Latin American Inequalities in the Long-Run

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Abstract:
Despite recent declines, economic inequality has been relatively high in Latin America. Institutionally, contemporary inequalities have roots in the continent's colonial past. This essay supports this view by refuting a counter-argument by Jeffrey Williamson. Comparing Latin American to European and North American developments, Williamson attributes relatively high levels of inequality in Latin America to a missed period of globalisation with levelling effects. My analysis, however, suggests that Williamson misses the "levelling effects" of war and crisis. Rather than missing an equalising period of globalisation, Latin America has missed the destructions of two world wars and the Great Recession. Williamson also overlooks the fact that inequalities have been relatively low in Latin America right after independence, mainly due to capital destruction during civil wars. Yet, extractive colonial institutions have persisted and still help explain Latin American inequalities today. According to Mazzuca's analysis of "plebiscitarian superpresidentialism," when commodity prices fall while extractive institutions persist, rent-seeking institutions temporarily generate lower inequalities. Through this lens, recent declines in Latin American inequalities should be seen as a short-lived phenomenon likely to be reversed.

INTRODUCTION

Jeffrey Williamson argues that today's relatively high inequalities in Latin America have nothing to do with the continent's colonial past by comparing the income distribution in Latin America to Western regions at similar stages of development. In this essay, I show that two crucial steps of his argument are only possible if one overlooks the positive but unsustainable impact of crisis and destruction on equality in two crucial cases. First, I argue that when Williamson compares pre-industrial Western regions with pre-industrial Latin America, he ignores the presence of independence movements and civil in Latin American history. Second, I assert that when Williamson compares the 20th century in Latin America with the West, he misses the decisive impact of the Great Recession and World War II on shrinking inequality in the West. Finally, I respond to the objection that recent declines in inequality prove institutionalist theories of Latin American inequalities wrong by drawing on Mazzuca's concept of plebiscitarian superpresidentialism, explaining why extractive institutions can sometimes incentivise unsustainable, egalitarian policies in the short run.

COMPARING PRE-INDUSTRIAL INEQUALITIES

Harvard economist and economic historian Jeffery G. Williamson is renowned, among other things, for his contributions to the study of long-run trends of inequality around the globe, as well as the causes of (de-)globalization. Based on his extensive work, he rejects a causal relationship between colonialism and persistent inequalities in Latin America: "That Latin American inequality has its roots in its colonial past is a myth" (Williamson, 2015: 324). To formulate this argument, Williamson compares Gini coefficients in Latin America, north-western Europe, and the USA at similar stages of economic development. He then uses this comparison to argue that Latin America was less unequal than the West until a commodity price boom from 1870 to 1913 made Latin America "catch up" in terms of inequality, following the normal process of industrialisation. Williamson's comparisons are based on the regions' Gini coefficients, or their relative income distributions. Although he acknowledges an increase of the Gini coefficient in Latin America from 22.5 to 57.6 during the colonial period (1492-1790), he argues that the subsequent decline in the Gini coefficient from 1790 to 1870 signals a triumph over colonial inequality through gaining independence. Comparing the Latin American overall Gini coefficient in 1870 to pre-industrial USA and north-western Europe, he finds that it was even lower in Latin America before industrialisation. From this fact, he concludes that colonialism cannot have led to persistent inequalities:

> If it is thought that inequality encouraged rent-seeking, suppressed private property rights, retarded the development of 'good' institutions, and thus discouraged growth in Latin America, it must have done it even more so in northwest Europe [...] and in the USA [...] (Williamson: 336).

Williamson's argument starts with the relatively lower inequality rates in Latin America in the century following official independence.

However, Willianson's reliance on Gini coefficients alone as a measurement is flawed. López-Alonso and Vélez-Grajales find that average body height – a broad measure for the living conditions of the poorest – decreased in Mexico throughout the 19th century until 1890 (López-Alonso and Vélez-Grajales, 2015). This suggests that the long-lasting fight for independence, which included civil wars among the indigenous population, has decreased the Gini coefficient in Latin America only at the cost of reducing overall wealth, wellbeing, and political stability through war. This decrease is in stark contrast to north-western Europe and USA, where the beginning of industrialisation was characterised by emerging democratic institutions (Acemoglu and Robinson, 2012).

