

CHAPTER 5

State-Society Interactions as Sources of Persistence and Change in Inequality

The previous chapter examined how initial factor endowments and early institutional development played a central role in the generation of egregious levels of inequality in Latin America. The next two chapters consider the nature of the political and economic processes that continue to shape inequality in the region today.

This chapter discusses both political and social factors and seeks to fill in the interactions between social and political institutions, power, and governance that were summarized in two sides of the triangle used to portray the conceptual framework presented in Chapter 1 (Figure 1.2). In assessing both current problems and possibilities for change, the current chapter's primary focus is on the performance of the state, which is viewed as a product of historically-formed state-society relations. The state is examined in terms of a syndrome, or malaise, that is characterized by unequal social relations and "weak" governing capacities. "Weak" has a specific meaning: doing a poor job of providing public goods such as macroeconomic stability, property rights and citizenship and basic services such as education, health, water, sanitation, roads, electricity and social protection.

In all of these areas, failures in state action are typically regressive, hurting the poor and weak disproportionately. They are also, in most areas, bad for overall development. Where states fail in providing *public goods*, wealthy members of society typically can either exert private influence over the state for selective delivery, or can opt out of the system. For example, elites can shift savings abroad and develop private means of protecting property rights and their personal security. Poor and middle groups live with the consequences.

With respect to *services*, some Latin American states historically did a reasonable job of providing services for elites (for example through the early formation of universities in many countries). However, most did a poor job of broad-based provisioning; by 1925, only Argentina and Uruguay had achieved literacy rates of 70 percent or higher (see

Table 4.3). In 2000, literacy was still only 65 percent in Guatemala, 77 percent in Nicaragua, and 87 percent in Brazil (and considerably lower for poorer groups in all countries, as indicated in Table A.27). At the same time, while most countries in the region have made substantial progress in expanding basic education coverage, a major challenge related to school quality remains unsolved for most of the public school systems in the region (de Ferranti and others 2003). Wealthy groups again have greater options for either exerting influence on public service provisioning for themselves or opting out for private provision.

Similar patterns can be identified with regard to other services. Although most Latin American states have developed social welfare systems since the early 20th century, these are often best characterized as “truncated” systems that only reach formal sector workers, leaving out the neediest segments of the populations (see Chapter 9). These issues are tightly linked to the *tax effort*, which reflects the underlying implicit social contract that conditions the willingness of all groups—but especially elites and middle groups—to pay taxes in return for effective state action.

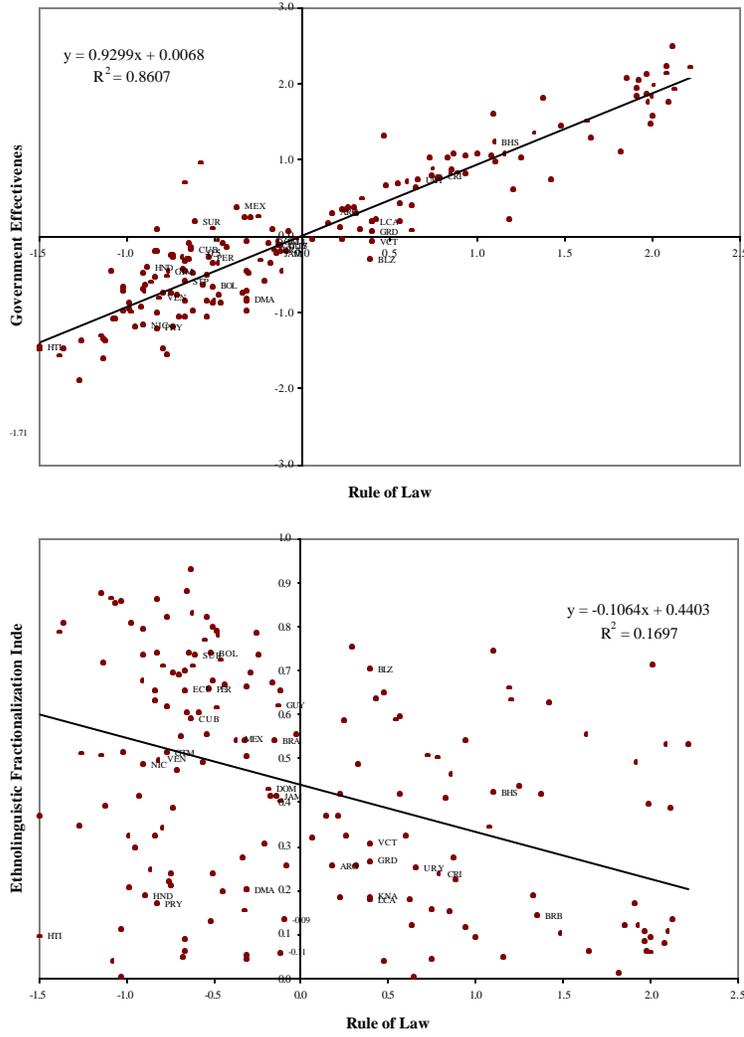
Why has this pattern of weak and truncated state actions persisted? Addressing this question involves taking some tentative steps into a complex terrain. There is considerable heterogeneity in conditions across the region, and it would be impossible to do justice to the issues in a short chapter. Yet, as seen in Chapter 4 on the historical formation of high inequality in Latin America, the links among economic, political, and social conditions are fundamental. Attempting to understand these links is central to any enterprise that seeks to draw conclusions on policy options. There is an immense literature on the issues of state-society relations in Latin America, especially in the fields of political science and sociology. This chapter does not seek to present new theories, but rather has the more modest objective of drawing on major strands in the existing literature—on both Latin America and elsewhere—to help inform understanding of the ways in which state-society relations can be a force for both the persistence and transformation of economic, social, and political inequality.

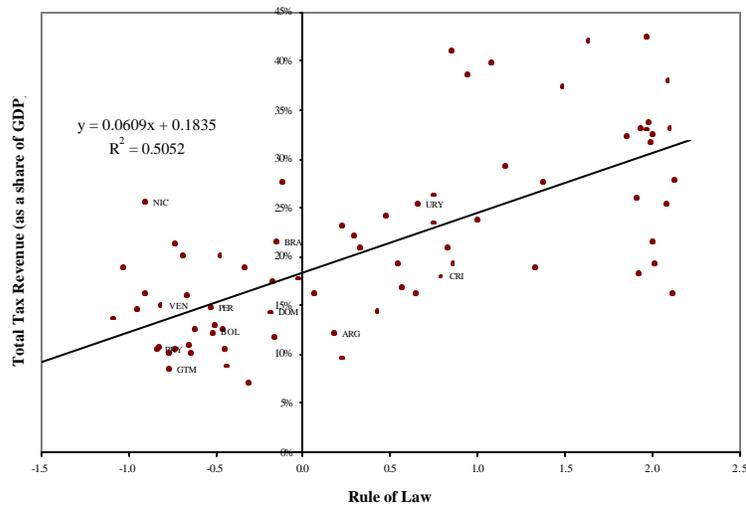
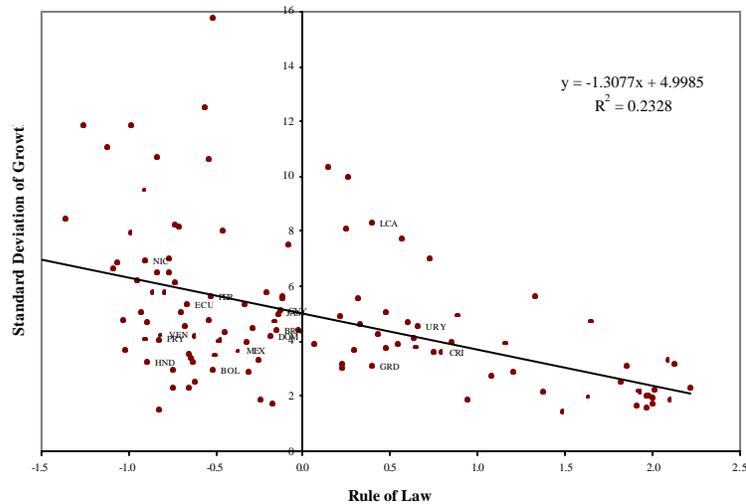
To motivate the discussion, **Figure 5.1** shows bivariate correlations between selected indicators of social difference, state capacity, and economic performance, with the “rule of law” used as an anchor for the graphs. An ethnic fractionalization index is used as a (highly imperfect) measure of unequal social relations, though similar results are obtained with a Gini coefficient of income inequality. The rule of law can be thought of as a rough proxy for a state’s performance in providing the public goods of protection of property and citizenship rights, government effectiveness is a proxy for bureaucratic capacity to provide broad-based public services, and macroeconomic instability and tax effort are two of the outcome measures. These are only correlations, but they may capture the two-way patterns of causality between inequality and state performance.

The remainder of this chapter is divided into two main sections. The first discusses the origins of weak and unequal state performance in state-society interactions, including a discussion of why the process of democratization has been halting and lengthy, as well as insufficient to effect a transformation in political and social inequalities. The second

section turns to the question of how to effect change in order to achieve more effective and equal states, a condition that is characterized here as the move toward a new “political equilibrium.”

FIGURE 5.1.
The syndrome of weak and unequal states: correlations between the rule of law, government effectiveness, distribution, and economic performance





Sources: World Bank Institute Governance Data Base for rule of law, Alesina and others 2002 for ethnic fractionalization, and World Bank, *World Development Indicators Database*, World Bank, 2003 for other variables.

5.1. Political and social structures as forces for the reproduction of inequality

Chapter 4 on the historical roots of inequality in Latin America posed a puzzling question: why has inequality persisted in the region, in spite of significant social, economic, and political changes? This section addresses this question and discusses how enduring features of political institutions and social structures have limited the scope for equalizing public actions, and thus contributed to reproduction of inequality in the region long after its colonial origins faded. Has inequality in the region persisted simply because of the lateness of changes (especially the arrival of universal suffrage), or are there other forces that are preventing democracies in the region from becoming more potent drivers

of equalizing changes? It is argued that while the late arrival of competitive democracy is a relevant fact, the evolution of the institutional structure in the region in response to, and in defense of, the predominant elite interests has been a fundamental cause of the persistent inequality, rather than the type of regime in place.

Institutional evolution has taken a variety of forms within the region. However, the underlying characteristics of state relationships have been strikingly similar across different patterns of political and social development in the region. The main commonality is the theme of a two-way causal relation between historically-formed, unequal social and political structures and relatively weak and regressive states (as evidenced in the areas of the provision of public goods and basic services, noted in the introduction to this chapter). In some cases—for example the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, or Paraguay for much of the past century—this has typically taken the form of traditional authoritarian or oligarchic regimes characterized by profound exclusion of the bulk of the population, as well as high levels of state capture by small groups of elites.¹

In Argentina, Brazil, and Mexico, where industrialization advanced to a relatively greater extent, significant processes of incorporation of the working classes into the political structure occurred. However, this trend was both partial (that is, primarily of only the formal working class) and effected in a way that tended to perpetuate relations based on patronage, which typically created vested interests among middle-class groups as well as elites (Cohen 1989, Middlebrook 1995, O'Donnell 1973). In countries such as Bolivia, Ecuador, or Peru, where deep and complex social and ethnic divisions have existed, the processes of incorporation have tended to be even less complete, even for the formal working class, and to be marked with conflict. Traditional oligarchic politics was often replaced with “populist” outsider movements (for example, Bolivia’s 1952 revolution, Ecuador’s *Velasquismo*, and Peru’s *Aprismo*), which raised hopes among the underprivileged without building an effective state to cater to their general demands.²

While formally operating in electoral democracies, elite-dominated political parties in Colombia and Venezuela in the second half of the 20th century grew increasingly disconnected from their popular support bases and pursued patronage-driven policies.³ The challenge of political incorporation was exacerbated by weak democratic consolidation, as well as periodic unconstitutional transitions, especially during the Cold War period. Chile, Costa Rica, and Uruguay to varying degrees developed states that were, when under democratic auspices, more effective in providing public goods and redistributive services, although both Chile and Uruguay suffered periods of repressive authoritarian rule.⁴

Unequal social relations and weak states: twin facets of negative institutional legacies

Unequal relations and clientelism

The persistence of unequal social relations between elites and poorer groups is classically manifested in the form of clientelist relations, which are characterized by the unequal, although reciprocal, exchange of favors, benefits, or rents for support or acquiescence.⁵ In a clientelist system, citizens do not base their support for candidates and parties according to their political preferences in particular issue areas; instead, their support is contingent upon particularistic material incentives. Rather than pursuing public policies that address the shared needs of a broad segment of society (as might a disciplined programmatic party with broad geographic coverage), clientelist politicians generally draw support from relatively narrow, geographically-defined constituencies and concentrate on providing tangible material goods (that is, support for patronage) that is narrowly targeted to a specific group of supporters in exchange for their support.⁶ Clientelist practices enable the poor to make isolated efforts to attain local goods, but these rarely form the basis of broad-based policy initiatives that address the underlying causes of poverty and inequality.

