Paper prepared for the conference, "Democratic Deficits: Addressing the Challenges to Sustainability and Consolidation Around the World"
Sponsored by RTI International and the Latin American Program of the Woodrow Wilson Center
September 18, 2007
Washington, DC

Please do not cite or distribute.

The New Left Versus Neoliberalism in Latin America

Evelyne Huber
University of North Carolina, Chapel Hill

Neoliberalism

Since this session deals with SOCIAL DEFICITS, POVERTY, AND INEQUALITY and the title of my contribution to the session suggests an explicit comparison or a contrast between neoliberalism and new left politics, I need to begin by sketching how neoliberal reforms in Latin America affected poverty and inequality. For this purpose, I shall briefly summarize some key arguments of an article I wrote on the topic with Fred Solt, which was published in the *Latin American Research Review* in 2004 (Vol. 39, No. 3).

In the article we looked at 5 indicators, including growth, economic stability or absence of volatility, and quality of democracy, but here I shall just present our findings on poverty and inequality. Since all Latin American and Caribbean countries embarked on some kind of neoliberal reform course in the 1980s and/or 1990s, we can begin by looking at the overall trajectory of our indicators in Latin America, assuming that overall performance was shaped by the debt crisis and then the thrust of the reforms.

If we look at poverty, we see a severe deterioration in the 1980s and an improvement in the 1990s; poverty fell from 48.3% of the population in 1990 to 43.8% in 1999, but still remained above the level of 40.5% in 1980 (estimate for 19 countries; ECLAC 2002: 14). Arguably, this is a result of a combination of the changing class structure in Latin

America and the failure of governments to include in their reforms the construction of solid social safety nets. The growing informalization and decline of formal sector employment, together with other reforms, have led to growing income concentration, as outlined by Portes and Hoffman (2003).

In looking at inequality, we find that it rose in all Latin American and Caribbean countries for which data are available in the 1980s, except for Jamaica and Uruguay, and it rose again or remained constant in the 1990s except for El Salvador, Honduras, Jamaica, Peru, and Uruguay. So, overall we saw a clear increase in the 1980s and a slight continued upward trend in the 1990s (Morley 2001).

Overall, the picture is not particularly encouraging. Proponents of neoliberal reforms are quick to argue that the problem has been insufficient commitment to reforms. If governments had been less cautious, less intimidated by political opposition, and instead more aggressive in pushing through a broad reform program, the outcomes would have been better. In their view, bold actions by politically insulated technocrats, including shock therapies, are indicated to overcome resistance.

In order to subject these claims to empirical scrutiny, we performed some simple comparisons. We compared countries that ranked higher on neoliberal reforms in the mid-1990s to those that ranked lower, and we compared more radical to more cautious reformers over the period 1982-95. We used the best available data on neoliberal reform in Latin America, the General Reform Index (GRI) constructed by Morley, Machado, and Pettinato (1999). The GRI has five components: commercial, financial, capital account, privatization, and tax reform.

The index confirms that all of the countries underwent neoliberal reforms in the years after the onset of the debt crisis; in fact, the 1995 GRI scores for all countries except Jamaica (.767) and Venezuela (.667) exceeded that of the most neoliberal country of 1982, Uruguay (.776). We first divide the countries into two groups, those above the median value of the GRI in 1995, and those below.

In order to better gauge the successes and failures of radical, that is, fast and extensive, neoliberal reform processes, we then classify the countries on the basis of the extent of these reforms from 1982 to 1995, measured as the change in GRI scores. We further include a measure for the magnitude of any drastic reform episodes their governments may have imposed during that period. We calculated the magnitude of drastic reform episodes for each country as its largest one-year change on the GRI. Again, both classifications are simple dichotomies, above and below the median of the measure in question. The three classifications overlap considerably. Costa Rica, the Dominican Republic, El Salvador, Guatemala, Peru, and Paraguay are above the median in all three classifications; Colombia, Honduras, Mexico, and Venezuela are consistently below the median. Despite these similarities, the three classifications yield different results that are useful for evaluating the claims made on behalf of neoliberal reform against its actual record in Latin America.

