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Trapped by Inequality: The Politics of Redistribution in Latin
America

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Abstract

My dissertation identifies the causes of inequality traps - i.e., high and persistent levels of economic inequality - in Latin America and explains how and why some countries manage to escape such traps and embark on paths of diminishing inequality. I argue that the Redistributive State Power shapes the main redistributive institutions (e.g. tax and agrarian reform legislation) and, thereby, long-run economic inequality. I define Redistributive State Power (RSP) as the power of the state to redistribute income and wealth from the richer segments to poorer segments of the society. A country's RSP depends on State Capacity and the Political Cohesiveness of the Economic Elite.

Unlike most research on this topic, I use a small-n design to theorize on the patterns of economic inequality over the course of the twentieth century, an approach that unveils moments of divergence that are lost in cross-country statistical analyses.

To test my theory, I integrate different methodological approaches. The main component is a comparison of the historical trajectories of inequality between Colombia and Perú. This comparison allowed me to choose two time periods characterized by mounting pressures toward redistribution and reforms to the main redistributive

institutions: 1920-1940 and 1960-1970. Over the course of 10 months of fieldwork, I collected data from transcripts of congressional debates as well as official communications (e.g. government reports, discourses, correspondence) related to tax and agrarian reform legislation in these time periods. I use process-tracing and comparative methods to analyze and uncover the processes through RSP shape the politics of redistribution in the making of tax and agrarian reform legislation within each case. Finally, I test observable implications of my argument using a large-N data-set of all countries for the period between 1960 and 2018. I find that the effect of state capacity on economic inequality is conditional on the strength of the economic elite.

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Dedication

To Cecilia, Antonio, and my siblings.

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Chapter 1

Introduction

Throughout the twentieth century, Latin America (LA) experienced dramatic changes in multiple dimensions of political, social, and economic spheres. The region witnessed revolutions (Mexico 1910, Bolivia 1952, Cuba 1959, Nicaragua 1970), civil wars (Colombia, Guatemala, El Salvador), leftist guerrilla movements (Uruguay, Perú, Colombia), and transitions in and out of democracy (Chile, Brazil, Argentina, Uruguay, Honduras, Perú). LA went from being a region whose economy depended mainly on the production and export of raw goods (1870-1950s), through a period of industrialization by substituting imports and a relatively closed economy (1950s-1980s), to the reopening of the economy following the end of the Cold War. Additionally, the region has witnessed high volatility rates in economic growth accompanied by episodes of deep economic crisis (debt-crisis, financial crisis) as well as economic miracles (Brazil in the 1970s, Argentina in the 1880-1910s, Venezuela 1920s and 1960s). Cities witnessed massive inmigration from rural areas, fundamentally changing the structure of societies. Ultimately, these processes of political and economic change

led to rising economic development in most Latin American countries. Poverty rates dropped dramatically, literacy rates increased steadily, and public goods were provided to many regions formerly abandoned by central states. Change was the norm for decades.

Yet in many LA countries, these improvements contrast sharply with persistent economic inequality throughout this time. High levels of economic inequality are associated with two extremely different lived realities. Today, 10 percent of the richest population concentrates 71 percent of the wealth in LA. The region is home to about 5 percent of the world's billionaires while about one-third of the population lives under the poverty line (ECLAC, 2020[1].The quality of life and range of opportunities for wealthy individuals are very similar to those born in "advanced" industrialized economies. Less fortunate individuals face extremely harsh conditions characterized by high poverty levels and low quality of public goods provision (Otero-Bahamón (2020)); their living conditions resemble those of citizens living in the world's poorest countries. Citizens on the losing end of inequality have struggled for decades with the consequences of astoundingly and highly disparate economic conditions, while those privileged citizens on the winning side benefit immensely. Economic inequality is worsened by low levels of social mobility, and by the strong correlations between material inequality and race, ethnicity, and gender inequality. The result is a deeply fragmented socio-political landscape. At the time of writing, a global pandemic caused by the Covid-19 Virus is demonstrating that inequality is a matter of life and death. Inequality kills people.

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[1]ECLAC: Economic Commission for Latin America and the Caribbean: Based on data from Household Surveys Database (BADEHOG) available `https://estadisticas.cepal.org/cepalstat/`)

More, there is vast variation in inequality levels across countries, in terms of both magnitude and stability. For example, citizens at the losing end in Colombia and Brazil have struggled for decades with astoundingly high economic inequality levels. In contrast, citizens in Uruguay and Costa Rica, have witnessed throughout the same period, relatively low levels of economic inequality. Fewer cases show a change in the trajectory of economic inequality, such as Perú, where inequality was once dramatic but has since shrunk. In this project, I aim to answer two related questions: **What accounts for the paradoxical persistence of economic inequality in some countries in Latin America? How can we explain why some LA countries escaped inequality traps while others did not?**

1.1   Summary of the Argument

My answer to these research questions builds on extensive scholarship on economic inequality in Latin America (Frankema, 2009; Bertola et al., 2009; Engerman and Sokoloff, 1997; Huber and Stephens, 2012; Lustig, 2015), the political economy of development and redistribution (Acemoglu et al., 2001; Mahoney, 2010; Albertus, 2015; Fairfield, 2015), and institutional change theories (Knight, 1992; North, 1990; Mahoney and Thelen, 2015). I introduce the concept of Redistributive State Power(RSP) and argue that it shapes trajectories of economic inequality in the long run. I define Redistributive State Power (RSP) as the power of the state to redistribute income and wealth from the richer segments to poorer segments of the society. A country's RSP depends on the level of political cohesion of the economic elite and the capacity of the state. I argue that persistently high levels of inequality result from the capacity of a politically cohesive economic elite to shape state policies. Similarly,

persistently low levels of economic inequality result from a politically divided economic elite that allows for relative autonomy of the state to implement redistributive schemes. Countries can escape high inequality traps - i.e. high and persistent levels of economic inequality - when there is a political split of the economic elite that presents a window of opportunity for the state to implement redistributive policies.

My argument is founded on the assumption that economic inequality is the result of a dynamic process: a struggle between the richer minority - the economic elite - aiming to expand and defend its privileged position, and the dis-empowered majorities who challenge the status-quo distribution. This assumption is important because unlike existing theories, it centers inequality and its reproduction around the winners and the losers that are part of inequality. It recognizes that, for high levels of inequality to be sustained, there has to be an active effort by the winners of inequality (economic elites) to defend their wealth from the redistributive pressures that threaten their concentrated possession of income and wealth.

The state has an important role in mediating and taming these redistributive pressures. In particular, states with high levels of capacity can potentially implement redistributive schemes through institutional reforms. However, while necessary, I claim that state capacity is not sufficient for states to set up redistribution schemes. I argue that states will only have the power to implement institutional reforms that allow them to redistribute income and wealth when the economic elite are politically divided. In Table 3.1, I distinguish between four ideal types of RSP that result from the combinations of the high and low levels of state capacity, and the level of political cohesiveness of the economic elite. The terms used are adopted from those used by biologists to describe types of symbiotic relationships between two organisms.

Table 1.1: *A typology of Redistributive State Power*

	Weak State	**Strong State**
Divided Economic Elite	Balance of the weak	Commensalism
Cohesive Economic Elite	Parasitism	Mutualism

The level of RSP is associated with production and reproduction mechanisms of economic inequality. Under Mutualism, the state is strong, and the economic elite is politically cohesive. This equilibrium is self-perpetuating because the interests of the state are aligned with those of the economic elite. The outcome is one of high and persistent levels of economic inequality. As such, the state will not institutionalize redistributive policies in response to pressures. Under Parasitism, the economic elite is politically cohesive and, as such, has the capacity to influence state policies. However, because the State has low levels of infrastructural capacity, it's coercive power to repress emerging threats is limited. I expect countries under Parasitism to have high levels of economic inequality; however, the weakness of the state under parasitism makes this equilibrium less stable than mutualism; that is, the trajectory of inequality can shift. Under Commensalism, the economic elite is politically divided and, in turn, has a lower capacity to shape state policies. Meanwhile, the state has high capacity. I expect this equilibrium to result in lower levels of economic inequality and in relatively stable trajectories. Finally, if the state is weak and the economic elite is divided, I expect inequality trajectories and levels to be unstable. Both the State and the

economic elite have an interest in becoming stronger. The order in which these two things occur will determine if the new equilibrium is parasitism, commensalism, or mutualism.

1.2 Economic Inequality in Latin America and Economic Inequality Traps

Latin America is the most unequal region in the world (see Figure 1.1) according to multiple indicators of economic inequality. Panel a) shows the Average Gini Coefficient of income by region of the world. The Gini Coefficient is the most commonly used indicator to measure economic inequality, varying from 0 to 100, wherein higher numbers indicate higher levels of inequality. Panel b shows the proportion of income held by the richest 10%, relative to the income held by the poorest 10%. Here too, Latin America stands out for its high levels of economic inequality on average. This graph shows that the richest 10% hold 35 times as much income as the poorest 10%. I collected and processed available data-points of economic inequality for each country-year to calculate a simple average per region grouped in five-year periods. Together, these graphs testify to the high levels of economic inequality in the region which contrast sharply with Europe and North America.

Figure 1.1: *Comparing Inequality by Regions of the World of Income by Region*

a. Average Gini of Income by Region
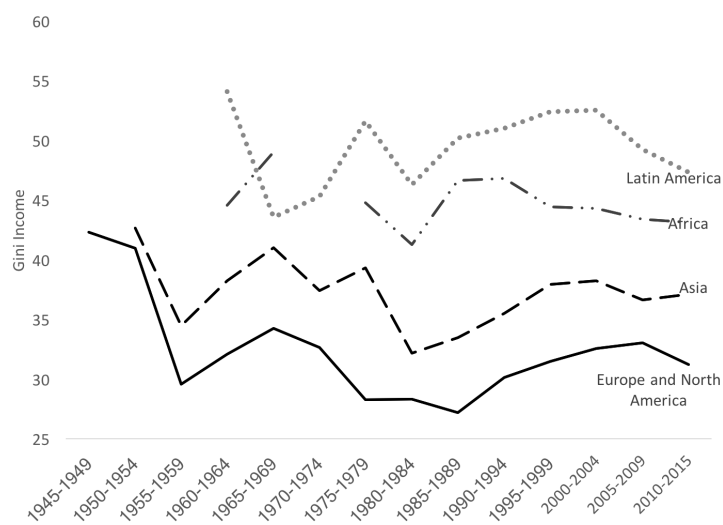
b. Proportion of Income: Richest 10% / Poorest 10%
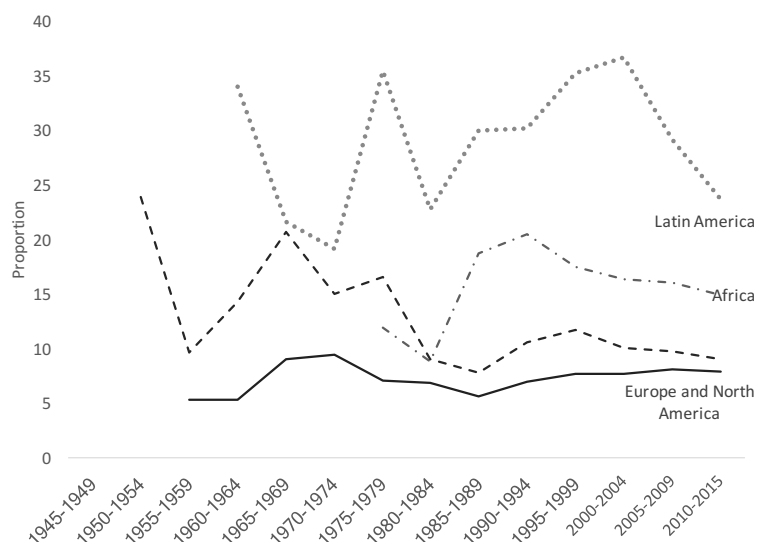
Source: Authors calculations using data from United Nations University - WIDER. Notes: I calculated average indicators by region in this way: available data points (sometimes more than one observation per year-country with different sources) were averaged by country-year. I calculated the simple average of the region using country-year averages. I ignored the data points reported as being low quality or not known quality data. Finally, I calculated an average for every 5-year period was calculated to make the trends and the graph more interpretable.

While these commonly cited trends are important, they can obscure significant sub-regional variation. When one zooms in and compares Latin American countries with one another, a set of empirical regularities becomes evident. First, there is a great divergence in the levels of economic inequality across countries. Second, the differences across countries seem to persist over time. For example, if one calculates the difference between the regional mean and the Gini coefficient of each country for every 5-year period the differences are relatively stable. Figure 1.2 shows that most countries stay at a similar distance from the average throughout the period, which means that the ordering of the countries throughout the period was fairly persistent, with just a few exceptions (Paraguay, Perú, and Bolivia).