The other side of clientelistic, or patronage-based, systems is the absence of broad, organized alliances of social groups pressing for sustained improvements in their collective welfare and public services (for example, general improvements in mass education). This condition has reduced incentives for political elites to strengthen the capacities of the state to provide such services. Strengthening the state in this sense would have required considerable investment to improve its capacities to raise revenues through taxation and to organize its administrative apparatus. Given that the elites already had selective access to public goods, such as security of property, and to basic services (that is, either through the market itself or through appropriation of the limited state functions), it was often not rational to make these investments in state building. In cases of the partial incorporation of poorer groups into national systems of service provision, especially in the middle-income countries, new vested interests were created, for example to sustain the “truncated” welfare state.

The importance of clientelism in both rural and urban settings has been documented throughout the region, for example in Brazil (Nunes Leal 1948, Murilo de Carvalho 1997), Mexico (Cornelius 1977, Grindle 1977), Colombia (Schmidt 1977, Archer 1990), Peru (Stokes 1995), and Venezuela (Powerll 1977). More traditional forms of clientelism, often linked to powerful local personalities, are probably of greater importance in the relatively less developed parts of the region, that is, in less developed countries (see Box 5.2 on the Dominican Republic) and in poorer sub-regions such as northeastern Brazil or the southern states of Mexico. However, clientelism is not by any means peculiar to Latin America or developing countries. It has been an important aspect of the political history of many (perhaps most) Organisation for Economic Cooperation and Development (OECD) countries, for example in the political machines of U.S. cities and at both a local and national level under Christian Democrats in Italy (Shefter 1994). Where Latin America is distinctive is in the depth and resilience of clientelist structures.

An additional, particular feature of the relationship between states and subordinate groups in many Latin American countries in the mid 20th century was a more formal “corporate” form of inclusion, in which governments brought working class or peasant movements

into national, institutionalized, patronage-based systems. These processes were typically marked by co-option. Such conditions were exemplified by the highly “successful” incorporation of labor, peasants, and other functional groups in society in Mexico, which was fully institutionalized by Lázaro Cárdenas into a remarkably stable form of state-party organization under the *Partido Revolucionario Institucional* (PRI). In Argentina, Juan Perón successfully co-opted a previously independent union movement into the corporate wing of Peronism. Co-option of groups was also reflected in the less successful attempts by the Bolivian *Movimiento Nacional Revolucionario* to emulate the PRI-style form of governance and state formation after the 1952 revolution, which succeeded in first bringing the peasant movement under the patronage of the national movement, but failed to provide the economic and services support that might have made land reform a success (see Chapter 7 on land reform).

In most cases, however, these incorporation processes simply transferred unequal social structures to the formal political arena by reproducing unequal vertical relations at the national political level. Although corporatism is increasingly a phenomenon of the past, its heritage persists in many areas that are relevant to current policy, including widespread vested interests that have accrued to the formal working classes and public sector servants. This phenomenon is evidenced in dualistic labor structures (see Chapter 8) and the truncated welfare state (see Chapter 9).

Clientelism and corporatism—and more generally the vertical forms of inclusion of subordinate groups—have also left a damaging legacy in terms of political organization. It worked against the development of programmatic parties (either those that represented working classes or more conservative forces), which was an important part of the political evolution of most European countries and the United States (Shefter 1994). Chile is one of the exceptions to this pattern in Latin America, in the sense of having a long history of genuine programmatic parties, especially those that represent both the middle- and working-class. As discussed below, political scientists attribute Chile’s relative success in developing an effective and redistributive state after its transition to democracy in part to the continuity of party performance originating in the country’s earlier history (Valenzuela 1977).

In some cases, corporatism allowed for more blatant forms of political subordination, as well as state capture by some of the more privileged interest groups. Political scientist James Malloy (1979) describes how the corporatist arrangements in Brazil’s social security systems—initially developed by the authoritarian government of Getúlio Vargas as a way to preempt radicalization of the working class—were eventually captured by the organized labor in the formal sector as the movement gained a series of policy concessions from the state, as well as privileged access to state rents at the cost of workers outside formal organizations.⁷

Although unequal, vertical social relations have been a general phenomenon in Latin America, in many countries they have been overlaid and reinforced by ethnic and racial divisions. This is most apparent in Brazil, much of the Caribbean, the Central Andes, parts of Central America, Colombia, and Mexico. As discussed in Chapter 4, these

divisions reach back to profoundly unequal conditions that emerged in the colonial period. Such relational inequalities have had major effects on processes of socialization, collective expectations, and daily interactions, in turn affecting behaviors and conditions related to school, work, and social interactions.

For example, in an ethnographic study of poor black women in a sugarcane-producing area of northeastern Brazil, Scheper-Hughes (1992) documents the harsh dilemmas faced by the poor in seeking to manage their daily lives, with many hoping to find the “good patron” who will solve their problems. Such stories are repeated in sociological and ethnographic studies in the region (see Calderón and Schmukler 2003). Such group-based differences continue to affect both the design and implementation of policy and, as in other parts of the world, magnify the challenges of forming the social and political base through which public goods and services are provided by the government. (See **Box 5.1** for evidence from the United States and Europe.)

BOX 5.1.

Racial inequality and social spending: evidence from the United States and Europe

The impact of group-based differences is not limited to Latin America and the Caribbean; it has had a profound effect on social policy in the United States as well. Although the United States and Europe enjoy comparable levels of economic prosperity, the United States invests considerably less of its resources into social programs and public goods. The United States spends approximately 16 percent of its Gross Domestic Product (GDP) on social programs, in contrast to the European average of 25 percent. Not surprisingly, the United States also registers levels of income inequality that are substantially higher than its European counterparts. A quantitative comparison of the United States and Europe reveals the influence of a history of racial inequality on these phenomena (see Alesina, Glaeser, and Sacerdote 2001).

Since African Americans are overrepresented in the lowest income brackets, the white majority tends to view social spending and redistributive policies as disproportionately benefiting minorities, effectively undercutting support for policies that would reduce levels of inequality.⁸ Loury (2002) has explored the often subtle ways in which a history of racial stigma can continue to have salience in contemporary behavior and policy-making. Alesina, Baqir, and Easterly (1999) find lower spending on publicly provided services in less racially homogeneous areas. Since universal programs would benefit the population as a whole, including the “undeserving” poor, average Americans tend to vote for more limited government expenditures on transfers or services targeted to the poor.

In contrast, racial differences were historically much less important to overall social interactions and policy formulation in European nations during the 20th century. Europeans were more likely to view the poor as unfortunate and did not stigmatize them as members of a socially undesirable group. This historical absence of racial inequality helps explain the differing levels of social spending in the United States and Europe. More recent racial and ethnic tensions in Europe and, in some countries, the related rise of far-right, anti-immigrant parties, further illustrates the point that the central issue of concern is the interactions between group-based differences and policy choice, and not an intrinsically “European” preference for redistributive policies.

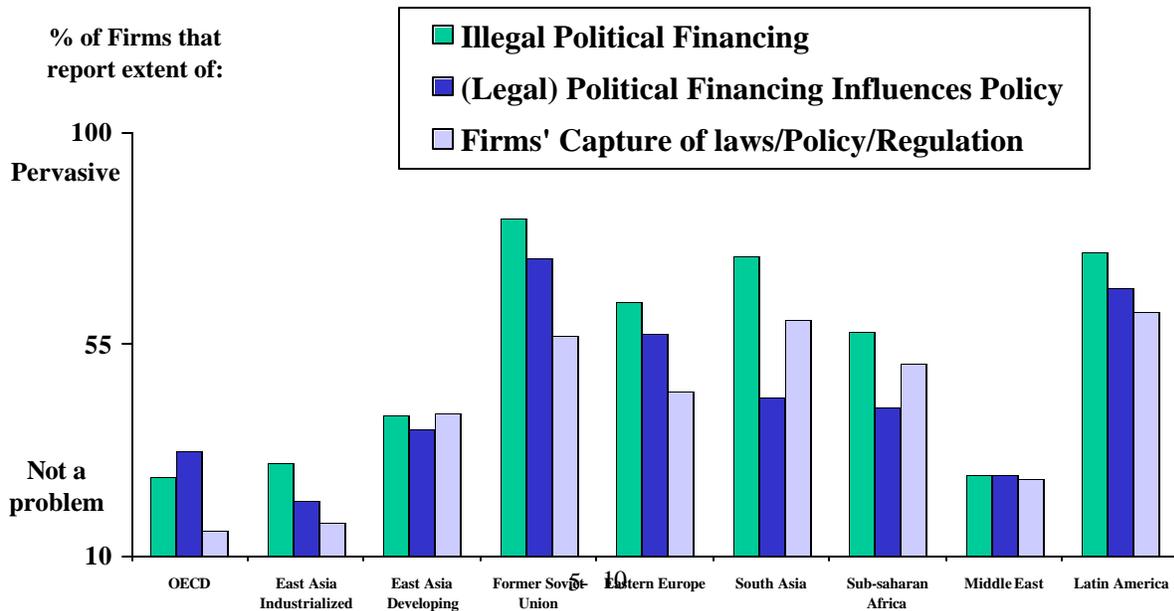
Weak state capacity

The implementation of political actions to reduce inequality, either through the overt redistribution of assets or the efficient production of public goods, requires adequate institutional capacities of the state apparatus. Most Latin American countries have relatively “weak” states relative to OECD comparators and other developing countries of similar income levels, and therefore typically score low on a range of governance indices, for example the rule of law, government effectiveness, and corruption (Kaufmann, Kraay, and Mastruzzi 2003). As noted above, this means, in particular, relative weaknesses in providing the public with goods such as the rule of law, citizenship, and protection of property rights, and with basic services such as quality primary and secondary education.⁹ Such weaknesses are reflected in the difficulties a number of the states in the region face with regard to raising revenues.

The potential for the state to enact pro-equity changes is also constrained by informal political realities, whereby the excessive influence of elites and some well-organized middle-class groups (such as unions) on public decisions often results in the effective “capture” of the state. For public actions to be effective against entrenched interests, the state itself needs to be more or less autonomous from such influence. Many Latin American states have historically faced difficulties with state capture in its most blatant form, as in the oligarchic domination by the so-called “14 families” in El Salvador, the dynastic rule of the Somozas in Nicaragua, the long personalist rule of Stroessner in Paraguay, the “partidocracia” in Venezuela, and the recent case of Vladimiro Montesinos in Peru during the 1990s. In addition, more subtle, everyday manifestations of the uneven application of the rule of law, which discriminates against the poor, also occur.