Our attempt to gauge the performance of more and less liberalized economies, and more and less radical reformers in the areas of poverty and inequality is somewhat hampered by the availability of data that are comparable over time and across countries. Income inequality data at the national level for Argentina, Bolivia, Ecuador, Paraguay, and Uruguay are unavailable; for the remaining countries, data for the closest available year was used. Poverty data at the national level for Bolivia and Uruguay are unavailable. Ideally, one would want poverty data for the period before the onset of the reforms, to measure change, but problems of comparability are serious. Nevertheless, even with restricted data availability, the picture emerging from Table 2 is clear and consistent.

Higher levels of liberalization and more radical processes of liberalization are associated with higher levels of inequality and poverty. The changes in inequality are impressive: The countries with the more liberalized economies as of 1995 started out around 1982 with lower levels of inequality than the countries with the less liberalized economies as of 1995, but the two sets of countries switched position, with the more liberalized economies ending up with higher levels of inequality around 1995 than the less liberalized economies. Looking at the process of reform, we see that the more radical reformers started out and ended up with lower levels of inequality than the more moderate reformers, as both sets of countries saw an increase in inequality. However, the gap between the two sets of countries narrowed considerably, as the more radical reformers increased their gini index twice as much as the more moderate reformers. The greatest costs in terms of inequality were incurred by drastic reform episodes; countries that had more drastic reform episodes increased their gini index nine times more than countries that avoided them. There is no doubt, then, that higher levels of neoliberalism and more aggressive tactics of liberalization are associated with rising inequality.

The picture on poverty is equally consistent. More liberalized economies and more radical reform approaches are associated with higher levels of poverty. Since we do not have comparable data for the period before the onset of reforms, proponents of neoliberalism will argue that this must be a result of initially higher levels of poverty in the radical reformers. However, we need to remember that the more liberalized economies started out with a higher level of GDP per capita in 1982, had higher economic growth in the period 1982-1998, and ended up with a level of GDP per capita in 1998 roughly a third higher than the less liberalized economies. So, the very least we can say is that economic growth certainly did not trickle down and did nothing to relieve the higher levels of poverty in the more liberalized economies. If we consider the poverty data in conjunction with the inequality data, this seems to be a great understatement.

So, what is the bottom line on the performance of more versus less liberalized economies and radical versus cautious reformers? In the Latin American context of the last two decades of the twentieth century, more liberalized economies performed better in economic growth and in improvements in the quality of democracy than less liberalized economies. However, they suffered higher volatility, saw greater increases in inequality, and experienced higher levels of poverty. The increases in inequality and the higher levels of poverty highlight the failures in linking economic neoliberalism to the

construction of strong social safety nets. So, we are clearly far from a ringing endorsement of liberalized economies, even before taking into account the Argentine and Uruguayan crises. Given how few countries we are dealing with, the deterioration in those countries would clearly affect the picture in growth and poverty for the worse for the liberalized economies.

To counter our assessment of the extremely limited success of neoliberalism and the high costs of radical neoliberal reform processes, the proponents of neoliberalism might argue that these two decades are just too short a time span to assess the effects of the reforms, particularly since in some countries the bulk of the reforms was only implemented in the 1990s. To respond to this argument we need to ask whether the neoliberal reforms that have been implemented have put into place policies that will have beneficial effects in the long run on poverty and inequality. In this context we need to look beyond economic liberalization to accompanying reforms of social policies. Here, the picture appears equally unfavorable.

Social Policy and Redistribution

Neoliberal reforms of social policy have done little to rectify the lack of a safety net for the working age population, and less to stem the decline of the value of the safety net for the elderly. Altogether, nine Latin American countries have implemented and a tenth has legislated full or partial privatization of their pension system. In five cases, privatization was total and the public system was closed down; in five cases it was partial and the private system remained a supplementary or a parallel option (Müller 2003). Now, it is well known that several Latin American countries had or still have excessively generous pension systems for privileged categories of workers, which clearly have to be changed. However, privatization of the public system as a whole is not the answer. Even in the best functioning privatized systems, such as Chile's, there are very serious problems with coverage, contributions, regressive structures of fees, high administrative costs, and cohort and individual risk of investments. Maintenance of a basic public pension is crucial, and given that about half of the workforce is in the informal sector, it should be a citizenship-based pension, not one based on employment.[1]

Reforms in health care have been more heterogeneous, though in general the private sector has expanded its role, sometimes by design as part of a neoliberal reform project and sometimes by default as a result of serious underfunding of the public system. Certainly, the increase of the role of the private sector in health care is most likely to increase the price of health care and inequality of access in the longer run. We know from the OECD that the countries with the greatest reliance on private insurance and private providers have the most expensive and inegalitarian health care systems.