Figure 1.2: *Distance between Average Gini and Gini by country*

South America

Central America
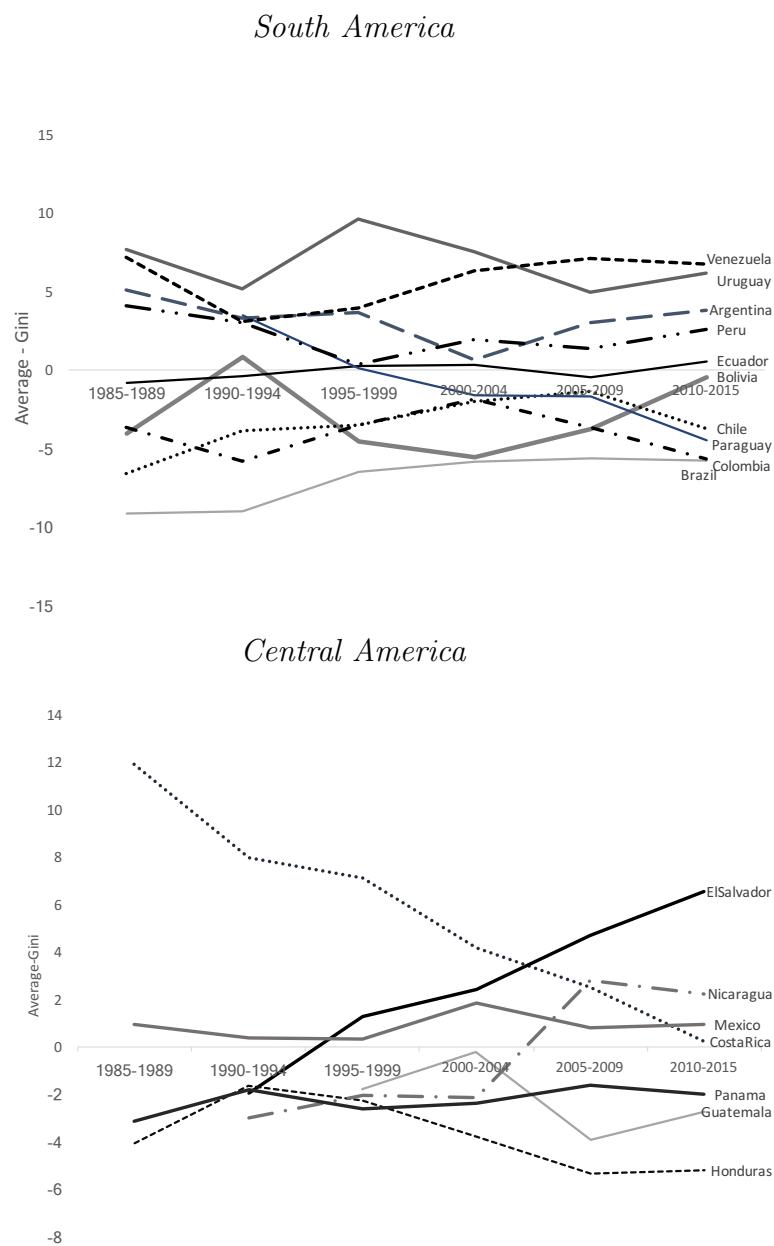
Source: Author's calculations using data from United Nations University - WIDER.

Unlike most studies of economic inequality that focus on (dehistoricized) levels of inequality, the focus of this dissertation is on long term dynamics of economic

inequality. In particular, I am interested in understanding the mechanisms behind persistent levels of economic inequality as well as the conditions under which a country is able to escape an inequality trap. The concept of inequality trap is used here to refer to a countries' persistently high levels of economic inequality. Empirically, this can be observed when, despite short-term variations in inequality per a given indicator, the series reverses back to the mean, suggesting that inequality is not structurally changing[2]. By paying attention to country trajectories and identifying breaking points, I can trace the forces behind those changes. This is particularly critical because, I contend, the forces driving long-term levels of inequality are not necessarily the same as those driving short term variations. I argue that long-term changes in economic inequality require radical institutional reforms which are only possible under certain conditions.

My focus on long-term trajectories and on inequality traps requires identifying, through careful measurement, three long-run outcomes: 1) countries that have been trapped by high levels of inequality, 2) countries that have had persistently low levels of economic inequality, and, 3) countries that have changed their trajectories and escape such traps. To measure economic inequality, I first identify available measures of economic inequality and apply a measurement framework that I present fully in Chapter 2[3]. I use this framework to determine which existing indicator offers the most leverage for understanding long-term trajectories and traps of inequality. I ultimately choose the Income Share of the Richest 10 Percent from among them. Through this framework and selection process, I am able to classify countries per their level of

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[2]Notice that this concept can be applied to both high and low levels of economic inequality. However, in most of this dissertation, when I refer to a country escaping an inequality trap, I refer to a country going from high levels of economic inequality into lower levels

[3]I developed the framework as an article that is currently under review

economic inequality and to identify moments in which countries were able to escape inequality traps. Figure 2.2 presents individual country trajectories of the Income Share of the Richest 10% of countries in South and Central America.

Based on these distinctive trajectories, I focus on two dimensions by which economic inequality trajectories can vary: the level and whether there was a permanent change in the trajectory. As the figure shows, countries like Uruguay, Venezuela, Costa Rica, and Argentina have had relatively low and stable levels of economic inequality for the region. In comparison, countries like Colombia, Chile, Brazil, and Honduras have had persistently higher levels of economic inequality. These latter countries can be characterized as being trapped by inequality. A couple of countries maintain moderate levels of inequality throughout the period, namely Panamá and Mexico. In contrast, only a few countries show changes in their trajectories. In particular, Perú and Ecuador escaped extremely high levels of economic inequality in the second half of the twentieth century.

The graph also shows that in most countries, inequality has been decreasing since the early 2000s. The downward trend has been documented widely in the social sciences (Huber and Stephens (2012); Lustig (2015)), and existing explanations point to the left-wave in the region and to important social policy reforms. However, an implication of my comparative historical analysis is that we have yet to see which countries will experience a reversal to the mean and which countries actually saw a permanent break with past levels. Based on available data, we can already see that this downward trajectory has stalled (Colombia, Argentina, Perú) or even reversed (Venezuela, Honduras, Nicaragua, Brazil).

These empirical variations in levels and long-run stability of economic inequality

Figure 1.3: *Economic Inequality Trajectories*
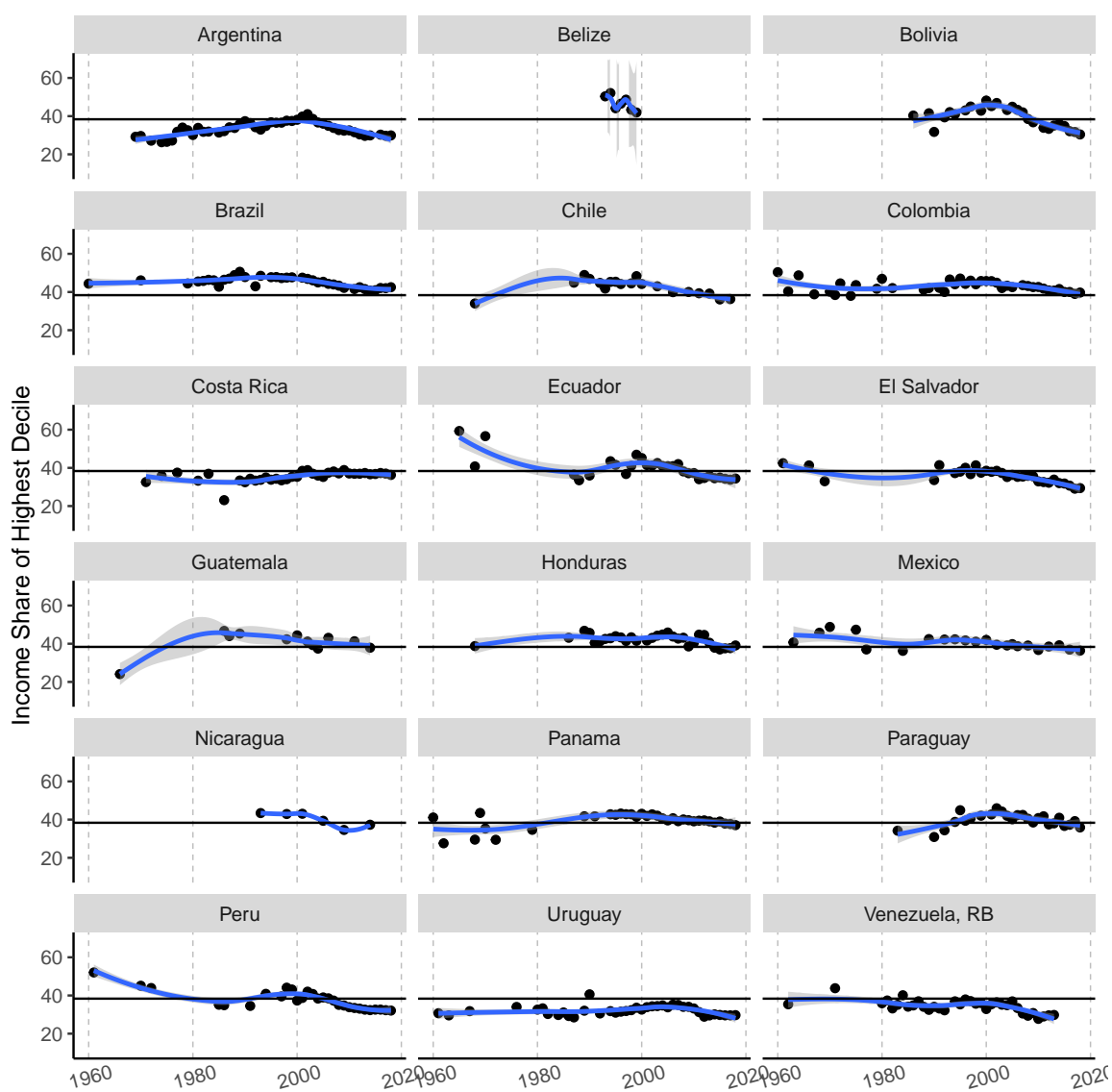
Source: Own calculations combining data from multiple sources including, WDI, Worldbank, SEDLAC.
Notes: Available data points (sometimes more than one observation per year-country with different sources) were averaged by country year.

in Latin America motivate this dissertation's theory and research design. The analysis will focus on five countries, in particular. I will briefly sum their trajectories here. In Uruguay, despite short-term variations around its mean, inequality has been relatively stable and much lower than in other countries in the region. Chile experienced a period of decreased inequality between 1960 and 1970 when it appeared to have escaped an inequality trap. However, in the 1980s, the trajectory changed upward and returned to similar values of those in the 1950s. The case of Colombia shows brief periods with a small decrease, but these were followed by a rapid reversal to the mean. Honduras too seems to be trapped in high levels of economic inequality. However, the trajectory is more unstable than that of Colombia. Finally, I want to draw attention to Perú. In contrast to what happened in most countries in Latin America, the country witnessed a decreasing trajectory starting in the 1960s that suggests that the country managed to escape a high inequality trap.

1.3   Research Design

When one considers economic inequality at the regional level, Latin America stands out for having the highest average across the globe. Scholars have theorized about the factors causing this regional pattern of high levels of inequality, including pre-colonial endowments and the institutional legacies of colonialism (Engerman and Sokoloff, 1997; Acemoglu et al., 2001; Sánchez-Ancoechea, 2020), the position of LA in the global economy (Hoffman and Centeno, 2003; Frankema, 2009), state weakness (Soifer, 2013), and incomplete transitions to democracy (Acemoglu and Robinson, 2006; Boix, 2003).

Most of these works rely on econometric techniques to estimate the average effect

of certain variables on short term variations of economic inequality at the global level. I argue that this approach has two limitations. First, even though this approach is useful when the aim is to understand high levels of inequality of Latin America relative to other regions, it hides interesting patterns only revealed when one zooms in and compares individual country trajectories in the region. Second, those techniques allow researchers to estimate the effects of short-term variations of these variables on short-term variations of inequality. In doing so, long-term changes are left unaccounted for. Therefore, the aim of my project is to shed light on some of the factors accounting for the divergence of country trajectories of economic inequality within Latin America and variations in the long run. The research design of this dissertation is aligned with this goal and is composed of three main parts.

Following Seawright (2016), I integrate methods from qualitative and quantitative traditions to obtain inferential advantages. Each of the three components serves a different purpose and the combination allows me to answer the main research questions: **What accounts for the paradoxical persistence of economic inequality in some countries in Latin America despite overall economic progress? How can we explain that some countries escaped inequality traps while others did not?**

My multi-method approach begins with a measurement framework that bridges tools to conceptualize essentially contested concepts and applies them to measurement. In chapter 2, I present this framework to justify the approach to measuring economic inequality and inequality traps. I use tools from comparative historical analysis to theorize the factors driving inequality trajectories in the long run. To evaluate my theory, I deploy additional analytical approaches. I combine process tracing and

comparative analysis of two cases, Colombia and Perú, to trace the mechanisms sustaining inequality trajectories and the conditions under which a country escapes the inequality trap. Then, I use tools from panel-data econometrics to test some of the observable implications of the theory for countries between 1960 and 2018. In sum, the research design consists of three primary components. The first is a mixed methods measurement framework that contributes to theory building. The second and third, qualitative and quantitative respectively, contribute to theory testing. Taken together, my approach provides a comprehensive account of long-term trajectories of economic inequality.