International evidence of the salience of state capture comes from international surveys of executives by the World Economic Forum. Representatives of firms were asked questions on the extent in their countries of excessive or illegal influence of powerful conglomerates, firms, or individuals on state policymaking (Figure 5.2). Such unequal influence (or “crony bias”) is correlated with a more negative assessment of the fairness and impartiality of courts and the enforceability of court decisions, less secure property rights, lower levels of tax compliance, and higher levels of bribery.

FIGURE 5.2.

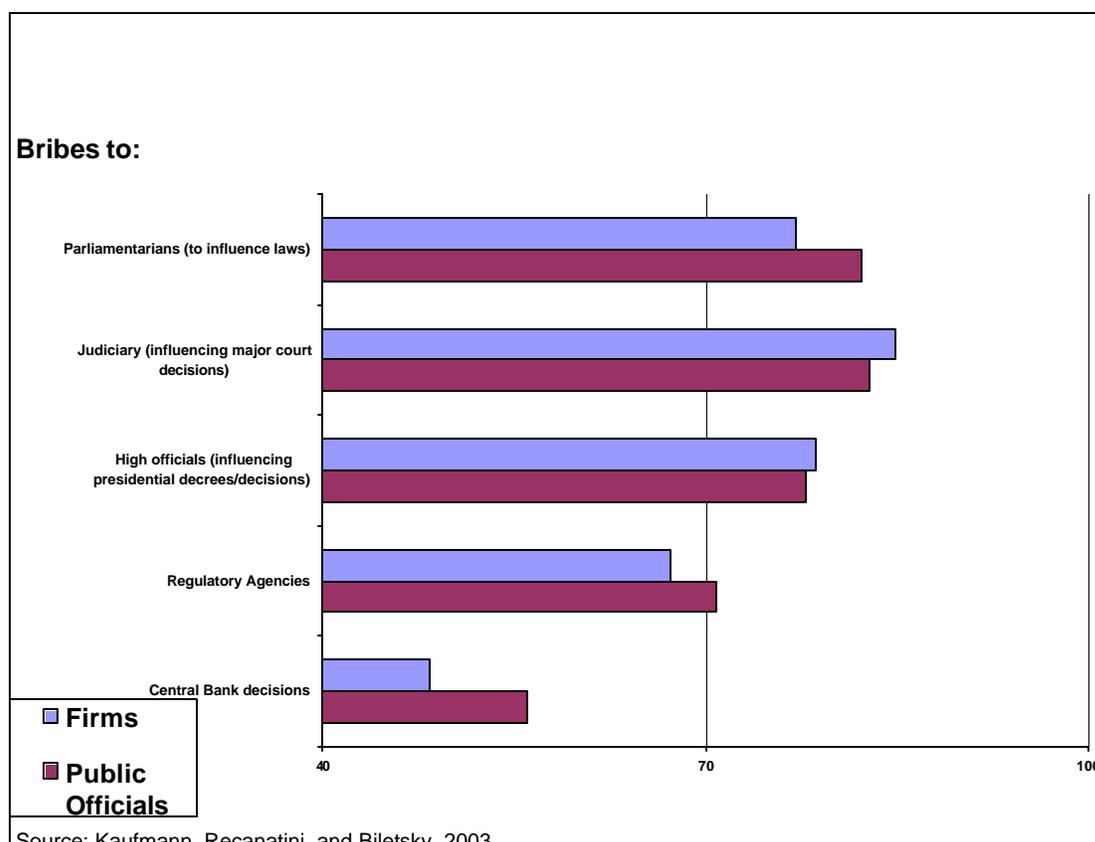


Views of firms on unequal influence over policies, in international perspective

The importance of state capture in the region is supported by careful documentation of key episodes in the history of lawmaking in Mexico by Haber (2002a) and by country-specific surveys. For example, in surveys of firms and public officials in Peru in 2001, some 80 percent of respondents judged that there was a “high impact” of bribes given to parliamentarians to shape laws, the judiciary to influence decisions, and public officials to shape ministerial decrees. A slightly lower proportion of respondents reported significant levels of “state capture” of affected regulatory agencies, and much less with regard to the Central Bank (see Figure 5.3). A similar pattern was found in a survey of firms in Colombia, but with “only” about 60 percent reporting influence on the judiciary.

FIGURE 5.3.

The extent of “state capture” by elites; shaping laws and regulations through bribes by private interests (as reported by firms and public officials, Peru 2001)



The weakness of the rule of law and property rights has in turn led to the partial “privatization” of these public spheres by the rich and the powerful, including in some cases by organized segments of the middle classes. This trend has occurred at the cost of

poorer and subordinate groups, who have lacked the power or wealth to exert such influence. Property rights are of particular interest in light of their potent influence on investment and growth. In some countries where general protection of property rights has been absent, alternative means of protecting the elites' rights emerged.

In a major study of Mexico, Haber, Razo, and Maurer (2003) use historical, political, and economic analysis to show how property rights were selectively enforced, especially in the turbulent period of 1910–1929. Governments made selective, credible commitments to subsets of asset holders, guaranteed by third-party actors who shared in the rents. The third-party actors varied with the asset and period, including local military factions (for example, agricultural products during the revolution), the United States (for example, for oil), and the union movement (in the industrial sector). These arrangements were institutionalized in the corporate state created under the PRI and supported investment and rapid growth that lasted till the 1980s debt crisis. However, this economic improvement came at the cost of a pattern of development that was both inefficient and inequitable, since selective protection of rents and rent-sharing were central to the institutional basis for growth.¹⁰

A more extreme case of elite influence and state capture is Guatemala. Starting in the late 1800s, landed elites and the military have exercised strong influence over the Guatemalan state (Heller and Mahoney 2003). The 1870s were marked by the rise of export agriculture, controlled primarily by landed plantation coffee elites. The state encouraged the growth of the coffee industry by catering to the needs of coffee elites, providing infrastructure to service export agriculture and implementing coercive labor policies over the indigenous population to secure plantation labor. The economic base of the elites has evolved, but high levels of state capture and exclusion have persisted to the present day. In the second half of the 20th century, the exclusionary politics unfolded in violent conflict and extreme repression by the state, especially of indigenous groups. These events finally culminated in the 1996 Peace Accords, but even today the Guatemalan state's capacity for public goods provision is quite limited. Guatemala collects only 8 percent of Gross Domestic Product (GDP) in taxes and spends 6 percent of GDP on social sectors.

Costa Rica provides a contrasting example: since the 1870s, the state has maintained substantial autonomy from dominant class actors, including the coffee elite. (See Paige 1997 and Mahoney 2001 for comparative discussions.) This pattern was coupled with increasing political openness, the mobilization of class interests through political parties, and the channeling of demands through democratic institutions. In turn, the societal demand for services rose, to which the state responded with programs of broad-based provisioning, notably in basic education. Costa Rica raises 18 percent of GDP and spends 17 percent of GDP from taxes and other sources on social sectors (see Table 9.2 and Figure 9.3).

The case of the Dominican Republic further illustrates how an extreme form of clientelism can combine with other institutional characteristics to crystallize in a political equilibrium of a small state with limited service provision (see **Box 5.2**). **In sum,**

clientelism induces politicians to provide targeted goods (such as small-scale public works) in highly visible ways to specific constituencies (such as local communities). In the absence of a programmatic political party with a national reach, individual politicians, including the president, cannot credibly offer a major public policy initiative (for example, educational reform) and expect to receive electoral support. Cognizant of the governing elites' inability to commit to a major policy reform, the electorate would prefer to vote for locally prominent candidates who promise to deliver tangible public works or public employment programs.

BOX 5.2.

Clientelism and the underprovision of public services in the Dominican Republic

Politics in the Dominican Republic have been characterized by a strong clientelist tradition, whereby parties rarely compete for votes on the basis of national policy issues, and by strong presidentialism, whereby presidents dominate the national political scene but rely on the support of local political bosses to obtain votes. A combined effect of these institutional characteristics is significant emphasis on government provision of targeted goods (in other words, public works), low spending on public goods (for example, education), and low overall spending.

The clientelist tradition in the Dominican Republic is the legacy of 30 years of the repressive, personalist dictatorship of Trujillo from 1930 to 1961, which stifled the development of credible political parties with clear and credible stances on public policy issues. Absent disciplined parties with clear policy reputations, presidents face greater challenges from political rivals even within their own party and cabinet. These rivals are always interested in laying their hands on portions of public expenditures in order to provide patronage goods to their own personalized constituencies. Responding to this, presidents have undertaken relatively little public spending and concentrated it in the presidency. For example, in the Dominican Republic, almost 30 percent of total public investments in 2000 was executed by the Ministry of the Presidency.

Presidents could push for improved public sector financial management to better monitor spending by line ministries, in principle increasing presidential willingness to allow more delegated spending and greater accountability. However, they are reluctant to do this since (unlike Alberto Fujimori in Peru) they have only a limited ability to counter efforts by rivals to use resources as they see fit, even if a sophisticated system of public sector financial management makes those uses completely transparent. The inability to tightly control expenditure execution, however, gives the president a strong incentive to keep overall expenditure levels low. In the end, the government provides highly targeted patronage goods and under-provides public goods such as high-quality public primary education that could have made a dent in inequality in the country.

Source: Keefer 2002.

Institutional legacies of inequality and the limits of democratization

This section focuses on the process of democratization in Latin America. On the one hand, an authoritarian legacy (see Chapter 4) and the dynamics induced by fragmented social structures and weak states led to the delayed and halting consolidation of democracy, with periodic bouts of unconstitutional threats and authoritarianism

(especially during the Cold War period). On the other, when democracy did return to the region in the 1980s, it proved insufficient to transform the region to one with genuinely equal citizenship and effective, inclusive states (O'Donnell 1998b).

These processes can be understood in terms of the broader question of how poorer and subordinate groups are incorporated into the polity. The ineffectiveness of politically legitimate representation mechanisms, especially broad-based programmatic political parties, in including the poor has often created tensions and dynamics that were inimical to sustained redistributive change (Collier and Collier 1991, Rueschmeyer, Stephens, and Stephens 1992). These same dynamics have had significant impacts not only on frequent regime changes in the mid-20th century throughout Latin America, but also the prospects for democratic consolidation in more recent years (Collier and Collier 1991).

When social and economic modernization began to put strains on the traditional exclusionary politics in the early 20th century, political elites and society responded in a variety of ways to this new dynamic. As discussed above, in more economically advanced countries (including Argentina, Brazil, and Mexico), elites attempted to incorporate “popular” sectors (primarily organized urban labor) through state-dominated corporatist arrangements. In some cases (notably Argentina and Brazil, but also Chile and Uruguay), these incorporation processes led to the radicalization of segments of the popular sector, which in turn triggered authoritarian reactions from the military, backed by the countries’ economic elites.

In countries where initial incorporation was more limited (such as Ecuador and Peru), political exclusion offered a fertile ground for populism, as exemplified by the leftist military regime of Velasco and the *Aprista* administration of García in Peru or by new parties and “outsider” movements. In earlier periods, this trend was evidenced by periodic indigenous insurrections (for example, in the Yucatan, Mexico) or in millenarian movements of withdrawal, such as the Canudos movement in northeastern Brazil. In the 20th century, political exclusion and populism were manifested in violent civil conflict, notably in parts of Central America, Bolivia, and Peru. Especially in the Cold War, post-Cuban Revolution atmosphere, social tensions tended to spur repressive, authoritarian reactions, as in Guatemala (1956), Chile (1973), and El Salvador (1980s), to name a few of the more violent examples.