In the 1990s, most countries raised their social expenditures, so that they increased from 10.4% of GDP to 13.1% (ECLAC 2002), slightly above the level of 1980. Growth in the various categories of social expenditure, that is, education, health care and nutrition, social security, and housing and sanitation was roughly similar, with social security

[1] For an elaboration of these issues, see Huber and Stephens (2000).

continuing to absorb the bulk of social expenditure, at 4.8% of GDP in 1998-99, followed by education with 3.9% and health care and nutrition with 2.9% (ECLAC 2002: 26). Clearly, these levels of expenditure remained far below what would be needed for a concerted and successful attack on poverty and improvement of the human capital base. Also, the distribution on average is not as progressive as it could be. In a study of eight countries, ECLAC found that on average lower-income strata receive transfers and free or subsidized services, including social security, equivalent to 43% of total household income, compared to 13% and 7% for the fourth and fifth income quintiles. Nevertheless, the distributional profile of social expenditures varies greatly between countries, and in some of these countries the actual amount of the transfers to the richest stratum was twice as much as that going to the poorest stratum (ECLAC 2002: 28).

The reality of social security spending in Latin America at the beginning of the 21st century is that it is still regressive. The bulk of social security spending goes to pensions, and the remainder to a few other kinds of transfers such as family allowances and maternity benefits. In the great majority of countries social security coverage remains confined to formal sector employees, which means that often 20% to 60% of the economically active population remain excluded. De Ferranti et al. (2004: 268-72), in a study for the World Bank, reviewed a range of studies and found that in most countries the regressive components of social security spending outweigh progressive components. Lindert et al. (2005) confirm this assessment on the basis of their analysis of micro-data.

There are a number of cash transfer programs that are not employment-based and earnings-related and are progressive, such as non-contributory pensions and some conditional cash transfers. They generally are highly progressive and have additional beneficial effects insofar as the conditions for receipt are school attendance and primary health care visits of children. With the exception of OPORTUNIDADES in Mexico and BOLSA FAMILIA in Brazil, however, they tend to be highly restricted in coverage and expenditures. Non-contributory, means-tested social assistance pensions are still relatively scarce and poorly funded as well (Muller 2005). However, it is on these types of programs that the emphasis needs to be put by governments that want to have a real impact on poverty and inequality. In the past few years, under the left-wing governments in Brazil, Uruguay, and Chile, such programs have been expanded considerably (but also in Mexico under the right-of-center governments of Zedillo and Fox). They are clearly a highly effective means to redistribute income and reduce poverty. Still, actual outlays on social assistance remain a small proportion of social expenditures, though they have been on the rise among left governments. In Argentina in 2003 social assistance accounted for 7.1% of total social spending and 1.4% of GDP, compared to social insurance with 43.2% of social expenditures and 8.3% of GDP. The corresponding figures for Chile in the same year were 4.4% and 0.7% for social assistance and 43.1% and 6.9% for social insurance (Lindert et al. 2005). In other words, Chile still spent ten times more on social insurance than on social assistance.

The development of health care systems in Latin America is linked to the development of social security schemes. In many cases, health care insurance has paralleled social security in the sense that part of employer and employee social security contributions

have gone to health insurance. In some cases, care has been provided by social security clinics and hospitals, in other cases by private clinics and hospitals under contract with the social security system, and in still others by public clinics and hospitals. Public health expenditures have sometimes subsidized social security health care and always supported public clinics and hospitals and preventive health campaigns. In general, in line with the interests of their constituencies, left parties have favored an improvement of the public health care system and right parties have favored private provision and private or social security financing. However, where formal sector employment was high (before the debt crisis) and social security financing of health care had been established for some sectors of the work force, left-of-center parties supported expansion of employment-based insurance linked to private non-profit provision of care to reach virtually universal coverage (as in Argentina and Uruguay).

The educational system in Latin America shows a similar combination of private and public provision. At the primary and secondary level private school attendance, heavily in Catholic schools, has been the norm rather than the exception for the middle and upper classes. At the university level, public universities played a prominent role. Catholic universities have a long tradition, but the proliferation of other private universities is a fairly recent phenomenon. Improvements in public education have been a consistent program point of the left, whereas the right has supported parents' choice between private and public schools – a choice heavily contingent on income.