1.3.1   Theory Building

The first component of the research design serves the goal of building a theory of economic inequality in the long run. To do so, I selected four cases to conduct a comparative historical analysis: Chile, Uruguay, Colombia, and Honduras. I selected these cases to cover the range of variation in the dependent variable (level and stability of economic inequality) and to maintain constant important alternative explanations in paired comparisons (see alternative explanations below). The logic behind case selection combines elements of three strategies of case selection as described by Seawright and Gerring (2008); diverse cases, most similar, and most different cases. These three strategies are useful in exploratory analysis and theory building. By including cases that present diversity in the outcome as well as on the theoretically relevant variables, I can explore the variation and hypothesize on the explanatory factors. In addition, by using logics of most similar and most different designs for each pair of cases, I also obtain the advantages of both case selection strategies.

I selected Colombia and Chile on the basis of most different design logic: they share a similar outcome(i.e. high and persistent economic inequality), but they are very different in most key factors at the center of explanations of inequality: legacies of colonialism, state capacity and territorial configuration, level of economic development, ethnic and racial configuration, level of industrialization, dependency on foreign markets and primary goods.

Uruguay and Chile offer the advantages of a most similar case design. These two countries are similar in terms of economic development, state capacity, pre-colonial institutional complexity and natural endowments, territorial configuration and urban primacy, and the role of foreign powers and terms of trade. Yet, they differ vastly in their level of economic inequality. By including these two cases, I can evaluate the necessity of these factors.

The inclusion of Honduras offers inferential advantages in that it shares with Colombia the importance of the enclave economy, state capacity, and the role of the economic elite during state formation. However, the trajectory of inequality in Honduras is much more unstable than that of Colombia. The comparison between Honduras and Chile offers inferential advantages of a most different logic, they contrast sharply in many of the main explanatory forces and yet they share the high levels of economic inequality.

Following recent findings of economic historians, I study the period of state-building as crucial in shaping trajectories of economic inequality (Abad, 2013; Williamson, 2015; Bertola et al., 2009). My research suggests that differences in characteristics of the economic elite during this period produced enduring differences in the state-economic elite relationship that are central to understanding the diverging paths of

economic inequality in LA. The comparison of these four cases allows me to identify key differences across countries regarding the interaction of state capacity and the political cohesiveness of the economic elite. I argue that these differences can be traced back to the period of state formation.

I draw on secondary sources, archival documents, and interviews with country experts made during trips to conduct preliminary fieldwork in Chile, Uruguay, and Colombia. Based on the findings of this analysis, I construct a typology *Relative Power of The State (RPS)*. I show that during state formation, countries were sent into different paths of RSP. I argue that RSP is at the center of inequality trajectories.

Figure 4.3 presents the yearly trajectories of the Income Share of the richest 10% of the four cases after multiple imputations (see Appendix chapter 8). The dark line is the average of the values in 5 imputations and the dotted lines represent the confidence intervals using the standard error of the imputed values. The width of the confidence interval reflects variation on the imputed values.

In Table 1.2, I summarize the values in these key variables. I selected these considering the main frameworks aiming to explain inequality in Latin America which I explain later in this introduction.

Figure 1.4: *Inequality Trajectories of Cases Selected for Theory Building*

Updated Data (after multiple imputation)
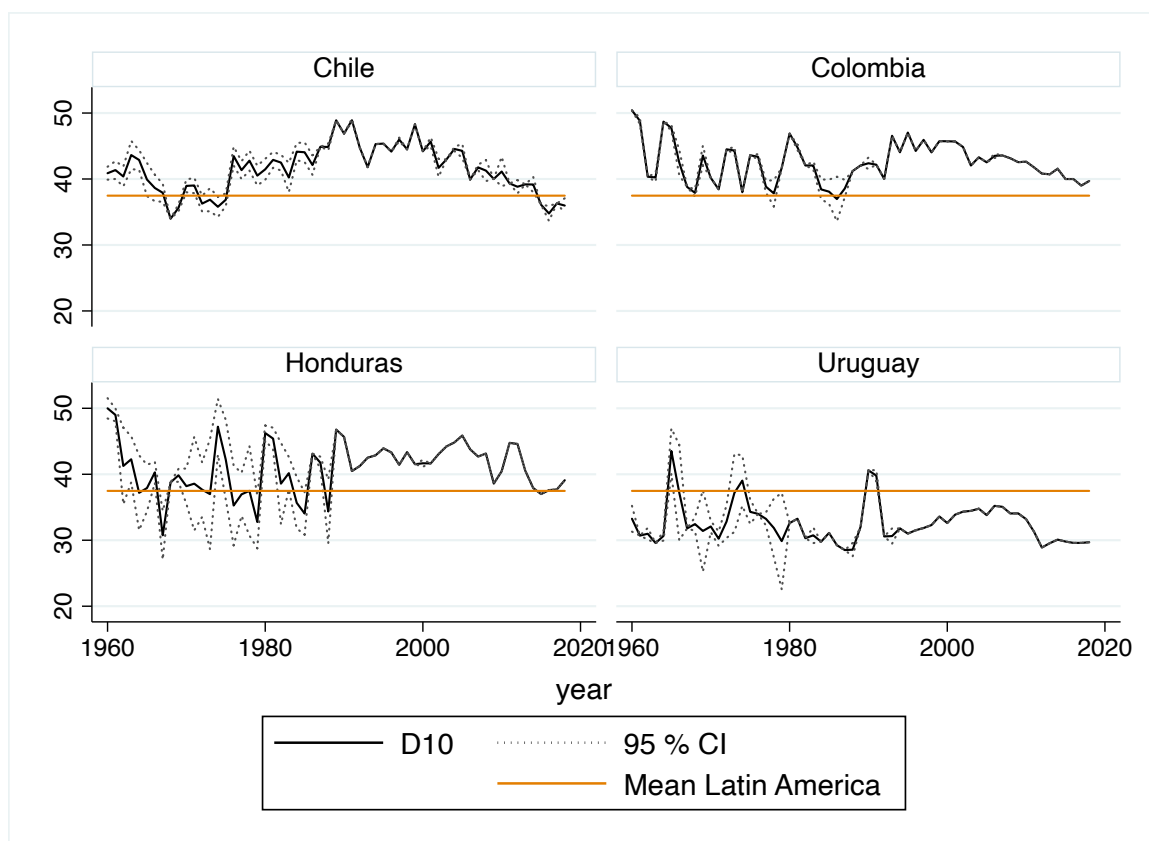
Sources: Own calculations based on WDI, Worldbank, SEDLAC See Data Appendix Chapter 7

Table 1.2: *Case Selection*

Country	Type and Level of Colonialism (Mahoney)	Extractive/ Inclusive Institutions (Acemoglu and Robinson)	State Capacity	Importance of Enclave Economy (Cardoso)	Economic Development	Economic Inequality Level	Economic Inequality Stability
Colombia	Sustained Core	Extractive	Medium	High	Medium	High	Stable
Honduras	Sustained Periphery	Extractive	Low	High	Low	High	Not Stable
Chile	Sustained Periphery	Inclusive?	High	Low	High	High	Stable (Exception 1960s)
Uruguay	Rising Core	Extractive	High	Low	High	Low	Stable

1.3.2 Theory Testing: Comparing Colombia and Perú

The second part of the research design uses an in-depth comparison of two cases to test the theory and understand the causes behind the persistence of high levels of inequality. I compare Colombia and Perú to show how the state and the economic elite interact to shape economic inequality trajectories in the long run. I selected Colombia and Perú because they were similar in terms of RSP during the second first half of the twentieth century and faced similar pressures for redistribution between 1920 and 1940 and again in the 1960s. Within these countries, I choose as cases five reforms to the main redistributive institutions: tax and agrarian legislation.

To analyze these institutional reforms, I combine process tracing and comparative historical analysis to show how RSP conditioned the responses to societal pressures related to economic inequality. I rely on primary and secondary sources around legislative changes to demonstrate how economic elites' cohesive response enabled them to influence such state policies. For each reform, I collected archival documents on the bill's conception, the reactions by different segments of society, the changes

made to the laws, and news coverage around them. I complement this data with secondary sources on the topic and the relevant periods.

During the first moment of important redistributive pressures (the 1920s-1930s), in both countries, the economic elite maintained its cohesion and was able to shape state policies and guarantee the protection of their interests. How, despite major pressures for re-distributive reforms and the resulting institutional changes to ameliorate those pressures, did Peruvian and Colombian economic elites manage to maintain their relative strength vis-à-vis the state in the 1920s and 1930s?

In contrast, after the second period of intense pressures for redistribution (the 1960s), the two countries were no longer similar in terms of RSP. In 1968 Perú underwent a series of structural reforms that allowed the country to escape the inequality trap. I find that Perú was able to embark on a path towards commensalism and lower levels of economic inequality because the economic elite became politically divided and the state gained infrastructural capacity. The combination of these factors allowed the state to implement radical redistribution reforms that included an agrarian reform and important tax reforms. In Colombia, in the midst of similar pressures, the economic elite maintained a cohesive front which allowed them to shape attempts of institutional reforms in a way that protected their interests. The result was the permanence of the country in an inequality trap. Figure 1.5 shows inequality trajectories of economic inequality in Perú and Colombia measured by the Income Share of the Richest 10%. The graph also displays the mean level for the entire sample of countries in Latin America and the Caribbean. I

Figure 1.5: *Inequality Trajectories of Colombia and Perú*
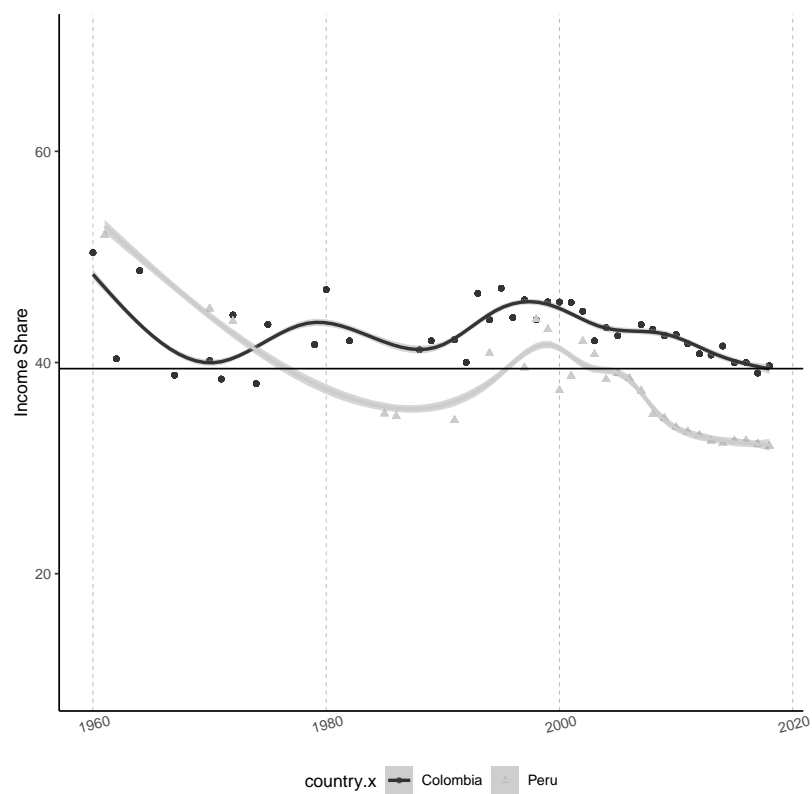
1.3.3   Theory Testing: Large-n analysis

In the final component of the research design, I test whether the argument can be generalized more broadly to other countries in the world. To do so, I use a dataset that contains yearly observations for 194 countries between 1960 and 2018. I use statistical modeling and panel-data techniques to evaluate observable implications of the theory at the cross-national level. In particular, I test the relationship between economic inequality and state capacity and how the economic elite's strength conditions this relationship. The specific research questions guiding this last component of the research design are: What is the effect of State Capacity on the level of economic inequality? Is this effect conditional on the strength of the economic elite? I find that on average, states with higher levels of capacity have lower levels of economic inequality. However, this relationship does not hold once one takes into account the strength of the economic elite. That is, the relationship between state and economic inequality varies with the strength of the economic elite.

1.4   Rival Explanations

A review of the literature on the origin and the nature of these high levels of inequality suggests that the puzzle of Latin American economic inequality is far from being solved. Although they have advanced our knowledge of regional trends in inequality, existing approaches have limitations that make a deeper study of both within-country variation and its persistency crucial. Existing explanations can be divided into those that attempt to study the origins of inequality and those that attempt to explain its persistence. The main debate between scholars aiming to un-

derstand the origins of inequality is between i) theories that point to pre-colonial and colonial institutional legacies, and ii) explanations that put decisions made during the state-building period at the center. The first group is mostly interested in understanding high levels of economic inequality in Latin America when compared with other regions of the world. The biggest limitation of the literature concerning the puzzling nature of economic inequality in Latin America is that it mostly leaves the variation across countries within the region unexplored. In addition, these theories are not equipped to understand mechanisms behind persistency as well as temporal variation in the level of inequality.