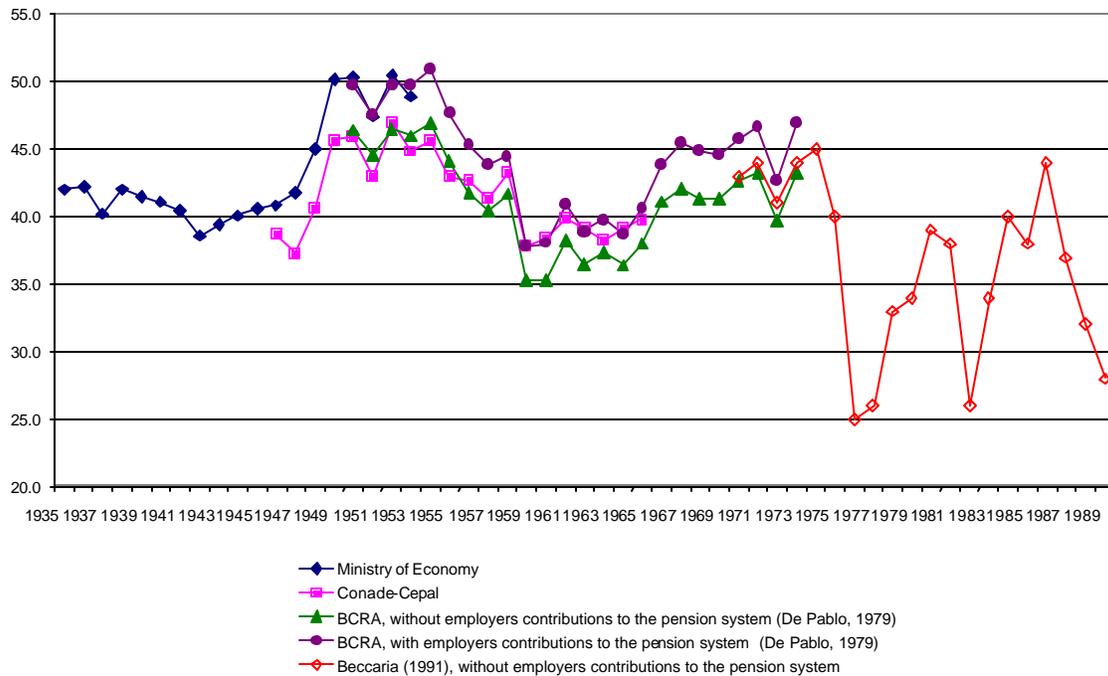
Populism did have redistributive aims—or at least rhetoric—manifested in both authoritarian and democratic regimes, but the movement was also a symptom of unequal, vertical institutions through which charismatic leaders periodically emerged with promises to the masses that were not mediated by institutional structures. However, populist leaders were in most cases ineffective precisely because of their charismatic, personalist status, and were incapable of effecting change in overall patterns of privilege and institutional processes. In the case of Velasco in Ecuador, Conaghan (1995, p. 446) comments: “Velasco’s early success was the product of his close ties to traditional elites. Unlike classic populism in Latin America (for example, Peronism), Velasco never produced real material and political advances for lower-class supporters...He did, however, school an entire generation of politicians in how to win political power without

building organizations or refining party platforms. His career seemed to underscore the unimportance of party and the dominance of personality...” In other countries, reforms (such as the Peruvian land reform) were implemented incompletely, failed to resolve distributional struggles, and spilled over into macroeconomic instability (notably in Argentina, Bolivia, and Peru). The result was that previous “gains” in redistribution were reversed.

The contemporary history of Argentina vividly illustrates how a nation’s inability to successfully deal with the question of political inclusion has stymied the development of an effective state, with periodic unresolved distributional struggles and a steady worsening of inequality (see Chapter 2). In Argentina, the incorporation of the poorer groups (especially urban workers) started in the 1940s under the populist regime of Juan Perón, who mobilized industrial workers into state-sanctioned (and controlled) labor unions and introduced a series of policy measures aimed at addressing their needs (including large increases in worker wages and benefits and the creation of a social security system). There was a large increase in labor share under Perón that was then sharply reversed when he was out of power (see [Figure 5.4](#), which illustrates labor shares in Argentina through a long-term picture of patterns of change).

The government’s relationships with organized labor was highly dependent on Perón’s personal relations and charismatic appeal rather than institutionalized mechanisms of representation. In the words of Snow and Wynia (1990, p. 138), “The material benefits obtained by the workers during the Perón administration were essentially gifts from above rather than the result of working-class demands.” Following the ouster of Perón in a coup, democratic and military regimes alternated until a more extensive period of democracy set in during the 1980s. The second period of rising labor share, 1967–1974, was one of relatively good economic performance and strong labor union pressure, both under dictatorship and the elected Peronist government. However, this culminated in economic crisis and the 1976 coup, with a sharp reduction in labor share. This pattern exemplifies a broader international pattern of crises often “resolving” underlying distributional struggles, with losses being borne by formal labor (see Chapter 8 and Diwan 2001).

FIGURE 5.4.
The rise and fall of the labor share in Argentina



Source: Fiszbein and Galiani 2003.

If Argentina represents a case of extreme regime instability masking the underlying persistence of unequal social relations and a weak state, Venezuela is a case in which formal democracy has failed to resolve distributive conflicts throughout the 20th century. Venezuela has therefore not been evolved into a redistributive state capable of fostering inclusive development. Although the country maintained a healthy economic performance and democratic stability during the 1960s and 1970s, once its oil-dependent economy ran into trouble in the 1980s, successive governments failed to adjust economic policy and, in turn, faced an escalating crisis in governance.

For a long time, oil revenues have provided Venezuela with a relatively easy source of fiscal revenues with which to finance the expansion of public services, but have also sharply limited the incentive of political elites to invest in strengthening the state's tax capacity. When oil revenues role as a social lubricant weakened in the 1980s and 1990s, the original elite group that established 20th century democracy increasingly came to serve to protect the privileges of new elites—those associated with established parties—and to ossify the country's democratic institutions. As in the case of Argentina, the country's inability to resolve distributive conflict in a peaceful and sustainable manner is vividly illustrated by the current stand-off between a populist president and ardent opponents.

Democratization constituted an important shift in the political opportunity structure, but it was not a sufficient condition for change. This was precisely because the process of democratization interacted with the institutional structures of unequal social relations and weak states and, in particular, the weak agency of subordinate and middle-class groups

relative to the influence of elites. The result was weak effective demand for change on the part of states. In addition, unequal structures tended to persist under democratic auspices.

Clientelism can function under democracy, as well as under authoritarianism (see Shefter 1994 and Chubb 1983 for OECD countries and Hagopian 1996 for the persistence of clientelist politics in Brazil). Group-based social inequalities also show great persistence across formal regime changes. A comparison between Latin America and East Asia is useful. Although there has been plenty of cronyism and corruption in East Asia, other factors in the social and political structures of most countries in that region have led to the construction of states that have been both more effective and redistributive during both authoritarian and democratic periods.

BOX 5.3.

Are there political and social reasons for the contrast between Latin America and East Asia?

East Asia is often characterized as a region of growth with equity *par excellence*. Reality is more complex, and some East Asian countries have experienced significant increases in inequality in the past two decades (Ahuja and others 1997). However, it is clear that a number of countries in the region—from Japan to (most recently) Vietnam—have experienced long phases of high growth with moderate levels of inequality. Moreover, this pattern has occurred in many countries when they had authoritarian governments.

Based on an extensive literature on the underpinnings of East Asian success, two strands are of particular relevance to the current discussion. First, successes almost always involve broad alliances between elites and subordinate groups, especially peasants during the early phases of transition. This pattern reflects many factors, including long traditions of smallholder agriculture; land reforms during periods of major political transition (that is, in China, Republic of Korea, and Taiwan); the need to deliver incomes and services to peasants in the face of external threats to national security (Korea and Taiwan); and threats of peasant-based revolutionary movements (Indonesia).

These alliances did not necessarily involve grassroots mobilization, but it was in the interests of elites to economically include poorer groups. In Malaysia, this action took the particular form of improving the position of the historically poorer ethnic group of *bumiputeras* (Malays), but was effected by a government that both directly depended on that group for its primary social and political base (under the rule of Mahathir) and also recognized the need to protect the property rights of other domestic and foreign investors. Unequal social relations therefore had less salience in East Asia.

Second, successful cases of simultaneous growth and equality evolved a form of economic management that combined a degree of bureaucratic autonomy with close linkages to major interest groups. Such “embedded autonomy” (Evans 1995) was a central element of the successful development of states that emerged in the region. This was by no means a clean affair, and often coexisted with cronyism and corruption. However, for major development choices—from export drives in Korea to dealing with macroeconomic crises in Indonesia prior to the deep economic and political crisis of 1998—embedded autonomy facilitated the pursuit of pro-development paths rather than protection of vested interests. States were effective in key areas of providing public goods and services.

The key contrast with Latin America should not be seen in terms of a spectrum of authoritarian and democratic systems, but in terms of how East Asia's political and social histories—which evolved under different external environments—underpinned more inclusive and effective institutional structures.

Sources: World Bank 1993, Teranishi 1995, Evans 1995, Heller 2001.

5.2. The potential for equalizing political and social change

The first section of this chapter sought to explain how institutional forces cause inequalities to persist. With this in mind, how can societies break with the history of unequal social relations and weak states? Success will depend upon developing institutions that are resilient to the predations of the rich and powerful and can tackle vested interests. For most countries in the region, success also involves strengthening the implicit social contract that underpins an adequate tax effort with which to finance government spending.

The authors argue here that there is potential for change. Some features of the regional context are favorable. Although democratization alone has not so far led to a swift transformation of social relations and political structures, it remains an important *potential* catalyst for change in the opportunity structure. While the authors do not seek to address international influences in this chapter, it is worth noting that with the passing of the Cold War and the globalization of information flows, awareness of human rights, and connectivity of social movements, the pressure and potential for inclusive political and social change may be higher than it was in the past. (See Castells 1997 for a discussion of the relationships between identity formation, globalization, and information.)

In addressing these issues, the authors take the view that political agency matters. History and institutions are also important, but are not determinist sources of action. This is based on a reading of country and local experiences in Latin America that are discussed in the following sections. This position echoes debates on whether governments in OECD countries can affect conditions of inequality. Drawing on an analysis of experiences across the OECD and a structured comparison between Spain and the United Kingdom in the 1980s, recent work (Boix 1998) shows that the different preferences of political parties with respect to inequality were acted upon when government were elected, especially in the domain of structural policies (see Box 5.4).

BOX 5.4. **Political agency and the potential for redistributive strategy in rich countries: lessons from the OECD**

A comparison of the different paths taken by governments in the OECD finds that institutional determinism does *not* hold true, at least in certain domains of public policy. Although both social democratic and conservative parties support growth, very different strategies have been pursued to this end. This is particularly the case with regard to distributional choices related to the trade-off between employment and equality on the one hand and efficiency on the other. During the 1970s and 1980s, social democratic governments chose strategies based on significantly higher

public capital formation, human investment, and tax efforts, and maintained a larger public business role in the economy. In contrast, conservative governments chose lower investment in physical and human capital, lower taxes, and privatization.

The contrast in policies among types of governments can be clearly seen in a comparison between two programmatic parties in the 1980s: the British Conservatives under Margaret Thatcher and the Spanish Socialists under Felipe González. These parties were based initially on very different electoral coalitions. The British Conservatives appealed to the middle and upper classes and sought to expand their base in the former, for example through housing policy and encouragement of broad-share ownership through privatization. That party successfully reduced the power of vested interests, notably in the union movement. In contrast, the base of the Spanish Socialists was initially among the working and lower-middle classes. Although there was some erosion of support from the former group due to its need to pursue a tight macroeconomic policy, this was compensated by a significant expansion of support due to policies that expanded social benefits.

The point of the comparison here is not to evaluate the impact of policy choices; this would require both a careful assessment of instrumental effects of policies and normative views on inequality and unemployment. It is, however, noteworthy that Britain experienced a very large increase in inequality in the 1980s according to the standards of rich countries. Spain experienced a small decline in its (already lower) level of inequality. Moreover, some observers argue that the substantial expansion in social welfare was a key complement to the extensive industrial restructuring associated with Spain's opening up and integration into Europe.