There are regressive components of health and education expenditures, but in general the progressive components tend to outweigh the regressive ones (de Ferranti et al. 2004: 263-4). Studies of different programs show that expenditures on tertiary education are regressive, whereas basic education and health services provided by the public sector for the uninsured and school nutritional programs have a progressive incidence (e.g. Scott 2003 for Mexico; Wodon et al. 2003). ECLAC data for eight countries in the region show that the most progressive types of expenditures are spending on primary and secondary education, and that public spending on health care and nutrition is the second most progressive category (2002: 26). Lindert et al. (2005) conclude that the bulk of education spending has a generally progressive profile and health spending has a slightly progressive or neutral profile.

One of the main arguments of neoliberal reformers, of course, has been that social expenditures should be targeted on the poor and poorest. In principle, this is reasonable, but it raises at least two fundamental problems: (1) how large a group is to be targeted and how? and (2) what will this do to the political support for these programs? We know from the experience of advanced industrial countries that programs targeted on small groups are politically most vulnerable, whereas programs that benefit most of the population are very popular. What would such an alternative system look like? Given that over 40% of the population is poor in Latin America, it would not be difficult to construct a needy target population that is a clear majority of the population. A coalition of the poor and the working class, or the informal and the manual formal proletariat, accounts for 60-70% of the population in Latin American countries (Portes and Hoffman 2003: 52). Basic but quality health care, nutrition, education, and a minimum income in

case of illness, unemployment, or old age, targeted at this population, with entitlement based on citizenship (not formal sector employment) and financed out of general tax revenue, would be an effective and politically sustainable approach. These are fundamental principles of social democratic welfare state policies adapted for countries at low to medium levels of development. These principles contain a heavy emphasis on the development of the human capital base, which in turn is crucial for sustainable economic growth in a globalizing economy. (These ideas are elaborated in my chapter "Un nuevo enfoque para la seguridad social en la región," and in the other contributions to Carlos Gerardo Molina (ed.) *Universalismo básico: Una nueva polítical social para América Latina***.** Washington, DC: Banco Interamericano de Desarrollo, Editorial Planeta. 2006: 169-187.)

Improvement of the human capital base requires not only higher investment in primary health care and education, but also a broader attack on poverty and inequality. We now have compelling evidence from a study by the OECD and Statistics Canada that investment in education alone is an ineffective tool to improve the quality of human capital at the bottom. Representative samples of the population in OECD countries were given literacy tests designed to assess to what extent people could understand documents and directions (OECD/ Statistics Canada 2000). There is no correlation between the achievements of the bottom quartile of the populations with overall expenditure on education, public and private, but there are strong negative correlations with the levels of poverty and inequality in the respective societies (Huber and Stephens 2002).

The Left and Social Policy

If we look at the initiatives taken by left governments in Latin America in the past five years or so, we see some movement in the direction of more citizenship-based rights, linked to means testing. There is considerable variation in the allocation of social security and welfare expenditures between countries, and indeed we have demonstrated that a left-of-center balance of power in the legislature over the longer run is associated with lower income inequality in Latin American and Caribbean countries, controlling for other factors potentially associated with levels of inequality. This article was published in the *American Sociological Review* (Vol. 71, No. 6, December 2006), and we have a companion piece still under review that demonstrates that a left-leaning balance of power in the legislature over the longer run is associated with lower poverty rates as well. By the same token, we demonstrate in these papers that strong records of democracy are associated with lower poverty and inequality in Latin America.

Other authors (e.g. Ross 2006) find that democracy is not associated with lower poverty. There are two main reasons for the differences in our and their findings: (1) They use worldwide samples, and we use only Latin America. In the worldwide samples, the alternatives to democracy have more frequently been left-wing dictatorships than in Latin America, where by far the dominant alternative has been right-wing authoritarianism. (2) They use democracy in the year of the observation or with a short lag, whereas we look at the accumulated record of democracy in the second half of the 20th century. Clearly, it takes time for democracy to work. The way that democracy makes poverty reduction

possible is by giving the underprivileged and those promoting their interests the chance to organize, form parties, win elections, gain a share of legislative power, and implement policies conducive to poverty reduction. For parties to form, establish roots in society, and win a large enough share of seats consistently to be influential on policy and be able to sustain policies to reduce poverty effectively, it takes years. Poverty reduction through transfers can be achieved comparatively rapidly, once the political power balance is favorable, but poverty reduction through improvements in human capital takes a generation. In other words, it takes a long record of democracy and of influence of left-of-center parties for effective anti-poverty policies to show sustained effects.