Hence, a similar Gini coefficient can have very different meanings in different regions. Williamson's own data shows that the "extraction ratio," i.e. "[t]he ratio of the actual inequality to the maximum feasible inequality" (Williamson: 326), differed significantly: 65.9% for Western Europe versus 80.3% for Latin America in each region's pre-industrial phase (Williamson: 330). He acknowledges this weakness later: "Whether measured inequality or extraction rates are the best indicators of pro-rent-seeking and anti-growth institutions is an issue [...]. Presumably, *political* inequality had an important influence on the size of the extraction rate" (Williamson: 337).

Williamson's analysis fails to account for the role of political inequality. When the Spanish colonialists officially left the continent, they continued to exercise influence, illustrated by the fact that 48 presidents in Central America since independence were direct descendants of former colonial rulers. Colonialists also left behind institutional structures for organised exploitation (Acemoglu and Robinson, 2008: 294). Although political and economic institutions have changed over time, the "underlying distribution of political power" (Acemoglu and Robinson, 2008: 284) persisted even during formal changes. Put differently: "[The] reason for persistence [of inequality] is [...] not persistence of the elites, but persistence of the *incentives* of whoever is in power" (Acemoglu and Robinson, 2006: 339).

In sum, by comparing pre-industrial Western regions to pre-industrial Latin America, Williamson compares apples to oranges. Gini coefficients may have been similar despite fundamentally differing institutional preconditions, but only because Latin America found itself in postcolonial chaos. High extraction rates provide a better indicator than the Gini coefficient that institutions have been highly extractive, even in times when there was little to extract due to destructive civil war. From an institutionalist perspective, it is not surprising that inequality rose sharply during the subsequent commodity price boom. Extractive institutions that were already in place were confronted with greater opportunities to extract increasing revenues from exports.

COMPARING 20TH CENTURY INEQUALITIES

The second step of Williamson's argument, although less developed than the first, compares Latin America to the West in the 20th century. His crucial finding is that over this period, inequality fell in the West but rose in Latin America. He concludes that "[t]he history that mattered is the anti-globalisation epoch from 1913 to 1970" and ends his paper by asking, "why did Latin America miss the Great Twentieth-Century Egalitarian Levelling?" (Williamson, 2015: 338).

This question prompts another: Why did inequality decline elsewhere? Williamson's explanation implies that globalisation and advanced stages of economic development correspond with declining inequality rates after an initial increase. This idea is known as the Kuznets curve. Kuznets himself warned that his theory was poorly grounded empirically and concluded that "[t]he paper is perhaps 5 per cent empirical information and 95 per cent speculation, some of it possibly tainted by wishful thinking" (Kuznets, 1955: 26). Nevertheless, it became highly influential. Piketty and Saez' work, using rich, new data sources, yields a very different picture:

> The compression of incomes [during the first half of the 20th century] occurred primarily because of the fall of top capital incomes induced by the world wars, the Great Depression and the regulatory and fiscal policies developed in response to these shocks. In particular, there was no structural decline in the inequality of labour income [...]. Kuznets' overly optimistic theory of a natural decline in income inequality in market economies largely owed its popularity to the Cold War context of the 1950s as a weapon in the ideological fight between the market economy and socialism (Pikkety and Saez, 2014: 842).

From this perspective, the main reason why Latin America missed the 20th century levelling in comparison to other parts of the world, is that it missed destruction and crisis. López-Alonso and

Vélez-Grajales' biological standard of living indicator supports this response to Williamson's question: since 1930, having recovered from the 1910 Civil War, adult body height rose in Mexico. This change suggests that industrialisation and growth have continued in 20th century Latin America, although the additional income was unevenly distributed - the more to distribute, the greater disparities are possible – hence a rising Gini coefficient *and* rising body height.

In that sense, the puzzle is not Latin America's missed levelling, but the "Great Twentieth-Century Egalitarian Leveling" itself. The puzzle is solved by revealing Williamson's ignorance of the impact of war and destruction on inequality – this time in the West rather than in Latin America.

OBJECTION FROM RECENT TRENDS

One might argue that the decline in inequality in Latin America since the 1990s proves institutionalist theories of inequality wrong. Left-wing governments in Argentina, Venezuela, Bolivia and Ecuador have started distributing incomes from exports, thereby reducing national income inequality. If extractive institutions inevitably persist after initial colonialist establishment, then critics may argue that persisting or rising inequalities should be expected. So, how is it possible that extractive institutions are suddenly overcome in the late 20th century?