Source: Boix 1998.

Programmatic parties, conceived of as “organized coalitions of interests around ideas” (Boix 1998, p. 14) are less well-developed in Latin America, but the principle that coalitions of interests and ideas can lead to different policy choices that influence distribution is directly relevant. Under what conditions are there effective coalitions for change? How do these coalitions interact with the different initial institutional conditions that prevail across Latin America? Even though the region (with the exception of Cuba) has not seen major change in its distributional patterns based on fundamental political and social transformations, some experiences are already promising. The section below focuses on change both at the level of countries and at the sub-national level.

The potential for more effective and redistributive states at the national level

Patronage vs. programmatic parties in a democratizing context

Despite being an insufficient force to foster a more effective and redistributive state, democratization did help bring into the political arena generalized demands for state action in the social sphere throughout Latin America in the 1990s. These demands were undoubtedly heightened in the wake of the period of economic crisis and worsening income inequality during the 1980s. Most governments did respond to these problems in one way or another. Social spending grew significantly in most countries, with part of the growth (except for large increases in pension outlays) being progressive in impact because of the expansion of basic services such as education, health, water, and sanitation to parts of the population that had previously not been served (see Chapter 9). However, there were large variations in the effectiveness of such actions in terms of outcomes, and

an expansion in public spending as such did not reflect any change in the underlying political equilibria.

Both in Latin America and throughout the history of Europe and the United States, changes to political equilibria that underpin more effective and redistributive states have occurred both from within and outside of existing state structures. The key question is whether new or reformed parties or groups, when they attain power, adopt the potent tools of patronage in order to shore up support or pursue collective goals.¹¹ In the following discussion, different cases of transition within Latin America are considered, with boxes used to illustrate areas of policy action.

Chile is a good example of how the pre-existence of programmatic parties combined with relative bureaucratic autonomy to facilitate a transition toward political equilibrium with a more effective and redistributive state. Where these pre-conditions are weak, change has occurred either because of the internal mobilization of new parties or “outsider” movements. Brazil illustrates both in the form of the Cardoso and Lula administrations. Latin America also has a variant of the outsider movement, that is, of a populist leader who appeals strongly and directly to a (disaffected) populace, but is weakly embedded in organizational structures or local mobilization. This is itself a product of the weakness of party traditions and fragmented societies, and is a case illustrated by Peru. The general weakness of programmatic parties in the region—a product of historical patterns of political evolution—makes the challenge of improving the state harder, and in turn makes the role of other actors in society (including business associations, unions, grassroots movements and nongovernmental organizations) even more important.

Chile has been relatively successful in consolidating an effective and redistributive state, including a significant degree of redistribution of services; however, the country has not been able to reduce its high level of income inequality. Unusually for Latin America, Chile benefited from a long history of party formation along class-based rather than vertical corporatist lines, as well as a tradition of a relatively autonomous and competent public administration. The first democratic administration pursued a policy of “growth with equity.”¹² This approach was implemented by balancing the fruits of market-oriented economic policies (introduced by the former military government) with the objective of achieving social equity and justice by systematically strengthening social policies (see **Box 5.5**).

As a result, key public goods were delivered, inflation was brought under control, and fiscal prudence was maintained. There were no major challenges to property rights, and a significant expansion of citizenship rights (relative to the authoritarian era) was complemented by a strong increase in broad-based, targeted services. With macroeconomic and social stability apparently assured, an investment boom occurred that in turn sustained rapid growth and poverty reduction. Democratic administrations also invested in modernizing the public administration, building on already solid (by regional standards) administrative capacities. Today, Chile is known for its effectiveness and the probity of its public administration, as well as for its achievements in the realm of economic and social policies.¹³

BOX 5.5.

Increased equity through taxation and social spending in a democratic Chile

The Aylwin administration's (1990–1994) equity-enhancing policies included an increase in taxes to finance expanded social spending. The tax reform was moderately progressive (at least in intention), raising the share of government revenues generated through direct taxes from 18 percent to 24 percent and increasing the share of corporate and upper-income personal taxes within the direct tax category. Tax reform was accompanied by an arrangement to earmark a specific share of revenues for social spending.

Between 1990 and 1994, social spending increased by almost 50 percent. This had little impact on the high level of measured income inequality during the same period, which was largely driven by the effect of market forces on labor incomes. However, there were significant reductions in other dimensions of inequality, reflecting the redistributive character of social spending: if the imputed value of social benefits is included, the distribution of “income” improved significantly in the 1990s (see Chapter 9 and Bravo, Contreras, and Millan 2002). Many vulnerable segments of society, such as the elderly and the poorly educated, experienced large gains in well-being, and the benefits of economic growth were distributed more or less equally across regions.

The reform package, which was the first piece of major legislation by the *Concertación* coalition, was politically negotiated in order to assuage the conservative economic elites of the government commitment to fiscal responsibility and moderate economic policies without radical redistributive efforts. This negotiated settlement reflected not only the relative political strengths of the conservative elites and the Aylwin government (which lacked a majority in Congress), but also what the parties comprising *Concertación* had learned from experiences in the 1970s, when radicalism eventually culminated in a brutal coup and nearly two decades of authoritarianism under Pinochet.

Sources: Boyland 1996, Weyland 1997.

The Chilean mix of prudent macroeconomic policies with gradual social sector reform might appear to be a sensible yet predictable outcome of a good government. However, in so many other countries (including several in Latin America), similarly strong social desires for redistribution have resulted in unsustainable economic populism. Why was Chile in the 1990s able to avoid a similar fate, and instead succeed in introducing a progressive policy reform agenda without jeopardizing business confidence and macroeconomic stability?

One plausible explanation is found in the encompassing nature of key political institutional actors and the relations among them. The institutional backbone of Chile's “growth with equity” approach was the broad center-left alliance of the *Concertación*, which comprised 17 political parties around the core of the Socialists and the Christian Democrats. Deprived of access to state patronage during the struggle against the military dictatorship in the 1980s, these parties evolved throughout the decade into moderate, pragmatic political entities with strong ties to social organizations (particularly labor unions) and a solid commitment to pluralist, representative social democracy.

As the negotiated democratic transition allowed conservative forces to retain significant institutional advantages, the *Concertación* deliberately chose a consultative form of governance—a so-called “politics of agreements”—whereby the government discussed every important piece of legislation not only with coalition partners, but also with opposition parties and social organizations.¹⁴ Such negotiated settlements were possible because both the political parties and key societal organizations involved (in particular labor and business confederations) had broad, encompassing bases of representation and support.¹⁵ In the face of strong demand for social equity and expectations for prudent economic management, actors managed to achieve sensible compromises on a broad national agenda instead of pursuing parochial, sectoral interests.¹⁶

If Chile has, by Latin American standards, formed a relatively effective (and redistributive) state, why does it remain one of the most unequal societies in the region in terms of income? (See Chapter 2.) Three factors are relevant. First, Chile’s historical formation (especially during the 19th and first half of the 20th century) has always involved a mixture of relatively high degrees of constitutional rule and of concentration of wealth, which is in part associated with the importance of mining in the economy. Second, most observers agree there were significant increases in inequality in the 1970s (with the transition to the Pinochet regime) and the 1980s, which is evident in the distribution data (see Chapter 2 for a brief discussion and references) and also in the consolidation of the position of major conglomerates (Schamis 2002). Third, shifting income distributions is always a slower process than, for example, increasing access to services, due to the centrality of market forces in determining wage distributions.

As discussed in a recent World Bank report (de Ferranti and others 2003), international integration was a catalyst for skill-biased technical change in countries such as Chile, initially leading to a sharp increase in skill premiums and wage inequality. However, the large expansion in schooling (especially at the tertiary level) appeared by the end of the 1990s to be offsetting such powerful demand-side forces.

Like Chile, Brazil went through a negotiated transition from an authoritarian military government. Throughout the dictatorship and even during the democratic transition, the continued importance of unequal social relations, the lack of programmatic parties, and the strength of special interest groups characterized Brazil’s political economy. Although Brazil did inherit a relatively effective state in terms of bureaucratic capacities in certain state functions, such as industrial promotion (Evans 1979, Schneider 1991), the effective provision of key public goods—notably macro stability, property rights, and citizenship—was not part of the legacy of the country’s military rulers.

Brazil’s political institutions have traditionally fostered political deadlock.¹⁷ The institutional fragmentation of the Brazilian political system—in which a large number of interest groups and individual politicians, unconstrained by cohesive party discipline, engage in the exchange of short-term political favors—is not conducive to redistributive change. Instead, powerful and well-organized groups successfully lobby to press for or protect their own interests and privileges, which in turn largely reflect the underlying inequality of political power in Brazilian society. Such weak governance is clearly

illustrated by the dynamics of the process of forming a constitution in the late 1980s, as well as by difficulties that the country has since faced in reforming its regressive social security system (see **Box 5.6**).

BOX 5.6.

Failed redistributive efforts in a fragmented democracy: social security reforms in Brazil

Following a democratic transition in 1985, Brazil spent nearly two years debating and drafting a new constitution. The National Constitutional Assembly (ANC) operated within a highly fragmented political system, in which loose coalitions of weakly organized parties and numerous special interest groups engaged in targeted political bargaining.^a As a result, the 1988 Brazilian Constitution is an incoherent and complex document that simply pulls together a very broad range of special interests expressed through the ANC.^b Although the Constitution includes a strong social component—including the universal nature of basic services such as education and health—it also cements a number of special privileges of powerful interest groups, such as granting public servants excessively generous and fiscally unsustainable pension benefits.^c

The incoherence of the Brazilian Constitution has necessitated endless attempts by subsequent governments to amend the document in order to introduce major reforms, most notably (but not exclusively) reforms of the social security system. Already in the constitutional debate, proposals by technocrats in the Ministry of Social Security aimed at making the social security system distributionally fairer—for example calling for universal social security coverage, improvements in the pension benefits of poor rural workers, the diversification of social security taxes, and an age-based threshold for receipt of the time-of-service pension—were defeated by various interest groups. Business interests opposed the diversification of social security taxes, while urban unions and pensioners challenged the proposed restrictions on time-of-service benefits. Public sector unions achieved a major concession when virtually all government employees—regardless of whether or not they had been recruited through a competitive qualification process or had ever made contributions to the pension system—would be “reclassified” as tenured civil servants eligible for generous pension benefits.

In the mid-1990s, the Cardoso administration attempted a major overhaul of the social security system. Although progress was made, some of the most far-reaching reform proposals, especially those affecting the entrenched interests of public sector unions, were defeated.^d The recently elected Lula administration is now embarking on another major reform attempt to gradually bring the very generous public sector pension regime more in line with the private sector regime. Although the reform has not gained final approval, the government has already had to make several important concessions vis-à-vis its original proposal, again reflecting the power of corporate interests in the areas of public service, the military, and the judiciary.

^a The National Constitutional Assembly (ANC) was the same national congress that had been elected in 1985, and thus tended to reflect the parochial and short-term political interests of legislators, as well as their vulnerability to special interest group pressure.

^b By one count, at least 383 separate groups representing diverse occupational and functional interests pressed for inclusion of their agendas in the Constitution—vividly illustrating the collective action problem caused by the fragmented, vertical, corporatist structure of state-society relations in Brazil (Vianna 1998).

^c See Reich 1998 for an analysis of the constitution-making process.

^d This case is analyzed in detail in Melo 1998.

Sources: Weyland 1996, Vianna 1998, Melo 1998.