So, what are the main contours of social policies pursued by left-of-center governments in Latin America? Clearly, I cannot offer a comprehensive overview, so let me concentrate on Chile, Uruguay, Costa Rica (here we are dealing not so much with new initiatives but legacies of long-term left-of-center incumbency and social policy), and make some references to Brazil. I shall highlight some of the most significant initiatives in income transfers and in health care, where the emphasis has been on expanding access to quality health care for low income sectors.

Chile has a relatively large number of programs directed at the poor, in the form of both subsidies and goods and services. The value of cash transfers is low, though. All of these programs have strict eligibility rules, and throughout the 1990s there was little coordination between them. Chile Solidario was launched in 2002 under Lagos with the purpose of targeting the 225,000 poorest families in the country and assigning them to a social worker who would coordinate for them access to all the transfers and services they are entitled to under the condition that they comply with certain requirements. These requirements are designed to keep the most vulnerable members of the households, primarily children, healthy and in school (Serrano and Raczynski 2004).

Targeting does work in Chile, and it has become more concentrated since 2000. In 2000, 37.1% of all monetary subsidies went to the bottom quintile of income earners; in 2006 this was the case for 47.9% of all monetary subsidies. In 2006, monetary subsidies accounted for 26% of the household income of the bottom decile (all figures from MIDEPLAN, CASEN, 2007). Between 2003 and 2006 real expenditures on health and education increased by 36% and 14%, respectively, and they are also progressive, though more so in health than in education. Of all the expenditures on pre-school, primary, secondary, and adult education, 33% benefited the lowest quintile of income earners (note that expenditures on university education are not included in these figures). Of all public health expenditures, 51.8% went to the bottom quintile. The highly progressive profile of health expenditures is at least in part due to the innovations of Plan AUGE.

The government of Ricardo Lagos undertook a major reform by introducing the plan AUGE (Acceso Universal con Garantías Explícitas). This plan was to offer protection to all Chileans for 56 major illnesses, with equal quality of care and financial protection, regardless of income. In order to make this possible, it specifies maximum waiting times, prices to be charged for treatment by all providers, and the right to access to private clinics or hospitals if public ones are not available. The legislation was to create a

compensation fund that would redistribute the costs between members of the public and private systems, financed by part of the mandatory contributions, and state funding was to cover indigents. After two years of intense negotiations during which Lagos had to withdraw the compensation fund and reduce the number of illnesses covered initially to 25, the legislation was passed and the program began operating in July of 2005. Treatment is free for FONASA (the public health insurance system) members in the lower income categories and for the uninsured poor and requires a 20% copay from higher income members. The number of illnesses covered is to increase to 56 by 2007. New financing is coming from a 0.5% increase in the value added tax; other tax increases were rejected by parliament. Essentially, the right opposed the provisions that would have increased equity and solidarity and infringed on the interests of the private sector, and they managed to get support from some members of the governing coalition from the Christian Democratic Party and thus to force modifications of the legislation (Dávila 2005).

Costa Rica, like Chile, maintains a register of poor families, categorized into four priority groups to receive support. The main programs to combat poverty and their effective coverage in the lowest income quintile in 2003 were school feeding programs (68% coverage), social assistance (54%), and housing support (43%) (Estado de la Nación 2004: 110). As this report makes clear, funding for these programs is pro-cyclical because it comes from a proportion of the sales tax, and the programs do not regularly receive the 20% of the sales tax that they should according to the law.

Costa Rica's unified public health system, arguably the best in terms of access and quality of care for the poor in the region, began experiencing the problems of long lines and long waits for major treatments as a result of the economic austerity policies implemented in the 1980s, with the result that higher income earners began to leave the system for the private sector and the private share of health expenditures rose from 26% in 1991 to 32% in 2000 (Martínez and Mesa-Lago 2003). The government strongly resisted World Bank proposals for neoliberal reforms and instead implemented a reform that improved the access of poorer sectors to health care via new primary care centers. As McGuire (2007) shows, Costa Rica has been enormously successful in lowering infant mortality, for instance, precisely because of consistent emphasis on public, basic, preventive care. Subsequent governments were able to do that because the PLN governments of the 1960s and 1970s unified the health care system under public sector predominance. By 1995, some 75% of all health spending came from the public sector, and 29% of that spending benefited the lowest quintile. Thus, the PLN government of Figueres Olson (1994-98) was able to make the establishment of Comprehensive Basic Health Care Teams (EBAIS) its flagship program and expand the program despite resistance from doctors' groups, business executives, and the political opposition (McGuire 2007). The EBAIS became very popular, and community groups organized to demand theirs and protect those established by putting pressure on the subsequent PUSC governments that were not particularly interested in promoting this new form of health care.

