality.

H2: The relationship between *state capacity* and economic inequality is conditional on the *strength* of the economic elite.

Data and Operationalization

Panel Data: yearly observations for 194 countries (27 in LA) between 1960 and 2018.

- Inequality:
  - Level: Measured Continuous (Gini, Income Share 10%)
  - Changes on Categorical Variable Inequality (high, medium, low): (+2,+1,0,-1,-2)

- State Capacity : Continuous Hanson and Sigman (2019)

- Elite Strength: Forbes -> Presence of Billionaires. Share of GDP > q(50)

$$\text{H1: Inequality}_{i,t} = \beta_1 \text{StateCapacity}_{i,t} + \tilde{\tilde{\gamma}}\,\text{Controls}_{i,t} + \epsilon_{i,t}$$

VARIABLES	All Countries in Sample			Latin America		
	Gini	Share Highest Decile	Δ Inequality	Gini	Share Highest Decile	Δ Inequality
State Capacity	**-0.199*****	**-0.137*****	**-0.055*****	**-0.058**	**0.014**	**-0.058**
	(0.034)	(0.032)	(0.015)	(0.080)	(0.069)	(0.040)
Controls						
Democracy (Polity)	0.074***	0.064***	0.021***	0.044**	0.034**	0.012*
	(0.007)	(0.007)	(0.003)	(0.016)	(0.014)	(0.006)
Gdp pc	0.000***	0.000***	0.000***	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Log (Population)	0.048	0.035	-0.023*	-0.141	-0.171	-0.114**
	(0.069)	(0.064)	(0.013)	(0.332)	(0.320)	(0.052)
Log (Child Mortality)	0.467***	0.528***	-0.010	0.473*	0.482*	0.051
	(0.067)	(0.066)	(0.016)	(0.238)	(0.263)	(0.063)
% GDP Agriculture	-0.033***	-0.032***	-0.007***	-0.030***	-0.025**	-0.009***
	(0.003)	(0.003)	(0.001)	(0.010)	(0.010)	(0.003)
% GDP Mining	0.002	0.003	0.006***	0.016**	0.019**	0.006
	(0.005)	(0.005)	(0.002)	(0.007)	(0.007)	(0.005)
% GDP Industry	0.003	-0.000	-0.000	0.002	0.001	0.002
	(0.002)	(0.002)	(0.001)	(0.004)	(0.004)	(0.002)
Observations	9,923	9,923	9,738	1,530	1,530	1,503
R-squared	0.166	0.200	0.018	0.227	0.191	0.057
Number of Countries	194	194	194	27	27	27

Robust standard errors (clustered by countries) in parentheses
*** p<0.01, ** p<0.05, * p<0.1

$$H2: Inequality_{i,t} = \beta_1 StateCapacity_{i,t} + \beta_2 \text{Elite Strenght}_i$$
$$\beta_3 StateCapacity_{i,t} * \text{Elite Strenght}_i + \tilde{\gamma} Controls_{i,t} + \epsilon_{i,t}$$

VARIABLES	All Countries in Sample			Latin America		
	Gini	Share Highest Decile	Δ Inequality	Gini	Share Highest Decile	Δ Inequality
Capacity | Strong Elite=0	-0.195***	-0.138***	-0.059***	-0.090	-0.056	-0.065
	(0.037)	(0.034)	(0.016)	(0.084)	(0.073)	(0.042)
Capacity | Strong Elite=1	-0.017	0.007	0.018	0.126	0.277**	0.025
	(0.063)	(0.068)	(0.017)	(0.115)	(0.124)	(0.021)
Controls						
Democracy (Polity)	0.074***	0.064***	0.021***	0.044***	0.035**	0.012*
	(0.007)	(0.007)	(0.003)	(0.016)	(0.014)	(0.006)
Gdp pc	0.000***	0.000***	0.000***	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Log (Population)	0.045	0.036	-0.021	-0.146	-0.182	-0.115**
	(0.069)	(0.064)	(0.014)	(0.337)	(0.326)	(0.052)
Log (Child Mortality)	0.465***	0.529***	-0.008	0.497**	0.535**	0.056
	(0.066)	(0.064)	(0.016)	(0.233)	(0.240)	(0.065)
% GDP Agriculture	-0.033***	-0.032***	-0.007***	-0.031***	-0.028***	-0.010***
	(0.003)	(0.003)	(0.001)	(0.009)	(0.010)	(0.003)
% GDP Mining	0.002	0.003	0.006***	0.014*	0.015*	0.006
	(0.005)	(0.005)	(0.002)	(0.008)	(0.008)	(0.005)
% GDP Industry	0.003	-0.000	-0.000	0.002	0.001	0.002
	(0.002)	(0.002)	(0.001)	(0.004)	(0.004)	(0.002)
Observations	9,923	9,923	9,738	1,530	1,530	1,503
R-squared	0.166	0.200	0.018	0.228	0.199	0.057
Number of Countries	194	194	194	27	27	27

Robust standard errors (clustered by countries) in parentheses
*** p<0.01, ** p<0.05, * p<0.1

5. Conclusion

Contributions

Interdisciplinary + multi-method approach:

- Historical + Statistical: traps and divergence

Zoom into politics of inequality:

- Winners and losers are critical to understand politics of redistribution
- Narratives of Progress Central to Inequality Reproduction: technocracy + dangers to growth/productivity.

Inequality as "the" defining feature of societies and not an outcome.

Policy Implications:

- Explanations for short-term variations ≠ Explanations for long-term trajectories

- Historical moments of succesful declines to inequality are meaningful from a policy perspective

- What counts as development? Policies centered around economic growth are highly insufficient (and even counterproductive)

- Policy paradigms on the definitions of progress and development can maintain inequality trajectores.