1.4.1   Explaining High Levels of Inequality

Engerman and Sokoloff (1997), and Easterly (2007) argue that natural endowments faced by colonial settlers are important determinants of the type of labor relations institutions put in place during colonialism, which set the stage for unusually high levels of inequality in the region. The main problem with this framework is that it does not consider variation within North America and South America (Hoffman and Centeno, 2003) and cannot explain changes to economic inequality over time.

Along similar lines, in various publications, Acemoglu, Robinson, and co-authors identify the emergence of extractive institutions and their reproduction over time as the cause behind low levels of economic development and high levels of inequality. The authors focus on the protection of property rights to distinguish between high quality (productive) and low quality (extractive) institutions. In what appears to be the seminal work on this agenda, Acemoglu et al. (2001) use settler mortality as an instrument of institutional quality. However, there is almost no variation in the value

of the instrument for countries within Latin America. In turn, this account is useful if the goal is to understand differences between Latin American and other regions of the world, but of limited use to understand intra-regional variation. In his intervention to this literature, Mahoney shows the importance of pre-colonial institutions in shaping the type and level of colonialism as well as the resulting trajectories of economic development. Mahoney's approach provides tools to understand the persistency of different developmental paths (Mahoney, 2010) and within-region variation. Even though the focus is not narrowed to inequality trajectories, this work underscores the importance of colonial and pre-colonial institutions when considering differences in economic development trajectories. The works emphasizing pre-colonial and colonial legacies, leave little room for institutional change meaning that shifts in inequality trajectories are left unexplained.

To further explore the explanatory power of these explanations, I compiled a dataset with data on inequality and the different variables identified as key explanatory factors behind high inequality levels in the region. Figure 1.6 shows tenuous relationships between some of the variables identified as key explanatory factors and the contemporary levels of inequality. Another important thing to notice is that in all of these graphs the distance between the observed value and the fitted line of the correlation is on average very high. It is possible to observe some positive correlations (between Gini income and: the size of indigenous population before 1470, Size of European Population, Pre-colonial level of development) and a negative correlation between Gini Income and the proportion of European to Indigenous population. This is not surprising given that the colonial experiences were vastly different across countries and as many scholars have shown, some of these legacies matter for the resulting trajectory.However, these graphs suggest that there is something else going

Figure 1.6: *Exploring Rival Explanations*

Size of Indigenous population

Size of European population
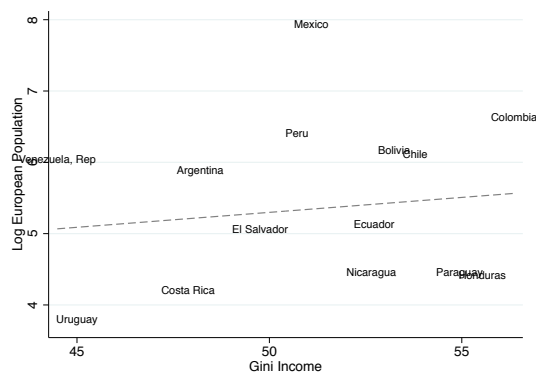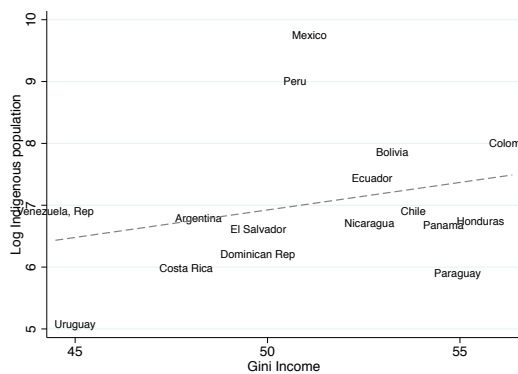
Proportion European: Indigenous

Colonial Importance
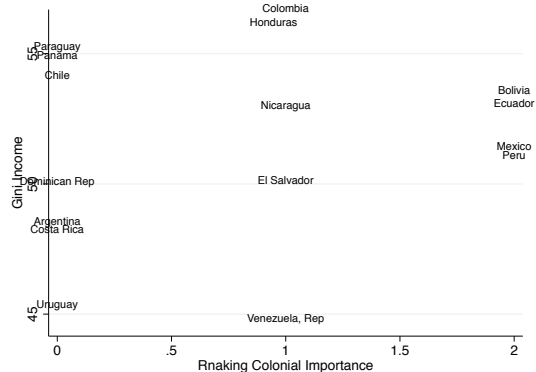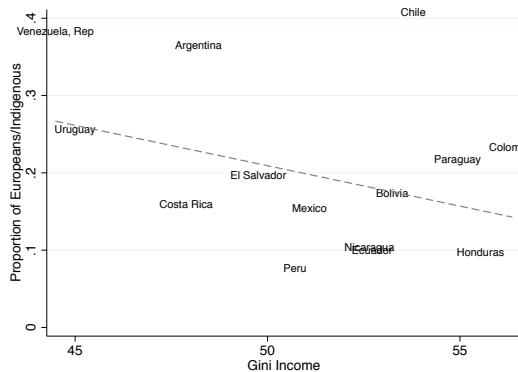
Pre-colonial Level of development
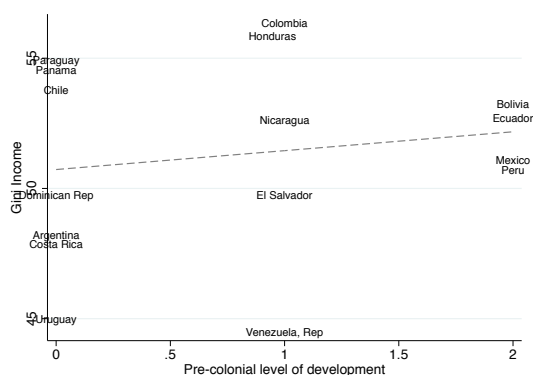
Source: Milanovic for Gini Income. I took from Lange et al. (2006) the data for Indigenous and European population, Colonial Importance, and Development.

on that needs to be explored further In particular, they suggest that time-invariant factors associated with pre-colonial structures and colonial legacies cannot account for the within-regional variation observed in the region and for the temporal variation observed in some cases.

These correlations align with one of the most fundamental critiques of these theories is that existing data on historical levels of inequality shows that the region was not always unequal. For example, Williamson attributes the high levels of inequality in the region to the fact that, unlike what occurred in industrialized economies after the First World War, there was not a leveling in the distribution of material richness. According to Williamson, the absence of this process of *Egalitarian Leveling* in the region is what explains the gap between the average high levels of inequality in the region and the rest of the world. In addition, he suggests that when one compares inequality between Latin America and the rest of the world, the region was not higher post-conquest and remained relatively low prior to its belle époque.

To understand these regional forces, economic historians have tried to trace the history of inequality in the region (See Abad (2013), Bertola et al. (2009), Serna and Aguirre (2010)). For example, Abad shows how inequality levels between 1830 and 1860 were accompanied by large fluctuations over time within each country. Her work suggests that to understand the resulting trajectories of economic inequality within Latin American countries, one needs to look for factors that shaped these trends during this period and not in colonial times. Similarly, Milanovic et al. show that levels of inequality in Argentina, Brazil, Chile, Mexico, and Uruguay prior to the belle époque starting around 1870, did not differ much from the levels in Europe prior to 1780 (Milanovic, Lindert, and Williamson, Milanovic et al.).

Frankema's book titled *Has Latin America Always Been Unequal?* is probably the most complete study of economic inequality in the region. He points to the structural transformation occurring circa 1870 in the region towards what he calls "modern economic growth". This shift is associated with deeper integration between LA and the world economy and implied a structural transformation of the economic apparatus from rural production to mainly urban production. According to the author, this also meant a structural transformation for the distribution of income and wealth. By stressing the importance of this structural shift, Frankema challenges the idea that Latin American inequality has been persistent throughout the post-independence era. His argument is sensitive to specific *Latin* inequality characteristics rooted in a shared colonial history and the legacies of colonial institutions *hacienda* and *encomienda* on the distribution of land. However, he proposes that modernization forces changed the context in which colonial legacies operate and this period is crucial if one aims to understand inequality in the region. His study enlightens the debate of the forces behind trajectories of economic Inequality in the region. Nonetheless, it remains mainly a comparison between Latin America and the rest of the world.

Aligned with these findings, scholars argue that the position of LA in the global economy is the main driver of these high levels of inequality (Hoffman and Centeno, 2003). This tradition, associated with dependency theorists' explanation of economic backwardness of the region, argues that LA's models of production reproduce the unequal distribution of material resources. For example, Leamer (1999) identifies the dependency on mineral extraction as well as agriculture products tied to enclave models as perpetuating high inequality and low development.

Abad uses wage-land ratios to reconstruct the level of inequality and to compare

the trajectories of Argentina, Mexico, Uruguay, and Venezuela between 1830 and 1900. By focusing on this period, Abad emphasizes the importance of the state-building period in the resulting trajectories of economic inequality. Following the process of independence, the forming nation-states entered periods of modernization and integration into the world economy. In addition, there were profound transformations responding to demographic changes and migration towards urban areas. She presents two scenarios to conduct a counterfactual analysis using a structural model: "The first scenario considers country-specific initial conditions and each of the countries is subject to the same shocks over the course of the century [...] The second set of simulations follows the opposite route. All countries start with the same initial conditions at the time of independence. [...] the simulation assumes that each country experiences the actual shocks to the terms of trade and land-labor ratios over the course of the century." (Abad, 2013) The paths of the second scenario are more similar to the observed trajectories. The biggest take away of this article is that the richness and differences in the postcolonial experiences of these countries matter for the trajectories of economic inequality.

Together these works suggest that the forces sustaining the persistence of economic inequality levels cannot be traced back to pre-colonial and to the colonial period alone. Instead, after a period of instability between 1830 and 1860, countries were set into seemingly stable trajectories of economic inequality throughout the twentieth century. My work responds to this invitation by comparing countries during the period of state formation and as such is aligned with Abad (2013); Bertola et al. (2009); Williamson (2015).

1.4.2 Reproduction of Inequality: explaining persistence and change

Existing theories on economic inequality changes can be divided into those that focus on economic factors and those that focus on political forces shaping trajectories. The first group can be traced back to Kuznet's influential work on the relationship between economic growth and economic inequality. The second group emphasizes on the importance of considering the political economy of inequality and considers how processes of democratization and state capacity shapes economic inequality.

Development, Growth, and Inequality

"Does inequality in the distribution of income increase or decrease in the course of a country's economic growth?" This question, first proposed by Kuznets in 1955, initiated a lively debate in economics on the relationship between economic development and economic inequality (Kuznets, 1955a) .

In the first attempt to understand long-term trajectories of economic inequality, Kuznets analyzes data on the United States, Germany, and England for the first half of the 20th century (Kuznets, 1955a). Kuznets is mostly interested in understanding changes to inequality as a consequence of industrialization and the heightened importance of cities. According to his approach, industrialization brought initially concentration in savings in the upper-income bracket of the distribution. Besides, the shift away from agriculture and into industrialization and urbanization increase income inequality since: a) average per capita income is usually lower in the rural population and b) the distribution of income is narrower in these areas. Together, these

forces lead to higher of levels of inequality. Once industrialization leads the country to a certain level of average income, the dynamism of a growing and free economic society will eventually outperform these forces generating an inequality trajectory with an inverted u-shape.

The mixed evidence surrounding Kuznets' main predictions have resulted in a rich literature trying to explain the relationship between economic growth and economic inequality (Deininger and Squire, 1998). Some of the works go beyond industrialization to explain inequality trajectories and emphasize on the role of technological change, world market conditions, production factors (Williamson, 1985). Other works, emphasize on the limitations of extending the predictions to other countries, specially outside of the richest nations (Deininger and Squire, 1998). Overall, the evidence is inconclusive about the relationship between economic growth (and economic development) and economic inequality. In Latin America too, the empirical relationship is tenuous. Figure 1.7 shows a simple correlation between inequality and economic development measured through the Human Development Index. The two variables have a negative correlation but data points are very far from the line suggesting that the predictive power of development on inequality is relatively low.

Figure 1.7: *Exploring Rival Explanations*

Contemporary Level of Development
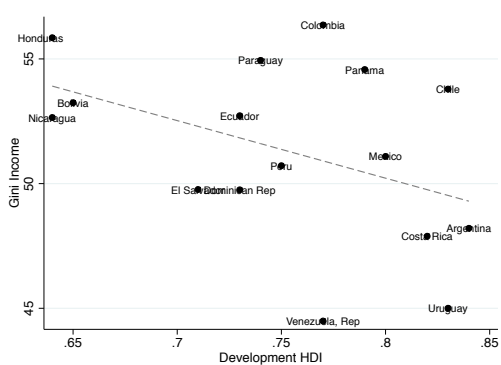
Source: Milanovic for Gini Income World Bank for HDI - Development.