In Uruguay, some 90% of people over 65 receive some kind of pension (OIT 2004: 66), contributory or not, whereas there was very little support for working age parents who are poor and their children when the new Frente Amplio (FA) government took power. Accordingly, poverty was concentrated among children (OIT 2004: 40). The program of family allowances was reformed in 1995 and 2004, to improve its real value, target it to low income earners, and detach it from social security contributions and thus from formal sector employment. In 1995, the value of family allowances for private sector employees, the unemployed, pensioners, and small producers, was set at 16% of the national minimum wage for those with household income of less than 6 times the national minimum wage. Whereas the monetary value is low, it amounted to between 17% and 25% of the value of the basic nutrition basket for the poverty line in Montevideo between 2000 and 2004, and for 20-30% of that value in the Interior (Vigorito 2007). Still, coverage remained restricted; only about 30% of families with children in the lowest income quintile received the allowances in 2003. Coverage expanded as a result of the 2004 reforms and has made a difference in lowering extreme poverty (Vigorito 2007). Since total social expenditures in Uruguay are the highest in Latin America already, and the pension system weighs heavily and had a deficit of 4.5% of GDP in 2000 (before the crisis), the challenge for Uruguay is to redirect more resources from the elderly to working age unemployed or underemployed poor adults and their children. This, of course, is very difficult to do politically.

The FA government unleashed a flurry of initiatives in social policy. In May of 2005 they lauched the Plan de Atención a la Emergencia Social (PANES), targeting 40,000 households with 200,000 members in extreme poverty. In July of the same year they created a Social Cabinet which included the Ministry of Economy and Finance in addition to the sectoral ministries. By late 2005, they announced a tax reform and health sector reform. PANES established a citizenship income for each household below a certain income level, conditional on school attendance of minors in the household and on regular medical check-ups and participation in community activities. As of August 2005, 19,737 households were receiving a citizenship income. Families had to apply, and students were trained to find and assist them in their applications.

The citizenship income program was followed by an emergency employment program for community projects, linked to training for the labor market for unemployed heads of household. Selection for the program was by lottery and those selected stopped getting the citizenship income and instead got a salary of roughly twice that amount. As of November 2006 there were 7,500 people in that program, 71% of whom were women and most of whom had never had a formal sector job before. At the same time, efforts were stepped up to get all kids 3-4 years old into pre-schools and the older ones permanently in school, assisting kids from poor families to attend school regularly.

The health care reform aims at unifying the system and establishing control by the public sector, thus improving access to quality care for the lower income groups. By 2007 both the health care and tax reforms were well under way though negotiations continued about modifications. Given the complexity of the health care system in Uruguay, there is

significant resistance from a variety of stake holders – resistance that had blocked far-reaching reforms under previous governments.

It is still too early for a comprehensive assessment of these policies in Uruguay, but the general trajectory of social indicators is encouraging. Poverty and inequality had increased between 2001 and 2004 because of the economic crisis, and they decreased between 2004 and 2006. Poverty in Montevideo increased from 12% to 23% from 2001 to 2004 and decreased to 18% by 2006; extreme poverty for these years was 1.9%, 6.6%, and 3.6%; and the Ginis for those years were .46; .47; and .45. Clearly, the economic recovery contributed to the decline in overall poverty and indigence, but it is important to keep in mind that in most cases economic growth in the past decade in Latin America was NOT accompanied by a decrease in inequality, so social policy in Uruguay has to be credited with redistribution and therefore a significant contribution to poverty reduction. In come from total transfers (including pensions and public nutrition programs) amounted to 41.5% of household income for the bottom 10% of income earners, 33.6% for the next decile, and 21.6% for the top decile (19% accounted for by pensions and only 2.6% by other programs).