Consider Mazzuca's concept of *plebiscitarian superpresidentialism,* meaning that presidents centralise their political influence and reduce the division of power by collaborating with the informal sector. Mazzuca argues that this phenomenon is a result of "rentier populism". This phenomenon predicts political leaders succumbing to the temptation to expropriate natural resources unsustainably and use the revenues for popular short-term policies implemented to please the majority of the population in the informal sectors (Mazzuca, 2013). Mazzuca uses this phenomenon to explain the contrast between the four more radical governments in Argentina, Venezuela, Bolivia and Ecuador and more moderate shifts to the left in other Latin American countries. Mazzuca shows that the following conditions encourage the rise of "rentier populism": low credit worthiness on financial markets, weak ties between government and formal sector, weak opposition, high commodity prices and large informal sectors.

Mazzuca's concept illustrates that even though the policy outcome of "rentier populism" is redistributive and egalitarian, the underlying motives, power structures and incentives remain the same. The rulers' aim is to strengthen their position and maximise the duration of their presidency at the lowest possible cost. In these Latin American cases, collaborating with the informal sectors is cheaper and more reliable than outright oppression. Hence, what appears to be a deep ideological shift is, in fact, guided by the same intentions within an institutional environment inherited from colonialists. "Superpresidentialism" is an archetype example for rent-seeking institutions. Using Acemoglu and Robinson's vocabulary, increased *de facto* political power of the citizens is offset by a reduction in *de jure* political power for the population (Acemoglu and Robinson, 2008). The recent left turn in Latin American governments is in line with their model of a "captured democracy": "Somewhat paradoxically, [...] a greater democratic advantage for the citizens leads to greater elite domination of politics" because "elites intensify their investments in de facto political power in order to avoid democratic institutions" (Acemoglu and Robinson, 287-88).

Hence, the recent decline in inequality is a fragile development that depends on political constellations and high commodity prices for the regimes' finances. Székely and Mendoza lend support to this conclusion. According to their data analysis, long-term factors have played a minor role in reducing inequality. Other the other hand, short-term factors, such as improvements in the terms of trade induced by high commodity prices, heavily contribute to equalising the income distribution (Székely and Mendoza, 2015). They conclude that "improvements in income distribution in the region are not guaranteed in the following years and might actually reverse if the terms of trade shift negatively against Latin America" (Székely and Mendoza, 414). The crucial medium-term factor that supported this trend, according to their data, was the declining effect of tariff reduction on inequality increases: "The tariff declines seem to have been associated with inequality increases during the 1980s and 1990s, but once they stabilized, their relation with the income distribution during the 2000s seems to have faded away" (ibid).

However, despite being a medium-term indicator for Székely and Mondoza, this point might be further evidence for the recent development's fragility. Consider Mazzuca's analysis: the relationship between tariff reduction and inequality must have faded away, as governments' distributive policies depended on international trade. However, this relationship often returns once commodity prices fall, rendering current, unsustainable policies impossible. The fragile dependency of declining inequality on high commodity prices, seems, therefore, to be confirmed by Székely and Mondoza's findings.

Recent policies have had a positive effect on equality. Yet, a fundamental, institutional shift enabling a sustainable long-term trend has not taken place. Colonial structures still provide the basis for Latin American inequality.

CONCLUSION

This essay points to a crucial flaw in Williamson's argument against the importance of colonial history for contemporary inequalities in Latin America. Williamson ignores that war and crisis often lead to lower measures of economic inequality by destroying capital. He makes this mistake at two stages of his argument. Firstly, the reduction of economic inequality in Latin America after gaining independence is not a sign that extractive colonialist institutions have been overcome. Rather, they are the product of the massive destruction of wealth during civil wars. High extraction rates and declining average body height measures demonstrate that the period from 1790-1870 was a difficult time in Latin America, especially for the poorest.

Secondly, the reduction of economic inequality in the West over the 20th century is not a result of a natural process of development or globalisation, as Kuznets once suggested. Instead, the Great Depression and World War II have destroyed capital in the West, reducing economic inequality. Latin America missed this trend and was thus less affected by these crises.

Additionally, I have addressed the possible objection that recent declines in inequality rates disprove an institutional account of persisting colonial structures. By combining Mazzuca's concept of *plebiscitarian superpresidentialism* with Székely and Mondoza's quantitative analysis of causal factors for Latin American inequality, I argue that recent trends are a fragile development that will be reversed, once international market prices change or natural resources are depleted.

Williamson's revisionist account of colonial history in Latin America fails to offer a convincing response to institutionalist analyses. An institutions-based perspective provides a deeper understanding of the long-term dynamics of inequalities in Latin America.

CONFLICT OF INTEREST STATEMENT

No conflict listed.

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