Since the mid-1990s, the Cardoso and the Lula administrations have consistently pursued a policy mix of a strong commitment to macroeconomic stability, social development, and building state capacities for revenue collection and service delivery.¹⁸ Actions by both governments have no doubt been constrained by the institutional fragmentation of the Brazilian political system.¹⁹ Nonetheless, the achievements made and the consistency with which these governments have pursued more equitable policies are notable.²⁰

Pro-equity policies have been pursued by these two reformist governments, each of which has different partisan origins. Cardoso's party, the PSDB, was created as an internally mobilized group by defectors of the PMDB—which was itself the outgrowth of the “opposition” party created by the military and traditional politicians during the authoritarian period—as an attempt to overcome the PMDB's clientelist orientation. Lula's PT, on the other hand, was an outsider movement during the authoritarian period (and thus lacked access to state patronage for mobilization) and developed as a genuine horizontal alliance between unions and other mainly lower-class groups, including poorer households dependent on the informal sector.²¹

Despite these differences, both parties found opportunities to govern the country in a gradually maturing democratic environment. These developments suggest that multiple possibilities for positive political agency exist even in a difficult governance environment, which may also indicate that Brazil is in a time of transition to a political equilibrium that is more favorable for the reduction of inequality.

Peru under Fujimori illustrates how an outsider leader can be effective in breaking through established institutional structures in a time of crisis. A decade after the democratic transition occurred, Fujimori inherited almost the exact opposite attributes of an effective and redistributive state: hyperinflation; a violent conflict with the *Sendero Luminoso* (Shining Path) guerrilla movement; uncertain property rights; weakened citizenship rights; and a collapse of the state's capacity to raise revenues and deliver services, especially in poorer areas. In the early 1990s, Fujimori substantially improved the provision of public goods—especially with regard to macroeconomic and social stability—by ending the conflict with *Sendero* and supporting a major expansion in basic services, in particular to poor, rural populations.

How was this done? Instead of reforming the state to upgrade its overall capacity (as both Chile and Brazil have attempted to do), “islands” of effective state action were created, notably in customs and taxes (in order to provide revenues to support spending), in macro-management, and in the concentration of a set of service delivery programs in the Presidential administration. These actions involved breaking through existing clientelist institutional structures (for example, through closing parliament) or circumventing them (for example, by avoiding traditional bureaucratic channels. Political support was sustained by initially widespread approval for the improvements relative to the preceding crisis; the delivery of services to the poor, albeit in a form of a national clientelist project (see [Box 5.7](#)); and, increasingly, connections with the rich. However, this situation had high costs in terms of undermining democratic institutions, including the capture of the judiciary and parts of the media.

BOX 5.7.

Neopopulism and policies on social funds in Peru

The case of Peru highlights both the possibility (at least in the short run) and the difficulty of sustaining equality-enhancing policies through outsider, “neopopulist” leaders.^a Under President Fujimori, traditional sources of authority and intermediation between citizens and the state were weakened because he relied upon direct, personal appeals to poorer citizens. Traditional political parties all but disappeared, and government became much more centralized.

An important example is the centralization of FONCODES and other social programs under immediate control of the Presidency. This shift both enhanced service delivery and helped Fujimori garner electoral support outside party structures. One study finds that FONCODES expenditures increased significantly in the three months prior to national elections, and that projects were directed to provinces in which their political effect was likely to be largest. Between 1991 and 1993, FONCODES expenditures favored core supporters and marginal voters. After a disappointing result in a national referendum held in 1993, the Fujimori administration redirected resources in an attempt to buy back the vote in turnout provinces. Since Fujimori targeted poorer constituents, FONCODES projects tended to favor the poorest provinces, with the result that the program had a redistributive function.

Although evaluations of the pro-poor impact of FONCODES on poverty have been positive, the program has often been criticized for its politicization and for a design that bypassed local governments. Consistent with Fujimori’s other policy and political actions, FONCODES did little to contribute to the institutional development and empowerment of local governments.

^a See Roberts 1995 on the concept of neopopulism and its application to the Fujimori regime.

Sources: Schady 2000, World Bank 2001c.

In terms of political structure, the Fujimori experience has parallels with the model of the populist leader who reaches across institutional structures and promises redistribution, but who has the resolve and capacity to challenge vested interests and maintain macro-level stability, and uses authoritarian methods when needed. At the beginning of Fujimori’s rule, the depth of the economic crisis and a discredited political elite facilitated change.

However, the charismatic outsider leader model is inherently risky, and ultimately unsustainable because of the lack of an institutional base of representation to link the governing elites to the poor. In the case of Peru, costs were massively higher than could have been imagined. The lack of institutional constraints on the authoritarian and personalized presidential behavior—exacerbated by the well-documented abuse of power by Montesinos, Fujimori’s close associate—led to a steady and systematic undermining of the rule of law with respect to property rights and citizenship, and the eventual loss of legitimacy and collapse of the regime.²² There have been important gains in the subsequent transition to democracy, but the road from unequal social relations and a weak state is long, and one that is made more difficult with a socially fractured population, high expectations, and the absence of programmatic parties.

Other problematic or incomplete transitions

Other countries in Latin America have had failed or problematic transitions to democracy (albeit with less dramatic forward and backward shifts than in Peru). Guatemala, a classic case of unequal social relations and a weak state, signed Peace Accords in 1996 and achieved some gains in taxes and service provision from a very low base level, including some symbolic provisioning of bilingual education. However, at the national level there were few signs of major transition from a polity captured by old elites and new drug- and crime-related interests. Also symbolic was the proposal for a multicultural constitution (now increasingly common in the region), which was rejected in a referendum. As discussed in Box 5.2, the Dominican Republic, despite a relatively good growth performance, also remains mired in a low-level equilibrium with high levels of patronage and a weak tax effort.

Bolivia is a more complex case. Starting from a situation of deeply clientelist structures and a weak state, the country pursued a number of measures to strengthen governance and accountability. It restored macroeconomic stability in the mid 1980s, and sought wide-ranging reforms in public administration, but it is not clear if these significantly transformed clientelist relations. Finally, Bolivia took innovative measures to support democratic decentralization (see below), which were intended to increase the influence of poorer, including indigenous, groups.

At the same time, Bolivia has been swept by waves of anger that coalesced in a coalition of groups in a largely indigenous-based protest movement, which forced the resignation of President Sánchez de Lozada in late 2003, reminiscent of the earlier ouster of the President Mauhad in Ecuador. (However, Ecuador had registered a less clear commitment to policy and structural reforms than had Bolivia.) In both cases, the protest movement fits the mold of a classic outsider movement of poor, indigenous groups allied with vested interests, such as teachers unions. The movement's strength flowed from a combination of severe adverse shocks to the economy (including the emblematic destruction of coca production in Bolivia) and a long history of social and political exclusion and disillusionment with the political class and capacity of government.

Transition at the sectoral level

Even when the realm of national-level politics remains inhospitable to equity-enhancing change, transition away from clientelistic modes of governance has been possible at the sectoral level in a number of countries. Well-known examples in the region include EDUCO, an effective community-based school program in El Salvador, and the Family Health Program in the State of Ceará, Brazil (for details, see Tandler 1997). Political dynamics of transition at the sectoral level is well-illustrated by the case of Mexico's targeted anti-poverty programs *Programa Nacional de Solidaridad* (National Solidarity Program, or PRONASOL), a strongly clientelistic policy instrument,²³ and its successor PROGRESA (currently called *Oportunidades*, or "Opportunities"), better conceived technically as a policy lever for long-term poverty reduction (see Box 5.8 and Chapter 9).

BOX 5.8.

Transition at the sectoral level? Mexico's targeted antipoverty programs

Although much of the funding for *Programa Nacional de Solidaridad* (National Solidarity Program, or PRONASOL) was apparently directed toward the poor,^a several studies have found that political variables heavily influenced the allocation of the program's resources.^b Aside from its politicized management, PRONASOL's programmatic focus on infrastructure investments—the largest area of funding was basic services, such as water, sewage treatment, and electricity—was visible and effective for the purpose of generating electoral support. PRONASOL was effectively replaced by PROGRESA (currently called *Oportunidades*, or “Opportunities”), which focused primarily on investment in human development within more technocratic decision-making processes.^c Impact evaluations of PROGRESA have been more favorable than evaluations of PRONASOL.^d An analysis of the political determinants of PROGRESA allocations found that although electoral considerations appear to be somewhat related to funding patterns, poverty level has by far been the best predictor of PROGRESA expenditures (Menocal 2001).

What accounts for this episode of depoliticization of antipoverty programs in Mexico? The shift coincided with the democratization, or at least pluralization, of Mexican politics. The change in this program can be seen in the context of President Zedillo's response to the economic crisis of the period and general dissatisfaction with the politics surrounding spending by PRONASOL, which was a flagship program under his predecessor President Salinas. With each report of corruption of social funds under Salinas, pressure on Zedillo to act in an “above-board” manner increased.^e His response took various forms, including a politically driven process of decentralization. The case of PROGRESA is one of a redesigned *centrally* managed program, shaped to both have a tighter link to the extreme poor and to be less vulnerable to use as an instrument of patronage. PROGRESA illustrates that even in a clientelist political environment, technical design of a policy can make a difference in terms of both development impacts and the scope for political manipulation.

^a With regard to health care, government programs benefited more than 4 million people in 1985. An additional 3.4 million people were aided by PRONASOL's hospitals in areas with large indigenous populations, and 1.6 million families benefited from new clinics. With regard to education, PRONASOL's *Escuela Digna* program benefited 4 million students. In 1989–1990, 5 million people benefited from a drinkable water and sewage program, and another five million benefited from rural electrification projects. By 1992, PRONASOL spending as a share of overall public spending on social sectors had reached 12.34 percent (Lustig 1994).

^b One study (Molinar, Horcasitas, and Weldon 1994) found that the federal government spent more in areas where concurrent local and federal elections were scheduled and that PRONASOL funds were targeted not to states in which the PRI traditionally dominated, but to marginal states that were not necessarily the poorest in Mexico but where the opposition party *Partido Revolucionario Democrática* (the Democratic Revolutionary Party, or PRD) was strong. Another study (Diaz-Cayeros, Magaloni, and Weingast 2002) found that the PRI targeted electorally marginal municipalities and withheld funds from PRD-dominated municipalities, but spent little on municipalities where it had a big margin of victory. Where the PRI won by a small margin, it spent the most.

^c At the end of 1999, PROGRESA covered approximately 2.6 million families, or about 40 percent of all rural families and one-ninth of all families in Mexico. At that time, the program operated in almost 50,000 localities in more than 2,000 municipalities and 31 states.

^d The International Food Policy Research Institute (IFPRI) concluded that PROGRESA had significantly increased enrollment of boys and girls in secondary school, reduced illness among beneficiaries by 12 percent for children and 19 percent (in terms of job-related sick days) for adults, reduced stunting caused

by nutritional deficiencies, and increased calorie consumption and dietary diversity. For a summary of IFPRI results, see <<http://poverty.worldbank.org/library/view/5561>>.

^c By decentralizing expenditures, primarily to PRI governors, and then letting those politicians decide who got what, Zedillo may in effect have been allowing for the political use of these funds but at the same time keeping himself at arms length from criticism.

The role of democratic decentralization

Can political and administrative decentralization can lead to local political and social transformations? (See de Ferranti and others 1999 for a general discussion.) The process of decentralization has in its very nature bred a large variety of experiences, since new opportunities for greater political autonomy have interacted in diverse local political, social, and economic contexts. Absent proactive national compensatory policies, decentralization would generally increase inter-jurisdictional inequalities, for example through the greater capacity of richer jurisdictions to raise taxes that could then be applied to the provision of better economic and social services.