The main problem with Kuznets' theory, and one that permeated much of the
literature following this contribution, is that it mainly focuses on market forces and
does not consider the extent to which economic inequality is embedded in politics.
Given the prior prevalence of this assumption, Piketty's revolutionary theory of long-
term inequality marks an important break in the study of economic inequality. Piketty
challenges Kuznets by claiming that there is no such thing as a natural or spontaneous
process of economic development guiding trajectories of inequality. On the contrary,
he argues that "the history of distribution of wealth has always been deeply political
and cannot be reduced to purely economic mechanisms." In particular, Piketty finds
that the decline in economic inequality in North America and Europe (that inspired
Kuznets' theory) was the result of the world wars and "the violent economic and
political shocks they entailed (....) had little to do with the tranquil process of inter-
sectoral mobility described by Kuznets." In fact, it had more to do more with the
policies designed to alleviate the shocks of the war. Generally, he finds that changes
in inequality trajectories were the result of political shifts in terms of tax and financial

policies (Piketty, 2014). The recent turn is also aligned with literature on the political economy of development. In the next section, I present theories emphasizing on democracy and state capacity as importance factors shaping inequality trajectories.

Economic Inequality and Democracy

According to social conflict theory, democracies should be more likely than autocracies to adopt policies that benefit the majority of the population. With the extension of the right to vote, the median voter becomes relatively poorer and in turn "prefers greater tax rates and more redistribution"(Acemoglu and Robinson, 2006, 109). In particular, because majority rule allows poorer citizens to exert greater political influence vis-á-vis oligarchs given that their preferences are closer from those of the median voter. The same logic should apply to other sources of inequality in which there is a potential conflict between a disempowered majority and an empowered minority.

Despite what these theories predict, economic and social inequality seem to be extremely compatible with democracies. In fact, market democracies have achieved the highest degree of wealth inequality in history (Winters, 2011). In addition, redistribution from the rich to the poor is not higher in democracies than in autocracies (Ross, 2006; Scheve and Stasavage, 2012; Slater et al., 2014). Finally, democracy is not associated with redistribution even in countries with the highest degree of economic inequality (Albertus, 2015).

As a result, theories responding to this puzzling reality have emerged. The first group suggests that even after democratic transitions, elites might circumvent democratic institutions to capture policy-making and block redistribution efforts (Ace-

moglu and Robinson, 2006). If democratization takes place as a result of the pact between competing elites, then their de-facto power will survive the democratic transition and their shared interests will be protected. This relates to the excessive influence elites have over policymaking both in transitions to democracy and in consolidated democracies. Literature exploring democratic transitions in Latin America and more generally studying the Third Wave of Democratization point in a similar direction. In particular, because democratization occurred whenever elites thought their interests were better protected by democratic institutions than by their authoritarian counterparts (Philippe C. Schmitter, 2009; Wood, 2000). This explains why democratic transitions were often initiated by elites themselves (Collier, 1999; O'Donnell et al., 1991).

A rich literature analyzing the puzzling congruence of democracy and inequality can be found in the field of American Politics. Contrary to what Dahl found in his study of democracy in New Haven (Dahl, 2005), there is vast evidence suggesting that in the U.S. inequalities are cumulative as opposed to dispersed. In fact, economic power is easily translatable into political power; economic inequality and political inequality go hand in hand Domhoff (2014); Schlozman et al. (2013); Gilens and Page (2014); Bartels (2008); Winters and Page (2009). The findings of this literature demonstrate the importance of understanding the different ways through which economic elites exert political power and influence decisions.

This portion of the literature has been successful in explaining how highly compatible economic inequality is with democracy. In turn, it helps us understand why in Latin America transitions in and out of democracy did not translate into radical transformations economic inequality. The importance of the economic elite and how

they can influence policy preferences provides us with theoretical tools to understand the historical trajectories of economic inequality.

State capacity and Inequality

State capacity is also cited as an explanatory factor of persistent inequality. For example, De Ferranti and Perry (2003) consider the weakness of the state in the region as an important determinant of the persistence in inequality. Two aspects of this argument are troublesome. First, it considers state weakness as a common trait across countries in Latin America and is not recognizing vast differences in the infrastructural powers of states. In addition, if it were a matter only of state capacity, then states with higher capacity (Chile and Uruguay) will reveal similar levels of economic inequality. As I showed above, this is not the case. In turn, whereas state capacity is perhaps a necessary condition for an effective redistributive system (Soifer, 2013), it is not sufficient. There needs to be a willingness by the state to redistribute. In the theory presented in Chapter 3, I engage with this debate and consider the importance of state capacity in the reproduction of inequality. However, I consider state capacity to be one dimension of state power. So far, very few works consider state autonomy and the relative strength of the state vis-á-vis society, as an important piece of the inequality equation. My research tries to fill this gap.

1.4.3   Limitations of existing approaches

This review of the literature leads me to identify two important limitations for our understanding of inequality in the region. First, the focus of the literature has been on understanding high levels of economic inequality at the regional level. Second,

scholars that are interested in understanding changes in inequality mostly focus on short-term variation. As a result, most authors rely on econometric techniques to estimate the average effect of certain variables in producing changes in economic inequality. Work that is underway at the time of writing, and which deploys qualitative comparative analysis to understand within-region and long-run variation may prove an exception in this literature (Sánchez-Ancoechea, 2020). However, the contributions of this methodology in extracting necessary and sufficient conditions is limited by its inability to capture mechanisms and to track change over time.

Most of the works analyzed here tend to overlook the structure of power sustaining long-run inequality and consequently, provide partial answers to the phenomena. By overlooking the structure of power, they overlook the agency of actors in the production and reproduction of economic inequality, existing explanations leave very little room for agency and how agents could, and have, shaped the trajectories of economic inequality of countries. I claim that one needs to consider the role of powerful minorities and the way in which their strategies for wealth defense can impact economic inequality trajectories. As will become evident in this project, I take seriously the fact that the distribution of material richness can be a source of conflict and in turn, it is permanently contested by the disadvantaged majority of the population and defended by those who have an interest in maintaining the status quo.

Finally, existing frameworks do not address the active role of the state and the way it has shaped and continues to shape the trajectories of economic inequality. This is surprising given that multiple scholars aiming to understand variations in the trajectories of economic development in the region have recognized the state as a key actor in these processes. In fact, in comparative political economy the role

of the state on economic development has been discussed by seminal works (see for example Johnson (1982), Evans (1995)). In so far as the state is considered, it is mostly referenced to argue that state weakness is behind high levels of inequality. The absence of the state as a key actor in shaping economic inequality is surprising given that its role in shaping the trajectories of economic development has been widely established in the literature.

1.5 Contributions

This dissertation makes important contributions to our understanding of inequality.

First, it demonstrates the importance of understanding inequality as a political process. As such, it is aligned with a recent turn in the literature that recognizes that "the history of distribution of wealth has always been deeply political and cannot be reduced to purely economic mechanisms."(Piketty, 2014). By centering my argument around the contentious process behind inequality trajectories, and the people that benefit and suffer from inequality, I contribute to understanding the politics of redistribution.

The second contribution of my work is that I center the theory around the actors involved in the processes of reproducing inequality. In particular, I explore how the state and economic elites interact and respond to redistributive pressures. By doing so, my dissertation is equipped to explain the causes of economic inequality levels as well as the mechanisms through which it is reproduced. The key to being able to account for both of these puzzles is to focus on the winners and losers from economic

inequality.

By turning our analytical lens on to shifts and long-run changes in inequality trajectories, my work contributes to our understanding of the forces behind inequality traps. Beyond this work, I believe that this opens up an interesting conversation about how different time-horizons influence the way in which we approach research questions and research designs.

From a methodological point of view, my project makes several contributions. First, I provide a framework to measure essentially contested concepts. By showing that the contestedness of concepts travels to the measurement stage, I present a measurement framework that bridges existing gaps between qualitative and quantitative traditions. Second, I illustrate the importance of thinking about research design from the lenses of an integrative multi-method framework as proposed by Seawright (2016). I combine comparative historical analysis, process tracing, and panel data techniques to theorize and to test different assumptions and observable implications of the theory.

1.6 Roadmap of the Dissertation

In Chapter 2, I present an original approach to the measurement of economic inequality and conceptualize economic inequality traps. In Chapter 3, I present the theory. My argument departs from the assumption that economic inequality is the result of a dynamic process: a struggle between the richer minority - the economic elite - (aiming to expand and defend its privileged position) and the dis-empowered majorities (challenging the status-quo distribution). Amid this struggle, the role of

the state is crucial. I hypothesize that economic inequality results from the interaction between the state and the economic elite, and the resulting balance of their forces. I argue that the balance of these forces shapes the Redistributive Power of the State (RPS). RPS crystallizes an important variation across Latin American countries which captures both the redistributive capacity of the state and the limits imposed by the economic elites to any redistributive efforts. In Chapter 4, I show the importance of the period of state formation in shaping the variation of RSP within Latin America.

To assess the empirical implications of my argument, I rely on a multi-method research design centered around an in-depth comparison of two cases: Colombia, a country with high and persistent levels of inequality, and Perú, a case that shows a trajectory of change. I combine tools from comparative historical analysis and process-tracing to uncover the processes through which RSP shapes the politics of redistribution in the making of tax and agrarian reform legislation within each case. I choose two periods characterized by mounting pressures toward redistribution and reforms to the main redistributive institutions: 1920-1940 and 1960-1980. Over ten months of fieldwork, I collected data from transcripts of congressional debates as well as official communications (e.g. government reports, discourses, correspondence) related to tax and agrarian reform legislation in these periods.

In Chapter 5, I compare the two countries between 1920 and 1940. During these years, the status-quo distribution of powers faced diverse challenges. In both countries, the response to such pressures resulted in the reconfiguration of the political arena and important institutional reforms in terms of agrarian reform legislation and taxation. Yet, while important and transformative in many respects, I argue that these reforms and the emerging political forces did not alter the balance of power

between the state and the economic elites. Instead, in both countries, the economic elite acted as a cohesive unit and maintained a relative strength with the capacity to challenge the state and influence state policy. In turn, in this chapter, I answer: How, despite major pressures for redistributive reforms and the resulting institutional changes to ameliorate those pressures, did Peruvian and Colombian economic elites manage to maintain their relative strength vis-à-vis the state?

In Chapter 6, I rely on process tracing to compare Colombia and Perú between 1960 and 1980. In Perú, the military government, in alliance with a sector of the economic elite, implemented a series of structural reforms that permanently altered the balance of the forces which resulted in a decrease of economic inequality in the long run. In contrast, the economic elite in Colombia responded to pressures as a cohesive collective and maintained its relative strength vis-à-vis the state. In this chapter, I show that while the change in the balance of power between the state and the economic elite in Perú enabled the country to embark on a path of lower inequality, Colombia remained in the same, long-term pattern of high inequality. In doing so, I answer: Under what conditions a country is capable of escaping an inequality trap?

In Chapter 7, I test my argument using a large-N data set of all countries for the period between 1960 and 2018. I find that the effects of state capacity on inequality largely depend on the strength of the economic elite and on the extent that the state is willing to impose high levels of taxation. In chapter 8, I conclude with considerations about the implications of my work in the study of inequality and to policy-making. I discuss the main limitations of my work and the future directions of my research.

Glossary

Agrarian Reform Agrarian or Land Reform are understood here as a policy that aims to transform the land tenure patterns and has the direct aim of redistribution..

APRA Peruvian Political Party founded in 1924 in Mexico. The longest lived political party still in activity in Perú. It had a contentious relationship with establishment parties - It was stripped from its electoral victory in 1933 by coups or military governments. It went through two long periods of illegality, both under military and civilian governments, and was persecuted by the presidencies of Luis Miguel Sánchez Cerro and Manuel Odría. The Peruvian Aprista Party has gained in the presidency in two occasions: in 1985 and 2006, both under the candidacy of Alan García..

APRA Alianza Popular Revolucionaria Americana.

Balance of the Weak If both the State and the economic elite are weak, we can talk about a Balance of the Weak. Under this equilibrium, the State has a low capacity to penetrate the lives of civilians. In addition, the economic elite is politically divided and, as such, cannot act as a collective to shape state

policies..

Commensalism The term commensalism is used in biology to describe a relation-
ship between two organisms in which the commensal, usually a smaller organ-
ism, obtains benefits from the other without harming it. The State can be
thought of as the host, which is not harmed by the presence of the economic
elite (the commensal). The economic elite is politically divided and, in turn,
has a lower capacity to shape state policies..