Brazil's *Bolsa Familia* is one of the two largest conditional cash transfer (CCT) programs in Latin America, along with Mexico's *Oportunidades*. It grew significantly in the second half of Lula's first term, to reach 11.1 million families by late 2006, about 100% of those eligible. The ministry in charge estimates 4.1 members per family, which would amount to about one quarter of Brazil's population. Given the regional distribution of poverty, the share of families benefiting is much higher in the Northeast than in the large urban centers of the South. Still the program only absorbed roughly 7% of all social expenditures in 2006, or 2.3% of direct monetary transfers, compared with the 82% going to the much more regressive pensions. Hunter and Power (2007) make a very strong argument that this program greatly contributed to Lula's re-election, as he received the lion's share of the vote from lower income earners and the poorer geographical areas. A World Bank research paper (Rawlings and Rubio 2003) looking at Brazil along with Mexico and Nicaragua came to the conclusion that indeed these programs were an effective means for not only reducing poverty but also promoting human capital accumulation among poor households. The challenge for all left governments remains to raise new revenue to expand these programs and/or redirect social expenditures from upper to lower income groups.

A final area that needs mention is the minimum wage policy of left-of-center governments. The minimum wage in Chile under Pinochet had declined to total irrelevance, but it increased by 640% in nominal terms between 1990 and 2003, while the consumer price index increased by 280% in this period. The minimum wage as of 2002 was almost twice the poverty line, and 26% of wage earners received between 1 and 1.5 times the minimum wage, whereas 13% received less than that. In other words, about one quarter of wage earners in Chile received a wage that was arguably influenced by minimum wage legislation and was sufficient to keep the worker and a spouse out of poverty. Bachelet put a further increase in the minimum wage high on her agenda. Similary, Lula greatly emphasized increases in the minimum wage. The real increase in

the purchasing power of the minimum wage was approximately 23% in Lula's first term (Hunter and Power 2007). In Uruguay, the minimum wage had lost all relevance, but one of the early reforms of the FA government was to re-introduce the wage councils to deal with wage setting.

There are at least three intertwined obstacles on the path to effective poverty-reducing reforms faced by left governments. First, with the exception of Brazil, the tax revenue of these countries is still comparatively low, given their levels of development. This is heavily due to wide-spread tax avoidance and evasion. Second, in an effort to redirect at least some social expenditures from social insurance to social assistance, or from private to public health care, they all have to confront vocal and politically influential groups who are benefiting from the established social insurance and health care systems. This problem is particularly severe for social insurance in Brazil and Uruguay, and for health care in Chile. Third, the left parties by and large do not have solid majorities in the legislatures, so the left presidents have to negotiate with the opposition parties – and in Chile with the centrist coalition partners – that do not have the same social policy priorities. Still, their initiatives are going in a promising direction, and examples from OECD countries offer the hope that the policies will construct their own support bases.

Table 1: Neoliberal Reforms in 17 Latin American Countries

	Countries Above Median	Countries Below Median
General Reform Index, 1995	Uruguay	Venezuela
	Argentina	Jamaica
	El Salvador	Honduras
	Dominican Republic	Colombia
	Costa Rica	Ecuador
	Peru	Brazil
	Chile	Mexico
	Guatemala	Bolivia
	Paraguay	
Change in GRI, 1982 to 1995	Dominican Republic	Chile
	Peru	Uruguay
	El Salvador	Honduras
	Paraguay	Colombia
	Jamaica	Argentina
	Guatemala	Venezuela
	Costa Rica	Ecuador
	Brazil	Bolivia
		Mexico
Drastic Reform Episodes, 1982-1995	Peru	Uruguay
	Brazil	Chile
	Costa Rica	Venezuela
	Paraguay	Argentina
	Ecuador	Honduras
	Dominican Republic	Colombia
	Bolivia	Mexico
	El Salvador	Jamaica
	Guatemala	

Source: Morley, Machado, and Pettinado (1999).

Table 2: Income Inequality and Poverty

	Gini Index of Income Inequality			Poverty, 1987-2000
	~1982	~1995	Change	
General Reform Index, 1995				
Above Median	47.2	51.9	4.7	32.3
Below Median	49.7	50.4	0.7	26.2
Change in GRI, 1982 to 1995				
Above Median	46.8	50.6	3.8	32.0
Below Median	50.7	52.6	1.9	26.6
Drastic Reform Episodes 1982-1995				
Above Median	47.4	52.8	5.4	34.0
Below Median	49.5	50.1	0.6	24.2

Sources: Londoño and Székely (1997); UNDP (2002).

