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Democracy, the New Left and Income Distribution: Latin America over the Last Decade

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8.1 Introduction

Since the early 2000s, Latin America has witnessed profound economic, political and distributive changes. While the region experienced slow growth during the period 1990–97, followed by a marked crisis during the ‘lost half decade’ of 1998–2002, between 2003 and 2008 it recorded unprecedented growth in gross domestic product (GDP), of 5.5 per cent a year, the highest since 1967–74 (Ocampo, 2008). Such a steady expansion of output was in part a rebound from the 1998–2002 crisis, but it was supported by a sharp increase in potential output, as investment rates rose by 5 GDP percentage points compared to 2002, reaching 22 per cent of GDP in 2008. From the third quarter of 2008, Latin America was affected by the global financial crisis and particularly by its real effects (a drop in export volumes, terms of trade, remittances, tourist receipts and foreign direct investment, FDI), which reduced GDP by 1.7 per cent in 2009. Yet the region is expected to grow by 4.3 per cent in 2010, faster than any other developing region outside Asia, though still below the average for 2003–08 (CEPAL, 2009b). A second important change recorded during the last decade concerns income distribution. In contrast to the growing polarisation observed during the 1980s and 1990s, between 2003 and 2007 income inequality declined in almost every country of the region. CEPAL data for 2008 indicate that – despite a slowdown in growth – inequality continued to fall in six Latin American countries and stagnated in three. No data are yet available for 2009, though it is likely that inequality rose, despite income support measures introduced to protect the poor. Thirdly, the decline in inequality witnessed over the last decade went hand in hand with an improvement

in international economic conditions, a consolidation of democracy, and a steady shift towards the election of Left-of-Centre (LOC) governments (Panizza, 2005a),¹ which – albeit with considerable variation from country to country – have gradually adopted a new policy model, more sensitive to distributive issues.

Are the recent inequality changes explained by favourable shifts in external conditions or by the adoption of new economic and social policies, especially among LOC countries? To what extent are these distributive improvements likely to be sustained in the future? These are the issues explored in the present chapter. Section 8.2 analyses changes in political orientation during what has been termed the ‘Left Decade’. Section 8.3 documents the decline in income inequality, while Section 8.4 discusses the causes of this decline. Section 8.5 tests the relative importance of the various causes of this decline in inequality, while Section 8.6 discusses the sustainability of the trend. Section 8.7 draws conclusions.

8.2 Latin America’s ‘Left Decade’

Latin America has long been a symbol of authoritarian politics, unequal distribution of assets and income and limited redistribution by the state. However, over the last twenty years, the political landscape has gradually changed as a result of a steady drive towards democratisation and the consolidation of democracy and, from the late 1990s, a shift in political orientation towards LOC regimes. As documented by the *Latinobarometro*,² this shift can be explained to a large extent by the increasing frustration with the disappointing results of the Washington Consensus (WC) policies implemented in the 1980s and 1990s. Apart from slow growth and rising income inequality, these policies led to deindustrialisation and a shrinking of the industrial working class, a weakening of the unions, rising unemployment, and a substantial enlargement of the informal sector. The beginning of the leftward political shift can be traced to the election in 1990 of the centrist Patricio Aylwin in Chile. It continued with the election of Chavez in Venezuela in 1998, Lula in Brazil in 2002, Kirchner in Argentina in 2003, Torrijos in Panama in 2004, Tabaré Vazquez in Uruguay in 2005, Morales in Bolivia in 2005, Arias in Costa Rica in 2006, Ortega in Nicaragua and Correa in Ecuador in 2007, and Colom in Guatemala and Lugo in Paraguay in 2008, and it culminated with the election of Funes in El Salvador in March 2009. By mid-2009, of the eighteen Latin American countries analysed in this chapter, only Colombia and Mexico were run