Economic Elite a subset of the elite. It is constituted by the minority of individu-
als empowered by their possession of material or economic resources: e.g., land,
wealth, income, or capital. As an economic elite gets more affluent, it has more
funds to invest in protecting this interest. The possession of a power resource
gives elites the capacity to influence the decisions affecting society more broadly.
Different types of economic resources allow one to identify different types of eco-
nomic elites. For example, the landed economic elite is, therefore, the minority
of individuals that concentrate land properties. Similarly, the minority of indi-
viduals concentrating capital in the industrial sector is the industrial economic
elite. Other sub-types of economic elites include the financial economic elite,
commercial economic elite, etc. As such, this classification allows a single in-
dividual to be part of multiple sub-types of economic elites which means that
these are not exclusive categories.

Elite a minority of individuals that are empowered by its possession of a concen-
trated power resource. The constitutive attributes of the concept of elites are
two: i) they constitute a minority of individuals and, ii) they possess a con-
centrated power resource. Note that the logical relationship between these two

constitutive elements is AND implying that they are both necessary and jointly sufficient attributes. The possession of a power resource gives elites the capacity to influence the decisions affecting society more broadly. Given this conceptualization, the negative pole of an elite is, therefore, the majority of individuals that do not possess a concentrated power resource..

ELN Ejército de Liberación Nacional.

FARC Fuerzas Armadas Revolucionarias de Colombia.

Gini The Gini coefficient is the most widely used indicator to measure economic inequality - of income and wealth. Ranges from 0 to 100, higher numbers indicate higher levels of inequality.

Income Share of Highest Decile This indicator captures the proportion of income held by the highest 10% of income earners in a particular country. This is the main indicator that I use in this dissertation to measure economic inequality..

Inequality Trap The concept of inequality trap refer to a pattern of long-term economic inequality characterized by persistent levels. There are short term variations but in the long-run the series has reversion to the mean suggesting that inequality is not structurally changing.

Latifundio The translation of latifundio (spanish) is latifundium, which refers to a very extensive parcel of privately owned land. Throughout the dissertation I use the spanish word because it has a political and historical meaning. It contrasts with minifundium. .

Mutualism Mutualism is an ideal type of RSP. Under this equilibrium, the State is strong, and the economic elite is politically cohesive..

Parasitism In biology, **parasitism** is defined as a type of interaction between organisms in which the parasite lives on or in the host organism and causes it some harm. Parasites are usually much smaller than their hosts and cause them to harm without killing them. This is because they live off of them. Parasitism is a good metaphor to describe an interaction in which the State is infrastructurally weak and faces a cohesive economic elite..

PCP Partido Comunista Peruano.

Peasant Republics Peasant or independent "republics" were quasi-independent communities formed in Colombia during La Violencia. These were based on economic self-management as well as self-defense. Historically, these zones are important because were the scenario of first insurgencies..

Political Cohesion of Economic Elite A politically cohesive economic elite is one that is characterized by the cohesive stance of the different sub-types of economic elites regarding a state redistributive policy. For simplicity purposes, I will conceptualize and measure this concept as dichotomous.

Redistributive Pressures forces threatening the concentrated possession of income and wealth of the economic elite.

Redistributive State Power (RSP) I define Redistributive State Power (RSP) as the power of the state to redistribute income and wealth from the richer segments to poorer segments of the society. A country's RSP depends on State Capacity and the Political Cohesiveness of the Economic Elite..

State Autonomy Capacity of the State to act despite opposition from a sector of the society. Varies across states. For Migdal,states vary in their capacity to transform society and this transformative capacity of the State is a function of societal strength. For this dissertation, I go a step beyond and argue that a state can be autonomous from some sectors of the society and not autonomous vis-à-vis others. I depart from this notion and allow state autonomy to vary within a state and vis-à-vis actors..

State Capacity The strength of the State is thus conceptualized here as the State's infrastructural power, as delineated by Michael Mann. State infrastructural power refers to "the capacity of the State to actually penetrate civil society and to implement logistically, political decisions through its territory. In other words, it is the aspect of the State that determines how far its bureaucratic apparatus can reach to exert control and regulate social relations" (Mann (1984)).".

Tax Reform Tax Reforms are institutional reforms that create, modify, abolish laws pertaining to taxation..

Terrenos Baldíos Baldios is the name given by the government of Colombia to vacant properties or lands that do not belong to a private actor in turn are the property of the Republic of Colombia..

Chapter 2

Measuring Economic Inequality

Between October and December of 2019, Chile saw it's biggest wave of protests since Pinochet. Following a minor increase in Santiago's subway fare, citizens turned to the streets in what rapidly became a huge social mobilization. Demands of protesters included reforms to a wide set of privatization schemes rooted in the Pinochet era, including health care, education, and the pension system. At the time, two conflicting readings of the drivers behind the protests emerged. One reading of the protest suggested that the protests were about citizens frustration with the extreme levels of socioeconomic inequality. According to Daniel Matamala, a journalist writing on the events, "[t]he chants on the streets and OECD reportst say basically the same thing: too much inequality, too much nepotism, too much abuse" (Matala, 2019).

Despite the loud chants on the streets claiming for a more society, several social scientists provided a second reading of the events. For them, inequality cannot be the cause because it has decreased in the past few decades. For example, Lustig

noted that; "In this century, the Gini coefficient in Chile decreased from 0.53 to 0.47" (Lustig, 2020). Given that the Gini coefficient is one of the most commonly used measure of economic inequality, this reading seemed to match a reading of the protests and their timing as not being caused by inequality.

However, when measured by the Income Share of the top 1% and the top 10 %, inequality has not decreased. The Gini and the Income Share of top quantiles are commonly used measures of economic inequality. And yet, they paint a very different picture for the Chilean case. This problem is not unique to Chile. In fact, Ranadive (1965) found that the ordering in countries per economic inequality changed based on the selected indicator. The mixed evidence based on different indicators raises a lot of questions; What indicator is a better measure of economic inequality? And relatedly, How do we know? wWhat aspects of economic inequality is the Gini Coefficient capturing? What aspects of economic inequality is the Income Share of the Highest 10% capturing? Which one is more important to understand long-term trajectories of economic inequality?

I argue that the way in which economic inequality is understood and measured by most scholars has not been amenable to answer these questions. As such, we need tools to not only answer these questions but also to be able to understand long-term drivers of economic inequality and inequality traps. In evaluating the literature on how to approach the measurement of economic inequality and the advantages and disadvantages of different indicators, I realized that the measurement of economic inequality is extremely contested. Furthermore, all this contestation happens around properties attached to measurement and there are very few debates about the concep-tualization. I argue that to provide more compelling answers to these questions and

to trace inequality trajectories in the long-run, we need to revive conceptual debates that incorporate notions of welfare into the measurement of economic inequality. To do so, I apply the framework developed in García Montoya (2020) to approach the measurement of essentially contested concepts.

Economic equality can be found when economic resources are evenly distributed in a particular group or society. Given that equality in economic resources is a non-fact in most societies (e.g. countries, cities, villages, regions), scholars are mostly concerned with the intensity of economic inequality in comparison to other social units. The concept of economic inequality is defined in relative terms by comparing units across time and space. For example, the following language is typical: "The country [South Africa] was very unequal in 1994 [at the end of apartheid] and now 25 years later South Africa is the most unequal country in the world." (NPR (2018)); "Among all countries, Brazil is the most unequal in terms of the income distribution, with a Gini coefficient of 0.54, followed by Colombia and Panamá (0.51)." (Reports (2019); and "The United States is one of the richest countries in the world. It is also one of the most unequal." (Atlantic (2017)). Even if a comparison is not explicitly made, statements like "Haití is a very unequal country" make sense because one is implicitly comparing Haiti with other countries that all experience inequality.

The relative nature of economic inequality puts all the weight on choosing the best index that allows one to effectively compare cases across time and space; the issue of the best definition drops out of the discussion. The stakes of choosing one index over another are high for three key reasons. First, different inequality indices result in a different ranking of cases (Ranadive (1965), p.121 Winship and Schwartz (1980)) and (Atkinson (1970), p. 250).

Second, different indices capture different aspects of the distribution of resources. In turn, choosing one index over another has implications for the different patterns that one finds and for causal theories that aim to explain economic inequality or that consider it as an explanatory variable.

Third, different measures of inequality are associated with different normative judgments about inequality. In fact, the contestedness of this concept comes from its "appraiseveness" nature, that is, the different normative values attached to the concept of economic inequality. Despite the importance of consciously selecting an index to compare countries and trace how inequality changes, we have very few guidelines on how to select one from the many existing indices. I develop these guidelines in this chapter.

The discipline of economics has dominated the study of economic inequality for the past several decades. In the 1920s, the main points of contention on the measurement of inequality concerned questions of utilitarianism vs. welfare economics.[1] Scholars debated whether or not measures of economic inequality should be calculated using explicit social welfare functions that mapped income and wealth inequality into inequality of welfare.

Pigou and Dalton, pioneers in this debate, understood economic welfare as the result of aggregating individual levels of utility; as such their approach required assuming functions of individual utility as well as functions to aggregate these to the societal level (Pigou (1912);Dalton (1920)). The emphasis on economic welfare developed into Dalton's idea that "the inequality of any given distribution may conve-

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[1]Both utilitarianism and welfare economics are theories that use individual welfare to evaluate a given society. The main distinction between the two is the form that aggregation takes from individual welfare to social welfare.

niently be defined as the ratio of the total economic welfare attained under an equal distribution to the total economic welfare attained under the given distribution." The resulting index measured the percentage of total social welfare lost due to inequality. As scholars pointed out, Dalton's indicator was problematic as it required strong assumptions about how to measure individual and social welfare (Atkinson (1970); Sen (1973)).

Like Dalton, Atkinson argued against conventional approaches to measuring inequality that adopt a summary statistic of inequality like the Gini coefficient, "with no very explicit reason being given for preferring one measure rather than another." Atkinson revisited these initial conceptual debates and proposed a new measure of economic inequality. His proposal was a measure that required weaker assumptions by using an explicit social welfare function that is sensitive to a parameter capturing "inequality aversion" (Atkinson (1970), p. 257).

Most scholars studying economic inequality abandoned the conceptual debates around the normative implications for welfare associated with economic inequality to look for "better" and more "precise" measures according to a series of axiomatic properties. In addition, questions like how to deal with pre-tax vs. post-tax measures, how to account for missingness patterns, how to use weights of individuals and/or households in the estimation, and which sources should be used (e.g. tax records versus surveys and censuses) became the points of debate. These questions stem from concerns over how to create a complete index that best captures these intricacies.

Although relevant, the search for "better" measures has come at the expense of equally desirable properties. First, the extent to which a given index can be easily interpreted. Second, the extent to which the measures reflect normative understandings

of economic inequality as inequality of welfare. High levels of inequality in material resources in a given society are problematic because they translate into inequality of welfare.

Amartya Sen, critical of existing theories of economic welfare, argued in favor of a theory of welfare beyond individual utilities. He proposed an alternative notion of social welfare based on capabilities: "Capability refers to the freedom that a person has in terms of choice of functioning, where the latter refers to what a person can achieve" (Atkinson (1999)). Sen's notion of capabilities and freedom had a big impact on the way in which we understand and measure economic development. Important resources have been deployed by multilateral agencies and governments to measure economic development beyond indices like the Gross National Product (GNP) and the Gross Domestic Product (GDP). Despite these efforts, Sen's influence on how we understand economic development did not translate into the incorporation of welfare into the measurement of economic inequality.

In this chapter, I use Sen's framework to assess economic welfare to evaluate economic inequality indices normative utility. As I will explain in more detail in the following section, my view aligns with a normative orientation of viewing economic inequality as a problem of economic welfare.

2.1 An Integrative Framework to Measure Essentially Contested Concepts

2.1.1 From concepts to measurements

Concepts are at the foundation of social science research; they are necessary to organize and theorize about the complex realities that social scientists aim to understand. However, most concepts that are of interest to social scientists are contested, and "inevitably involve endless disputes about their proper uses on the part of their users" (Gallie (1955), p.169). These concepts, labeled by Gallie as *essentially contested concepts*, are those for which different groups of people attribute different functions and explanations and attach different normative values. States, development, power, and the middle class are just a few examples of concepts for which scholars disagree on their definition, their uses, and their normative relevance.[2]

Despite the rich literature on how to define and conceptualize *essentially contested concepts* in the social sciences,[3] we lack guidelines to approach their empirical measurement. This is troublesome because their contestedness usually travels to the measurement stage. In this chapter, I present a framework to navigate these problems and improve the measurement of essentially contested concepts. While recognizing the complexities inherent to the measurement of contested concepts, this framework illuminates for researchers the potential costs and benefits associated with selecting

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[2]For a good review of the different conceptualizations of the state see Krasner (Krasner). See Amartya Sen and Martha Nussbaum for a good discussion on the definition of development (Sen (2001) and Nussbaum (2011)). The definition of power and its manifestations is discussed in seminal works like Dahl (Dahl), Lukes (2004), Bachrach and Baratz (1962), and Morriss (2002).