References (incomplete – not requested for this think-piece)

Bresser Pereira, Luiz Carlos, José Maria Maravall, and Adam Przeworski (1993) *Economic Reforms in New Democracies: A Social-Democratic Approach*. Cambridge: Cambridge University Press.

Diamond, Larry, Jonathan Hartlyn, Juan J. Linz, and Seymour Martin Lipset (eds.) (1999) *Democracy in Developing Countries: Latin America*. Boulder, CO: Lynne Rienner Publishers. Second Ed.

ECLAC (2002) *Social Panorama of Latin America*. Santiago, Chile: United Nations Economic Commission for Latin America and the Caribbean.

_____ (1998) *The Fiscal Covenant*. Santiago, Chile: United Nations Economic Commission for Latin America and the Caribbean.

Freedom House (2002). *Freedom in the World: The Annual Survey of Political Rights and Civil Liberties, 2001-2002*. Lanham, MD: Rowman & Littlefield.

Hall, Peter A. and David Soskice (eds.) (2001) *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. New York: Oxford University Press.

Huber, Evelyne and John D. Stephens. 2002. "Globalization, Competitiveness, and the Social Democratic Model." *Social Policy and Society*. Issue 1, No. 1: 47-57.

_____ 2001. *Development and Crisis of the Welfare State: Parties and Policies in Global Markets*. Chicago: University of Chicago Press.

_____ 2000. "The Political Economy of Pension Reform." Geneva: United Nations Research Institute for Social Development: Occasional Paper 7.

IADB (1996) *Economic and Social Progress in Latin America, 1996 Report.* Washington: Inter-American Development Bank , Johns Hopkins University Press.

_____ (1995). *Economic and Social Progress in Latin America, 1995 Report: Overcoming Volatility*. Washington: Inter-American Development Bank , Johns Hopkins University Press.

Kitschelt, Herbert, Peter Lange, Gary Marks, and John D. Stephens (eds.) (1999) *Continuity and Change in Contemporary Capitalism*. Cambridge: Cambridge University Press.

Larroulet V., Cristian (1993) "Introduction." In Cristian Larroulet V. (ed.) *Private Solutions to Public Problems: The Chilean Experience*. Santiago, Chile: Instituto

Libertad y Desarrollo

Londoño , Juan Luis, and Miguel Székely (1997). "Persistent Poverty and Excess Inequality: Latin America, 1970-1995." Working Paper 357, Office of the Chief Economist, Inter-American Development Bank.

Mainwaring, Scott, Daniel Brinks, and Aníbel Pérez-Liñán (2001). "Classifying Political Regimes in Latin America, 1945-1999," *Studies in Comparative International Development* 36(1):37-65.

Marshall, Monty G., and Keith Jaggers (2002). *Polity IV: Political Regime Characteristics and Transitions, 1800-2001*. Dataset available for download at <http://www.cidcm.umd.edu/inscr/polity/index.htm>.

Morley, Samuel A., Roberto Machado, and Stefano Pettinato (1999). "Indexes of Structural Reform in Latin America," Serie Reformas Económicas 12. Santiago, Chile: United Nations Economic Commission for Latin America and the Caribbean.

Müller, Katharina (2003) *Privatising Old Age Security: Latin America and Eastern Europe Compared*. Northampton, MA: Edward Elgar Publishers.

Munck, Gerardo L., and Jay Verkuilen (2002). "Conceptualizing and Measuring Democracy: Evaluating Alternative Indices." *Comparative Political Studies* 35(1):5-34.

OECD/ Statistics Canada (2000). *Literacy in the Information Age: Final Report of the International Adult Literacy Survey*. Paris: Organization for Economic Co-operation and Development.

Portes, Alejandro and Kelly Hoffman (2003) "Latin American Class Structures: Their Composition and Change during the Neoliberal Era." *Latin American Research Review*. Vol. 38, No. 1: 41-82.

Scharpf, Fritz W. and Vivien A. Schmidt (2000) *Welfare and Work in the Open Economy: From Vulnerability to Competitiveness*. New York: Oxford University Press.

Stallings, Barbara and Wilson Peres (2000) *Growth, Employment, and Equity: The Impact of the Economic Reforms in Latin America and the Caribbean*. Washington DC: Brookings Institution.

UNDP (2002). *Human Development Report 2002: Deepening Democracy in a Fragmented World*. New York: Oxford University Press.

World Bank (2000). *World Development Indicators 2000*. Washington: World Bank.