In some cases, local democratization, symbolized by the election of mayors, has actually changed the opportunity structure for local action for aspiring leaders and local movements. This has been referred to as a “silent revolution” (Campbell 2003). Yet outcomes are contingent upon precisely the types of issues raised in the preceding discussion of national conditions and transitions. How embedded are unequal social relations and how strong or weak is the local state, in the sense of its capacity to provide (local) public goods and services? Decentralization will be disequalizing if it strengthens the hands of local elites, but equalizing if it is associated with local democratic processes that favor poorer groups and lead to more effective state action.²⁴

That good local governance can make a positive difference to state performance is illustrated by the cases of Porto Alegre (Brazil) and Bogotá (Colombia), where major changes in patterns of action on the part of governments and citizen groups have fostered cultures of citizenship, which have in turn led to a successful break with the social and cultural bases of inequality that have defied national-level public intervention. Clearly, local contexts matter with regard to the distributive outcomes of decentralization, as illustrated by the Bolivian experience with decentralization, in which outcomes of the explicitly pro-community decentralization process have depended on the political and social contours of newly created municipalities.

Two cases of a shift to more effective and redistributive local states

Deep democratic decentralization. One of the best-documented cases of local-level transition from clientelism is that of Porto Alegre. This process was facilitated by the introduction of local elections and then by the election of the *Partido dos Trabalhadores* (Workers Party, or the PT). Subsequent dynamic interactions between local groups, party, and government—through which the PT has repeatedly been reelected—have allowed the government to learn from its experience and democratization to take root (see **Box 5.9**).

When opportunity was created by national political and governmental decentralization, local capacities were propitious because of the presence of an externally mobilized party and the local traditions of associational activity. It was, however, the development of the institution of participatory budgeting (PB) that facilitated the split from clientelist structures. The design of the PB process—by which delegates are allocated to the budget council in proportion to the level of participation by associations in open forums—has stimulated associational activity. PB has also had the effect of promoting horizontal coalition building; this contrasts with the past when neighborhoods processed demands vertically through political patrons, with the effect of severely compromising their associational autonomy and weakening civil society.

State action in Porto Alegre has been successful in key public arenas, especially in service provision, a trend that has both improved conditions across the city and had a strong redistributive element. A rising tax effort is evidence of a broader willingness to support the project, as has been the reelection of the PT. Although Porto Alegre is a good illustration of a shift to a new political equilibrium, caution should be exercised in drawing specific institutional lessons, especially on the process of PB. By Brazilian and regional standards, the city enjoys a high degree of social inclusion. PB has been exercised in a little more than 100 municipalities in Brazil (out of a total of more than 5,500). Assessing the actual determinants and impact of PB will require examining some of the 100 or so other cases of the process in Brazil.

BOX 5.9.

Popular budgeting in Porto Alegre: explaining a transition to a new political equilibrium

Municipal budgets have long been the domain of rent-seeking elites in Brazil. Politicians, bureaucrats, business interests, and local powerbrokers have typically colluded in controlling the allocation of city resources. The participatory budgeting (PB) system represents an important change in the traditional configuration of power interests, since as a bottom-up process it has significantly shifted decision-making powers from traditional elites to ordinary citizens. The role of the PT—an ideologically cohesive and programmatically left-of-center party—as the catalyst of change has been critical, since it created the “opening from above” and provided the ongoing support that has made PB possible.

In contrast to the more hierarchical, rigid, and organizationally insulated character of most Latin American socialist parties, the PT is deeply embedded both organizationally and ideologically in civil society. From the time of its establishment in 1980, the PT has been a social movement party, having been formed as an alliance of progressive elements within the church, unions, peasant associations, human rights groups and an array of revolutionary organizations. Created as an instrument of struggle against an authoritarian regime and associated corporatist structures, during its first decade of existence the PT, in the words of Rebecca Abers, “constantly sought to maintain ties to a multitude of grassroots social movements” and developed highly decentralized internal structures.”^a

The close and dynamic relationship between the PT as a formal organization and its social movement partners has created a number of synergies. Most obviously, the PT has provided a critical brokerage function by creating the formal spaces and political opportunities in which a range of social movements and civic organizations have been able to articulate their demands, exchange ideas, and propose reforms. However, if the political opening and the opportunity

structure for PB was created from above, it is civil society that provided the critical informational resources for the PB and fostered its mobilization. In opting for the introduction of PB, the PT piggybacked on demands first presented to an earlier administration by the Union of Neighborhood Associations of Porto Alegre (UAMPA), which had called for popular, community-based “control of the definition of the city budget.” A wide range of civic organizations (including neighborhood and church-based groups, women’s organizations, nongovernmental organizations, and unions) then provided the mobilizing networks, innovative ideas, and participatory practices that came to define the PB. With every year, neighborhood delegates to the budget council became increasingly better at linking local demands to city-wide needs and objectives (Abers 1996, 2000, Biaocchi, 2001).

^a Abers 1996, p.37.

Entry of outsider political entrepreneurs and mobilization of middle-income group support. Bogotá provides a second case of a dramatic shift in the performance of local government in a large city. Bogotá’s political transformation has unfolded against the backdrop of a national political scene characterized by power-alternating and power-sharing agreements between the two established political parties, based on the post-*violencia* accord among the elites. This context helped embed, at both the national and local levels, a particularly well-entrenched form of clientelism, through which the tradition of exchanging favors for political support persisted in a wide range of areas (for example, jobs and local public works). This pattern has often been stronger in poor areas in both urban and rural settings.

As in Brazil, opportunity has been created in Bogotá by the advent of mayoral elections and electoral competition. However, in this case the transforming event appears to have been electoral victories by outsider political entrepreneurs who were not part of the patronage-based party systems, rather than (as in Porto Alegre) a programmatic political party with a strong grassroots base. These entrepreneurs have chosen to pursue changes in governmental practice and state-society interactions that shifted the domain of political competition from the capacity to deliver patronage to the capacity to deliver public goods (that is, a cleaner city, reduced violence) and broad-based services, notably in education and transport. Such competition was reflected in the alternation between two mayors, Mockus and Peñalosa. Mockus, in particular, placed great emphasis on building new coalitions with a range of social groups and on changes in the culture of citizenship.

The effects of these institutional changes are evident in large improvements in city performance, both in terms of the level of provisioning of services and (although more anecdotally) in the quality of service delivery. The modernization of Bogotá’s public transport system resulted in a dramatic decrease in accident deaths from around 1,300 per year in the early 1990s to less than 800 by 2001. Government efforts to improve public safety resulted in the reduction of homicides per 1,000 inhabitants from 80 in 1993 to 31 in 2001. Net enrollment in primary and the secondary schools improved from 85 percent in 1993 to 91 percent in 2001, with the secondary level showing the most dramatic increase.

Similarly positive tendencies were registered with regard to other indicators of social service delivery, such as public health, water, and sanitation provision. Trends are also, again emblematically, reflected in a rise in tax effort—tax burden per resident increased from 39,000 pesos in 1988 to 86,000 pesos in 1999—while at the same time the city government implemented a series of administrative modernization measures and kept its operational expenses (such as personnel costs) more or less constant, thus allowing increased revenues to finance the expansion of public services (Maldonado 2003).

The experience of Bogotá shows how change is possible when electoral competition attracts talented outsiders to the political arena, who can then use their position to effect changes in political cultures and state effectiveness. Why did this occur in Bogotá and not in some other cities? The authors do not have a complete answer to this question, but suggest that it is driven by an interaction between the degree to which clientelist structures are entrenched with the capacity of individuals and groups to make use of new alliances to effect change. Both international and Latin American experience suggests that institutionalizing such changes will be of great importance, in terms of both building constituencies for autonomous bureaucracies and societal demands for performance in the provision of collective goods.²⁵

How local institutional context affects the potential for shifts

Throughout this chapter, the authors have emphasized the importance of the institutional context within which a particular political equilibrium of unequal social relations and effective state may evolve into different patterns of governance. The critical role of local context is visible in quasi-experimental settings of nationwide decentralization processes, whereby political opportunity structures open up more or less equally across a given country, and yet each local jurisdiction develops its own path of institutional evolution. A crucial question is how local political agency can capitalize on the new opening in the local political arena. As the cases of Porto Alegre and Bogotá demonstrate, the strength of local associational activities and the quality of competitive elections are important elements of these local contexts.²⁶ When these factors interact positively with each other, political incentives and capacities for building an effective, redistributive local government are enhanced. When one or both of these factors is missing, the potential of democratic decentralization is likely to be underexploited.

One of the most radical cases of decentralization in the 1990s is Bolivia's *Participación Popular* (popular participation), which aimed to strengthen citizens' ability to oversee the actions of municipal governments and hold them accountable. This process introduced institutional mechanisms of social control, including vigilance committees and territorial base organizations (known as OTBs) that were charged with overseeing municipal government performance and the "constructive vote of censure," a formal procedure to remove mayors on account of poor performance. Decentralization in Bolivia brought about significant shifts in the allocations of public investments from a range of sectors—including transport, hydrocarbons, energy, education, urban development, and water and sanitation—and the apparent equalization of their geographic distribution. (For a more detailed analysis see Faguet 2000.) This evidence indicates that decentralization in the

aggregate has brought about positive distributive consequences by allowing local demands to drive public resource allocations.

However, a closer look at Bolivia's experience, at least in the initial phase of popular participation, shows varying experiences across municipalities in terms of improvements in local governance. Oversight and participatory instruments—in the form of vigilance committees, the OTBs, and the constructive vote of censure—sometimes became attractive targets for political parties and interest groups, thereby weakening accountability and transparency. In those localities where traditional parties remained strong (and civic associational activities weak), vigilance committees tended to function less effectively. This may be because the committees were co-opted by the traditional elites or because both municipal governments and the committees became arenas for open conflict. Instead of being used as an ultimate means of holding mayors electorally accountable for their performance, the constructive vote of censure was often abused as a tool of partisan conflict. In a sample of 38 of the 311 municipalities surveyed in a recent World Bank study (World Bank 2000c), 92 mayors came and went between 1996 and 2000, or 2.4 mayors per municipality in less than four years. It is hard to imagine that effective governance could emerge in such a context.

The influence of varying local institutional context in the same country is also illustrated by a comparison of medium-size cities in Colombia that underwent the same nationwide process of political decentralization (see [Box 5.10](#)).

BOX 5.10.

Local contexts and the transition from clientelism: Ibagué versus Pasto

Colombia went through a major political and functional decentralization, but effects varied across municipalities depending on initial conditions. A clientelist political culture developed into an institutionalized art form in Ibagué, which was essentially run as a well-controlled political machine. In Pasto, one study on the 1970s asserts that “the totality of the municipal budget is devoured by the parasitic bureaucracy created by the clientelist machinery.”^a

The key facilitating changes in the political environment at the city level, which altered the opportunity structure, included the introduction of democratic mayoral elections in 1988 and the subsequent radical decentralization of responsibilities and resources in 1991. However, the results of these events varied sharply, with the biggest difference seen between Ibagué and Pasto. Ibagué remained politically mired in old structures—at least until an election of a businesswoman in the late 1990s—and appears to have made limited progress in tackling corruption and improving services. In Pasto, in contrast, an apparently transformative change took place under the mayoral leadership of Antonio Navarro (one of the ex-leaders of the recently legalized M-19 movement), who brought about radical changes in city governance, promoted openness and transparency, and reduced corruption. This shift also led to new alliances, especially with local business associations and citizen groups.

^a Vasquez 1982, p. 51.

Source: Angell, Lowden, and Thorp 2001.

These city-by-city cases illustrate the potential for beneficial cycles of change that bring about complementary or joint shifts in different areas of local governance, citizenship, and public services. Pro-poor, participatory development patterns have in some cases gone hand-in-hand with pro-business and local economic development initiatives, better local education services, reduced corruption, resource mobilization, and changes in the work culture of public sector labor. Dynamic mayors have also been important in creating positive change, but they work within a system and the incentive to be a mayor depends on the context. Holding that office is more attractive for talented and ambitious individuals in Colombia than, for example, in Chile, where political decentralization has advanced much more slowly. However, when basic political and social institutional structures are achieved in the “right” way or radically improved, there is potential for shifting to better and more equal institutions, with subsequent gains in multiple areas.