[3]See for example Collier et al. (2006) and Gerring (1999).

a given index. More generally, this framework offers a series of tools and guidelines for researchers and policymakers interested in designing or choosing among a series of indices and to justify their decisions.

Measurements of concepts are the bridge between reality and social scientists' theories. Methodologists agree widely that having "good" measurements of concepts is of great importance because indices mediate between theories/concepts and empirical realities. Scholars interested in issues of measurement validity often assume that disagreements regarding contested concepts pertain only to the conceptualization stage. According to them, measurement validity is obtained "when scores meaningfully capture the ideas contained in the corresponding concept" (Adcock and Collier (2001)). However, I argue that achieving good measures is particularly hard because contestedness around concept travels to the measurement stage. For example, scholars interested in measuring poverty levels agree on the definition but disagree widely on how to measure it. Some advocate for monetary thresholds to calculate the proportion of the population living under poverty. Others advocate for measures that account for the multi-dimensional aspects of poverty by including coverage of basic needs and quality of life in the measures (Bourguignon and Chakravarty (2003)). Similarly, scholars studying the *elites* seem to agree on the definition but widely disagree on how to approach its measurement. I contribute to the literature on measurement validity by showing that contestedness around concepts travels to the measurement stage and by proposing tools for addressing it.

To navigate contestedness at the measurement stage, I develop a framework that focuses on the three properties that researchers should consider when thinking about indices: measurement completeness, measurement interpretability, and normative

utility. The first and last properties respond to two sources of contestedness around measurement: the extent to which a measure captures a given normative value, and the inherent complexity of most essentially contested concepts. This framework allows us to analyze differences in the ways different groups of scholars approach issues of measurement. For example, measures of economic inequality are chosen by scholars based on the extent to which they are "complete" measures of economic inequality. However, little attention is given to the normative utility and the measurement interpretability of inequality indices.

The little attention devoted to issues of measuring contested concepts could be a consequence of a disciplinary and methodological divide. That is, researchers interested in issues of conceptualization are not necessarily interested in issues of measurement validity and measurement theory. By attempting to bring together these two domains, this framework also contributes to the literature on multi-method and mixed-methods research (Goertz and Mahoney (2012), Seawright (2016), and Brady and Collier (2006)). This framework works as a bridge between scholars who are particularly concerned with conceptualization and scholars who pay more attention to the measurement stage. For scholars interested in the conceptualization stage, I offer practical tools to translate concepts into measurements that reflect the meanings of the concepts. For scholars focused on the measurement stage, I offer practical tools to incorporate normative debates around concepts into the measurement of concepts.

2.2 Integrative Framework for Measuring Contested Concepts:

In this section, I propose an integrative framework consisting of three properties that should be considered when evaluating the fit of a given index or when choosing among a series of indices: measurement completeness, measurement interpretability, and normative utility. These three dimensions are represented in the cube in Figure 2.1.

Figure 2.1: *Index Properties*
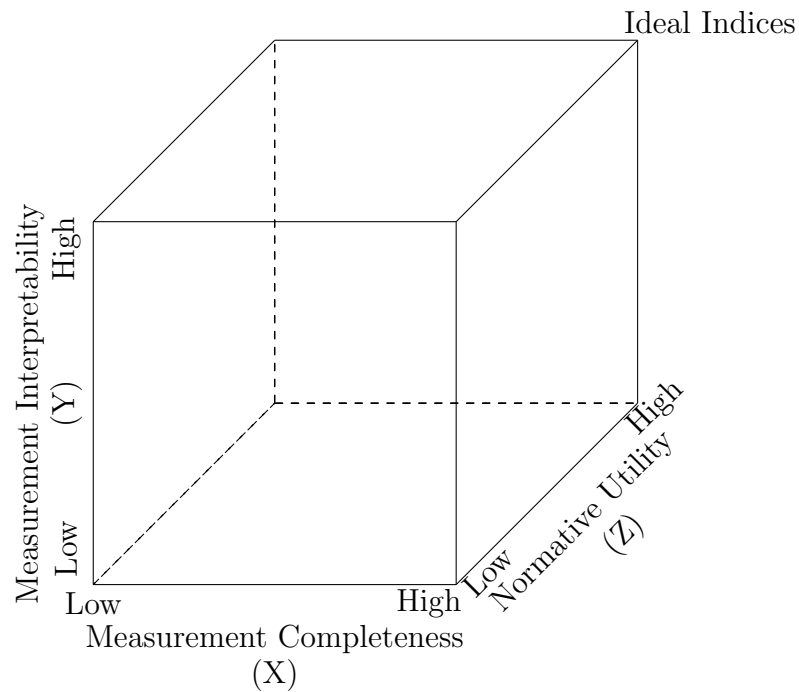
Disagreements about the advantages and limitations of a given set of measures are not inherently problematic for conducting social science research. Instead, I argue that explicitly considering alternatives and then being forced to defend those choices

enriches the debate and produces more robust measurements. For the application of this framework, it is crucial to clearly separate the contestation that occurs at the conceptualization stage from the contestation that occurs at the measurement stage. This separation allows scholars to proceed with facing the challenges inherent to the measurement process as opposed to those inherent to the conceptualization. In the following sections, it will become clear that there are two main sources of contestation at the measurement stage: (i) the different normative evaluations of a given definition, and (ii) the internal complexity of contested concepts. On the one hand, the property of normative utility allows researchers to deal with the first source of contestation at the measurement stage. On the other hand, the internal complexity of concepts results in an inherent trade-off between measurement completeness and measurement interpretability.

According to Gallie, concepts are essentially contested as a consequence of their *norm-invoking functions*. The *appraisal* of concepts is a defining feature of essentially contested concepts. Appraisal "signifies or accredits some kind of value achievement" (Gallie (1955), p.171) and refers to the set of normative principles and values that are associated with a concept. In turn, disagreements about the values associated with a concept are one of the most important sources of contestation. Even when departing from a single conceptualization, contestation is likely to continue at the measurement stage because there can be multiple normative values attached to a concept.

Besides appraisal, contested concepts are also characterized by *internal complexity* and *diverse describability* (Gallie (1955); Collier et al. (2006), p. 217). The internal complexity of contested concepts gives rise to important decisions at the measurement stage regarding how the rules of aggregation are represented numerically in the indices.

In particular, the complexity of concepts generates tension between indices that are complete and indices that are easy to interpret. All else being equal, more complete indices are harder to interpret because they entail measuring all of the attributes of a concept and all of the aggregation procedures among them. The costs in terms of interpretability increase when the index requires aggregating sub- indices.[4]

Figure 2.1, represents the three properties through which one can evaluate indices measuring a given concept. The X axis represents *measurement completeness* and the Y axis represents *measurement interpretability.* In the next section, I define the terms measurement completeness and measurement interpretability and explain the trade-off inherent in choosing between these two properties. I argue that this trade-off is a consequence of the complexity inherent to most contested concepts requiring complete indices to aggregate multiple components. The third property, *normative utility* is represented in the Z axis to signal that there is not necessarily a strong correlation between this property and the other two. As I will explain later in this chapter, normative utility is a property of an index vis-à-vis a normative value attached to a concept. As such, a measurement can be highly incomplete, because it only partially captures the attributes defining a concept, and can still be high on the normative utility vis-à-vis a single normative value. Similarly, it can be highly complete while

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[4]The trade-offs between completeness and interpretability are the center of a fundamental debate in computer science and the development of machine learning algorithms. The most important question in this debate is whether to prioritize obtaining the most precise or complete system or understanding what is communicated. "The goal of interpretability is to describe the internals of a system in a way that is understandable to humans. The success of this goal is tied to the cognition, knowledge, and biases of the user: for a system to be interpretable, it must produce descriptions that are simple enough for a person to understand using a vocabulary that is meaningful to the user. The goal of completeness is to describe the operation of a system accurately. An explanation is more complete when it allows the behavior of the system to be anticipated in more situations. When explaining a self-contained computer program such as a deep neural network, a perfectly complete explanation can always be given by revealing all the mathematical operations and parameters in the system. The challenge facing explainable AI is in creating explanations that are both complete and interpretable: it is difficult to achieve interpretability and completeness simultaneously."

failing to capture a given normative value.

2.2.1 Measurement Completeness

Measurement completeness refers to the extent to which an index captures the content of the concept. Capturing the content can mean different things depending on the structure of the concept one is aiming to measure. Two different ideas of what measurement completeness entails can be found in the main two measurement paradigms of quantitative research: Representational Measurement Theory (RMT) and Operationalism.

RMT relies on "axiom systems and theorems that are intended to explain why some attributes of objects, substances, and events can reasonably be represented numerically." [5] These axiom systems depart from qualitative attributes of concepts with the goal of producing *empirical relational systems (ERS)* that map attributes of objects into a *numerical relational system*. Ultimately, the logic of ERS resembles what social scientists understand by the operationalization of concepts into indices. When concepts are defined via a series of necessary attributes, the ERS departs from these attributes, applies a series of aggregating rules, and returns a numerical system with the possible values that the index can take. In this case, measurement completeness refers to the extent to which the index captures all of the necessary attributes that make up a concept. [6]

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[5]For a good introduction to Representational Measurement Theory see Hand (1996).

[6]The idea behind this concept is similar to the definition of content validity found in theories of measurement validity (i.e. as the extent to which a measure represents a systematized concept. See (Adcock and Collier (2001))) But, because not all concepts have an underlying structure of necessary attributes, I use the term measurement completeness because it allows for the accommodation of concepts for which there are no attributes but for which completeness is also a desirable characteristic.

A good example illustrating measurement completeness for classically defined concepts can be found on the Varieties of Democracy's (V-Dem) index for electoral democracy- Polyarchy. The point of departure is Dahl's influential view of electoral democracy as consisting of two attributes –contestation and participation – and the five institutional guarantees deemed necessary (elected officials, free and fair elections, associational autonomy, freedom of expression, and inclusive citizenship). Per Dahl's conceptualization, the Polyarchy Index is a highly complete measure of electoral democracy since it accounts for all five institutional guarantees. The index is constructed by taking the weighted average of the indices measuring each of the five institutional guarantees and the five-way multiplicative interaction between those indices. In section 4 of this chapter, I will return to the example of electoral democracy and compare it to other commonly used indices in the literature.

The second paradigm, operationalism, defines concepts "in terms of the operations used to identify and measure them." Operationalism is different from representational theory in that it does not assume there is a reality to the concept that the measure is trying to capture (Hand (1996)). Instead, it relies on statistical methods to construct operational definitions of concepts. This approach is widely used in psychometrics to measure skills, attitudes, and personality traits. Common methods that can be classified in this tradition include, for example, clustering methods, latent variable analysis, and item response theory models. In these cases, measurement completeness is often achieved when indices meet a series of desired axioms and tests. Ultimately, this process leads to a system of axioms that is very similar to the representational approach.

Axiomatic properties result from thinking about indices as a function of the main

attributes of a concept. For example, economists measuring the cost of living have specified a list of desirable properties of indices that lead to the definition of the consumer price index.[7] These included, among others; i) base year invariance: changes in the index are not sensitive to the year chosen as the base year. ii) Identity property: if none of the prices change between two periods, then the index should not change. In a paper about measuring the change in biodiversity, Van Strien and Soldaat identify the following mathematical properties: i) monotonicity; if all species are declining in a system the index should also be declining. ii) proportionality; if all individual species abundance are changed by the same factor the index should change by the same factor, iii) scale invariance: changes in the index are not sensitive to the spatial scale chosen.[8]

Another example comes from the literature on the measurement of economic inequality. Scholars have identified a series of axiomatic properties of inequality indices including: the index is independent of both the mean of the distribution and the size of the sample, does not change if two people swap their incomes, can be broken down to relevant subgroups, and any transfer from the rich to the poor results in a decrease in the level of inequality. Common axiomatic properties related to statistics include: the value of the index is independent of the sample size and is calculated with an unbiased and representative sample. After it is calculated, the index can be used for statistical testing and incorporates a measure of uncertainty.

In sum, the way in which one assesses measurement completeness of a given index depends on the structure of the concept and how it matches a measurement paradigm. When concepts are defined by necessary attributes, complete measures are those that

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[7]See Levell (2015)
[8]See VanStrien et al. (2012)

account for all of them. But, when concepts are not defined by a series of necessary attributes, scholars usually identify a series of mathematical and statistical axioms to assess the precision of indices. V'dem's Polyarchy index is a good example of a complete measure of electoral democracy. But as this example also illustrates, concepts are often defined through complex conceptual structures or complex axiom systems that require considering multiple components. The complexity is often translated into complicated operationalization procedures resulting in indices that are hard interpret. As a result, the second property of this framework pays attention to the level of interpretability of the measurements.

2.2.2 Measurement Interpretability:

A perfectly interpretable measure is one for which there is a one-to-one correspondence between the reality that the index is trying to measure and the numerical value. This idea of one-to-one correspondence is captured in mathematics by the concept of bijective function: a function for which there is a one-to-one correspondence between the elements of two sets. Using this extreme of *perfect interpretability* as a reference point, indices can be located per their level of interpretability. Indices are more or less interpretable to the extent that one can interpret easily the information they are summarizing and transform a numerical value into a meaningful statement about reality.