5.3. Conclusions

History has bequeathed Latin America with unequal social relations and weak states, in degrees that vary across the region. Clientelist and patronage-driven relationships, backed by varied political and social cultures across groups, tend to perpetuate inequalities. Weak states—in the sense of low capacities to deliver the public goods of macroeconomic stability, ensure property and citizenship rights, and deliver basic services—are pernicious contexts for inequality, as they are particularly vulnerable to the predations of the rich and organized middle-income groups (such as public sector unions).

Nonetheless, both international and Latin American experiences illustrate the potential for change. This is most likely to occur when there are shifts in the opportunity structure (including via electoral competition) and strengthening of the capacities of poorer groups to articulate their interests and organize, often in alliance with middle-income groups and progressive elites. These processes may take various forms. In the long run, the (much maligned) political parties have a crucial role to play, provided they are formed along programmatic or policy lines, rather than the more common tradition of vertical, patronage-oriented parties.

Where programmatic parties are absent, change is often effected by political outsiders in the form of political entrepreneurs or movements. This can be an important catalyst for breaks with history. However, such outsider-driven changes are only likely to be sustainable if they become embedded in formal institutions, especially those that create the capacity of lower and middle groups to articulate their goals and interests and organize for an effective and redistributive state. There have been cases of significant shifts in government action within a few years, primarily at the local level (as noted in the cases of Bogotá and Porto Alegre). However, more often a shift to a new political equilibrium involves a series of advances and difficulties, as appears to have occurred in Bolivia, or a series of steps that come to be seen as a strategic transition, as may be occurring in Brazil.

Important complements, but not substitutes, for changes from within or outside the system include measures to increase transparency and public debate, to strengthen public administrative capacities, to sustain societal pressure, and to increase the capacity for effective government. These measures could take the form of a variety of transparency initiatives that are already underway in various parts of the world, such as citizens' scorecards to independently assess government agencies' performance in serving citizens (for example, Bangalore, India, and the Philippines); efforts, promoted by both governments themselves and some nongovernmental organizations, to improve transparency in public budgets (such as Argentina's *"Lupa Fiscal"*); and the careful use of information technology to modernize governments' information management systems (for example, Brazil's SIAFI, which the media uses to report on the federal government's budget management).

Various countries in the region, such as Bolivia, Brazil, and Peru, have begun to institutionalize various forms of public consultations and participatory governance for government planning purposes. Although not all of these initiatives may be resounding successes, since their impact inevitably depends on local conditions, they represent a promising approach to enhancing citizen voice and accountability. Traditional measures to strengthen state bureaucracies, such as modernization of administrative procedures, training of personnel, and organizational restructuring, will continue to be necessary. However, the implementation record in this area is mixed at best, and supply-side interventions to strengthen administrative capacities are unlikely to be effective unless they are appropriately tailored to local conditions and backed by clear political demands emerging from a well-functioning political accountability arrangement (Burki and Perry 1998, World Bank 2000e, World Bank 2003a).

In closing, the question of whether history is fate can be revisited. This report places considerable emphasis on the centrality of history in explaining current conditions. Institutions—in the sense of the formal and informal “rules of the game” of social interaction—can be seen as the crystallization of historically formed interactions between power and wealth. However, as the case discussions above show, the interpretation of how change takes place is *not* institutionally deterministic. Rather, the authors see institutional change as occurring in response to the political and social agency of different groups, as well as to external forces that include economic factors.

How this change takes place will be a function of the dynamic evolution of the capacities of different groups to make effective demands on the state and the pattern of political opportunities, of which the capacity of the state to respond is a key element. The bottom line is: change is possible, even though it does not come about easily or frequently. Under certain conditions under which opportunities arise, it is the voluntary actions of political and social actors operating within specific institutional constraints that determine specific courses of change.

Notes

¹ See Paige 1997 and Mahoney 2001 on the Central American countries, Hartlyn 1998 on the Dominican Republic, and Abente 1995 on Paraguay.

² For analyses of these dynamics, see Malloy and Gamarra 1988 on Bolivia, Cotler 1978 on Peru, and Martz 1983 and Quintero 1980 on Ecuador.

³ See Archer 2000 on Colombia and Levine 1973, Coppedge 1994, Karl 1995, and Rey 1990 on Venezuela.

⁴ See Valenzuela 1977 and Garretón 1989 on Chile and González 1991 on Uruguay.

⁵ Originally understood as relationships between “patrons” (for example, landlords and local strongmen) and their “clients” (for example, peasants) in traditional agrarian societies, clientelism has shown remarkable resilience and “survived” industrialization and urbanization (see Powell 1970).

⁶ Recent empirical work that tries to model the effects of clientelism on policy outcomes under different assumptions all point to the same conclusion: clientelism results in less than optimal levels of public goods production. Although not all public goods would directly impact inequality reduction positively, it is safe to assume that inequality is unlikely to decline in the *absence* of more public goods production. Representative work includes Keefer 2002 and Robinson and Verdier 2002, as summarized by Ames 2003.

⁷ By contrast, *societal* corporatist arrangements that emerged in several West European countries in the post World War II period served as mechanisms for building national-level class compromises. For representative work in this area, see Schmitter and Streeck 1985 and Katzenstein 1984 and 1985.

⁸ While racial attitudes are the most powerful predictors of social spending, other categorical inequalities play a role as well. Historically, ethnicity has divided the U.S. working class and hampered class-based demand formation, as immigration introduced ethnic divides in the working class. Workers in the United States have not developed class solidarity to the degree that they have in Europe, U.S. workers have frequently identified according to ethnicity rather than class. In the early part of the 20th century, for example, newer immigrant groups (mainly of Catholic background) were not viewed as potential class partners by the “older” Protestant working class. Indeed, many of these newer Italian and Irish immigrants pressed their demands through clientelistic ties to local level political machines in many urban centers. These clientelistic networks impeded broader class ties and the subsequent articulation of class-based demands.

⁹ This does not mean Latin America states were weak in all dimensions. Indeed, there were many instances of strong and effective action harnessed by elites to perpetuate their positions, at times through the use of violence.

¹⁰ See Fernando Henrique Cardoso’s classic study on “associated-dependent development” (Cardoso 1973) for an argument linking the specific industrialization strategy pursued by Brazil in the mid 20th century, the country’s political development, and inequality.

¹¹ Externally mobilized parties, typified by European labor or socialist parties, characteristically sustained the strong programmatic traditions that evolved in their formation once they were in office, whether at local or national levels. For internally mobilized parties or political groupings, behavior depended on history and context and, in particular, on whether a tradition of bureaucratic autonomy and independence had *already* been established prior to the process of party formation. If such a tradition existed, the ruling party’s capacity to deploy the tools of patronage were sharply diminished and the incentive to sustain support

through a programmatic orientation grew correspondingly stronger. Where bureaucratic autonomy was weak, patronage tended to persist, if with new masters (Shefter 1994).

¹² This policy was based on three pillars: (1) change in governance style to ensure inclusive, participatory processes appropriate to a renewed democracy; (2) maintenance of economic stability and growth; and (3) commitment to social justice.

¹³ Chile constantly ranks high among developing countries in various indicators of good governance and state capacity, such as Transparency International's corruption index. See Marcel 1999 for a detailed account of Chile's public sector modernization efforts during the 1990s.

¹⁴ For example, the 1990 labor reform was based on a "national agreement" between the government, the *Central Unitaria de Trabajadores* (Central Workers Union), and the *Confederación de la Producción y el Comercio* (Confederation of Production and Trade) and resulted in a 22 percent increase in the real minimum wage between 1990 and 1992. See Foxley and Sapelli 1999.

¹⁵ The adoption of negotiated approaches was also facilitated by the fact that the conservative elites had to some extent been discredited by their association with the Pinochet regime.

¹⁶ Equally important was the improved quality of the state in terms of both policymaking and administration. A series of policy and institutional changes implemented during and since the dictatorship had reduced or even eliminated the scope for patronage politics (for example, the uniform tariff that limits the scope of private sector lobbying; privatization of the social security system that limits politicians' incentives to increase pension benefits by increasing public spending; the independence of the central bank that prohibits it from financing fiscal deficits; and the strict, executive-centered budget process that limits the scope of congressional logrolling and financing of pork barrel projects by inflating the budget). For more details, see Foxley and Sapelli 1999.

¹⁷ There is a growing literature on the institutional roots of Brazil's governability problems. Some representative work is found in Ames 2001, Mainwaring 2000, and Stepan 2000.

¹⁸ The Cardoso administration launched deep reforms of the public administration that involved constitutional changes (Bresser Pereira 1998). Although some achievements were registered, the outcomes fell short of the fundamental objectives of the reform due to resistance from the public sector unions, sometimes supported by the Judiciary (Rinne 1999 and Melo 1998). During the two Cardoso administrations, the federal government's capacity for revenue collection was enhanced significantly. The Lula administration is now trying to bring to the national level the principles of transparency and participation that served PT administrations well in various municipalities. In the social arena, the Cardoso administration introduced several policy innovations. These include FUNDEF, a formula-based distribution of a portion of the education budget to either states or municipalities based on the number of primary-level students enrolled in schools in their jurisdiction that has had a positive incentive effect on coverage expansion, and *Bolsa Escola* and other conditional cash transfer programs that have recently been combined into the larger *Bolsa Família* program, the Family Health program pioneered in the State of Ceará that uses family health agents to promote preventive health at the community level. The Lula administration has placed a new focus on social efforts, such as the flagship Zero Hunger and Youth Employment programs, and is also attempting to scale up some successful innovations like conditional cash transfer programs.

¹⁹ For example, both the Cardoso and Lula administrations have had to share cabinet posts with coalition partners that are neither programmatic nor grassroots based, and to negotiate with governors. This ensures engagement in the traditional forms of political exchanges of votes in congress, with the subsequent release of public expenditures and other aspects.

²⁰ The Cardoso administration was more successful in these areas of positive action that did not threaten the deep vested interests in Brazilian society, compared to major structural reforms that implied some kind of redistribution. While it is too early to assess the Lula administration's performance, that government has shown willingness not only to build on the successful achievements of the previous government, but also to tackle some of entrenched privileges through structural reforms, most notably the reform of the public sector pension regime.

²¹ For the PT, the union movement was central but not structurally incorporated into the state in the way the main Mexican union confederation was (see Heller and Mahoney 2003).

²² Property rights were threatened, for example through targeted tax raids on political opponents, while citizenship rights were undermined through excess military and police actions in the name of counter terrorism. This latter factor resulted in many accusations of human rights abuses as well as the manipulation and extortion of the regime's opponents by Montesinos.

²³ PRONASOL was inspired and created directly by President Carlos Salinas de Gortari (1988–94), who concluded in his own doctoral thesis that federal spending in rural communities did not produce sufficient popular support for the regime and that the poor relationships between government agencies and beneficiaries were to blame (Salinas 1978).

²⁴ Between and within jurisdictional effects can interact in a way that adversely affects inequality, particularly if poorer jurisdictions are systematically more unequal and weak in institutional terms.

²⁵ In this context, it is too soon to interpret the implications of the recent election of a left-leaning candidate in Bogotá. It is hopefully a sign not of a rejection of the institutional shifts facilitated by previous mayors, but rather of a shift toward a more mature pattern of electoral competition across programmatic lines that is sustained by both social demands and new bureaucratic traditions.

²⁶ Even in a non-decentralizing, patronage-laden context, such as Mexico under Salinas, electoral competitiveness at the local level appears to have significant impact on government performance. Thus, there is evidence that even PRONASOL, the centrally controlled anti-poverty program with a well-documented politicized management, produced better outcomes in those municipalities characterized by a competitive electoral environment (Hiskey 1999).