When measuring contested concepts, one should keep in mind that the rules of aggregation are consequential in terms of how interpretable those measures are. Ideally, the concept structure or the axiomatic system on how to aggregate each component is well-specified after the conceptualization stage. However, even in this ideal scenario,

because not all components can be measured and because complex concepts have complex aggregation procedures, most indices are the result of translating complicated conceptual structures into a single indicator. The more complex this procedure is, the harder it will be to interpret its value and make sense of changes to the indicator.

An interpretable index is one that allows the researcher to depart from a numerical value and trace back the process leading to that value. This means that comparing units using the measure can be interpreted back to differences in the concept being measured. Interpretable indices also allow one to understand changes reflected by the index in a meaningful way. A good example of the importance of measurement interpretability can be found in the quantitative literature on the conceptualization and measurement of civil wars for cross-national comparisons. Most of these studies prioritize indices that clearly distinguish civil wars from non-civil wars. In turn, most commonly used indices have high levels of measurement interpretability. The rationale behind this emphasis is the ability to clearly identify civil war onset and termination. On the contrary, most commonly used measures of democracy and economic inequality have very low levels of measurement interpretability, which poses limits to the reach of their findings.

The literature on how to define and measure civil wars (and armed conflicts) provides a good illustration of the importance of thinking about measurement interpretability. According to Correlates of War, the most widely used data base for civil wars, a civil war is defined as a military action internal to the metropole of the state system member with the active participation of the national government, effective resistance by both sides, and **a total of at least 1,000 battle-deaths during each**

year. [9] The thresholds found in the measurement of civil war is crucial because it turns the indices into binary and thus into a highly interpretable measure. For example, a value of 0 for a given year means that the country is not experiencing a civil war. If the value goes from 0 to 1 it suggests that a civil war has started. In contrast, The Polyarchy Index presented in the previous section is very hard to interpret, given that it results from combining different levels and attributes using complex aggregation procedures.

As scholars have argued (Staniland (Staniland)), the COW index and, more generally, indices that use fatality thresholds are incomplete measures of civil wars since they do not fully capture the complexities associated with wars. When contrasting the civil war measurement with the example of electoral democracy, the trade-off between completeness and interpretability becomes clearer.

In sum, an additional dimension through which one can evaluate indices is their interpretability. Interpretability refers to how illuminating the measure is when used to compare and interpret differences across time and across cases. Is the index useful for understanding the trajectories of change and continuity? How can it be used to compare cases? So far, the methodological literature on measurement and conceptualization has not emphasized the importance of having measurements that are easy to interpret.

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[9]A similar definition and logic for armed conflict's definition and measurement from Uppsala Conflict Data Program (25 threshold)

2.2.3   Normative Utility:

Disagreements about the norm-invoking functions of concepts are an important source of *contestedness* and are the focus of the last property of this framework: normative utility. Normative utility refers to the extent to which a given index reflects a normative orientation or theory underlying a concept. *Contestedness* around the normative orientation of concepts means that different indices of the same concept can capture a different normative value attached to it. Normative utility is then a property of an index vis-á-vis a certain normative theory or orientation. From this, it follows that the first step when measuring a contested concept is to identify the normative value(s) that is(are) relevant to the researcher. An important difference between this framework and existing accounts of measurement validity is that existing work assumes, following the systematization of a concept, there is agreement on the normative values attached to it. [10] In turn, discussions about different normative understandings of the same concept (even with a single definition) and how different indices are associated with them are not taken into account. I argue that the different normative values attached to a concept result in differences across indices in terms of how they reflect these differences. In turn, normative utility is an important aspect to consider when choosing an indicator. To account for the differences in the way measurements incorporate a given normative orientation, scholars first need to be explicit about the normative component(s) of the concept they aim to capture in their measures. There is not a single way of assessing the normative utility of a concept, and different methodological tools can aid the process of choosing or designing an index with high levels of normative utility.

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[10]See for example Adcock and Collier (2001), they separate issues of conceptualization from issues of measurement validity.

My analysis of the normative utility of indices measuring democracy, civil wars, and economic inequality shows clear differences between the three traditions. First, I have found that most scholars interested in measuring democracy are highly aware of the different normative values attached to each of democracy's attributes. In turn, researchers have thought about how different measures reflect those differences, meaning that often times normative utility goes hand in hand with measurement completeness. For example, V-Dem's Polyarchy index results from a normative commitment to electoral democracy and its institutions. In this case, the normative orientation of researchers is well aligned with measurement completeness resulting in a high level of normative utility vis-à- electoral democracy. How would we judge this differently if, for example, one cared more about the value of political equality? Researchers interested in measuring civil wars have emphasized violence and fatalities in particular as the main normative (negative) value to be captured. How do these indices do on normative utility if one cares about other forms of violence (e.g. disappearance, displacement, sexual violence)? Finally, scholars interested in measuring economic inequality are not interested in accounting for the normative implications of inequality in their measures. In fact, as I show in section 2, debates on the way in which economic inequality and inequality of welfare are related seem old-fashioned. In section 3, I illustrate one way in which the normative utility of economic inequality indices can be assessed, a framework that can be applied more generally.

2.3   Measuring Economic Inequality

2.3.1   Sources of Contestation

Contestedness around economic inequality does not come from disagreements on the essential attributes of the concept. Scholars do not debate the true meaning of this concept, and discussions around the definition of economic inequality are largely absent in the literature. Economic equality can be found when economic resources are evenly distributed in a particular group or society. The only necessary attribute for a societal group to be part of the set of "economically unequal societies" is that at least one of the members possesses a different amount of economic resources. In turn, the set of "economically unequal societies" contains all countries, cities, and regions in the world.

2.3.2   Existing indices

In this section, I present the most commonly used indices used to measure economic inequality of income. What follows is some notation that will facilitate the comparison of indices. To simplify the notation, I focus on the inequality of income. However, all of these indices can be constructed for wealth inequality using the same formulas.

Let x_i is the income of person (or household) i, and

let $x_{(i)}$ is the income of the person (or household) ranked (i) in the distribution, and

let n is the number of persons (or households). Let's assume n=100.

Share of total nth quantile: Income or wealth share by the top x% or by the bottom x% are commonly used measures of inequality. They summarize the share of income or wealth held by the the highest 10%, 1%, 20% or by the lowest 10%, 20%, etc.

$$Income\ Share\ of\ top\ k\% = \frac{\sum x_j}{\sum x_i}$$

Where j values are such that $x_j \geq x_{(k)}$.

$$Income\ Share\ of\ bottom\ k\% = \frac{\sum x_j}{\sum x_i}$$

Where j values are such that $x_j \leq x_{(k)}$.

Ratios: Some inequality indices use ratios of different quantiles. Common ratio measures include the 90:10 which compares how much richer is the top 10% relative to the poorest 10%, the 80:20 which compares how much richer is the top 20% with regards to the bottom 20%. The Palma ratio is defined as the proportion of richness of the top 10% relative to the bottom 40%.

$$90:10\ Ratio = \frac{\sum x_j}{\sum x_m}$$

Where j values are such that $x_j \geq x_{(90)}$ and m values are such that $x_m \leq x_{(10)}$.

$$Palma\ Ratio = \frac{\sum x_h}{\sum x_r}$$

Where h values are such that $x_h \geq x_{(90)}$ and r values are such that $x_m \leq x_{(40)}$.

Gini: The Gini coefficient is perhaps the most widely used indicator of economic inequality. It is used to estimate inequality of income, wealth, consumption, and expenditures. Besides, it is used both to estimate inequality within countries and across countries. (See for example Milanovic (2007); Kuznets (1955b)).

One of the advantages of the Gini index is that it takes into account the entire distribution and summarizes it in a single number between 0 and 1. The interpretation departs from the fact that if a group of people has a Gini Coefficient of income equal to 0, it means that all of the members of the group have the same amount of income. By contrast, it will take the extreme value of 1 if one member concentrates the entirety of the income and the rest have 0. All societies have values in between. One can calculate the Gini coefficient by the following formula:

$$Gini_t = \frac{\sum_i \sum_j |x_i - x_j|}{2 \sum_i \sum_i x_i} = \frac{\sum_i \sum_j |x_i - x_j|}{2n \sum_i x_i}$$

Where $i \neq j$.

The Gini coefficient can be interpreted using the graphical representation of the Lorenz curve. The Lorenz curve is a cumulative frequency curve that shows the proportion of income received by the bottom x%. With this, the Gini coefficient is equivalent to the ratio of the area between the Lorenz curve and the diagonal line.

Atkinson: This index depends on the difference between the actual mean income $\hat{x}$ and the equally distributed equivalent mean income. Inequality is calculated with the following equation:

$$A_\epsilon = 1 - \frac{1}{\hat{x}}\left(\frac{1}{N}\sum x_i^{1-\epsilon}\right)^{\frac{1}{1-\epsilon}}$$

Compared to other measures, the advantage of the Atkinson Index is that it can be converted into a normative measure of inequality by changing the values of ϵ. This parameter allows us to give different weights to specific segments of the distribution. However, it requires strong assumptions in terms of modeling social welfare.

Theil index and GE measures: These group of indices vary between zero (perfect equality) and infinity (or one, if normalized). The formula to calculate it:

$$T_t = T_{\alpha=1} = \frac{1}{N}\sum \frac{x_i}{\mu}ln\left(\frac{x_i}{\mu}\right)$$

Where μ is the mean income. The parameter α assigns a weight to distances between incomes in different parts of the income distribution. For lower values of α, the measure is more sensitive to changes in the lower tail of the distribution and, for higher values, it is more sensitive to changes that affect the upper tail (Atkinson and Bourguignon (2015)). The most common values for α are 0, 1, and 2. When $\alpha = 0$, the index is called *Theil's L* or the *mean log deviation measure*. When $\alpha = 1$, the index is called *Theil's T* index or, more commonly, *Theil index*. When $\alpha = 2$, the index is called *coefficient of variation*. A key feature of these measures is that they are fully decomposable.

2.4 Applying the Framework: The Measurement of Economic Inequality

2.4.1 Assessing Measurement Completeness

Scholarship on the measurement of economic inequality currently focuses on the development of complete measures of inequality. Complete measures of inequality are those that can meet a series of axiomatic and statistical properties. In particular, scholars have focused on measures that can satisfy all of the following conditions: i) mean independence, ii) sample size independence, iii) symmetry, iv) Pigou-Dalton transfer sensitivity, v) and decomposability.

Most of these five properties are uncontroversial. The first two are the most trivial since they are easily satisfied. First, *sample size independence* guarantees that the measure of inequality does not depend on the size of the population or sample under study. Second, *Symmetric measures* of inequality are those that do not change if two units within the measured population swap incomes.[11] A less trivial criteria is that of *mean independence*, which refers to the invariance of inequality measures to changes in scale. For example, if all incomes are doubled the inequality measure won't change. This property is very useful if one aims to compare countries with different currencies or across time, since the measurement will be invariant to inflation or currency. *The Pigou-Dalton transfer sensitivity property* is attained if equalizing transfers are translated into a decrease of the inequality measure. Finally, *decomposable measures* of inequality are those that can be broken down into relevant subgroups. This property

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[11] Also known as the anonymity rule, which refers to the fact that inequality measures should not depend on the "labeling" of individuals or households in an economy.

ensures that there is a coherent relationship between inequality in the whole society and inequality in its constituent parts. Decomposability is important if one aims to identify differences between groups of the population, from differences within such groups. See for example Bourguignon (1979); Sen (1973)) Statistical testability refers to the possibility of conducting statistical inference to compare indicators. With bootstrapping techniques now available to get at measures of precision, this is no longer problematic. Even so, most available indices are presented without measures of precision.

I evaluate measurement completeness as the extent to which inequality indicators meet the desired statistical and axiomatic properties. As Table 2.1 shows, all of the indices meet the criteria of mean independence, sample size independence, and symmetry. However, the Pigou-Dalton transfer sensitivity principle is only met by the Gini coefficient, the Atkinson index, and the Generalized Entropy (GE) measures. This property has served as an important justification for scholars to choose the Gini coefficient. Unlike the Atkinson index and the GE measures, the Gini coefficient does not require that the analyst posit a parameter for its calculation and this is perhaps why it is more commonly used than the other two.

2.4.2   Assessing Measurement Interpretability

Indices are more or less interpretable to the extent that one can comprehend easily the information they are summarizing. The level of interpretability of an index is often associated with the complexity of its aggregation procedures. When scores for an indicator are the result of complex rules of aggregation and operationalization, it is difficult to understand the *meaning* and *substantive importance* of a given change on

Table 2.1: *Measurement Completeness: Axiomatic and Statistical Properties*

Index	Mean Independence	Sample size independence	Symmetry	Pigou-Dalton transfer-sensitivity	Decomposability
Gini	✓	✓	✓	✓	
Share of total nth tile	✓	✓	✓		✓
Ratios	✓	✓	✓		✓
Palma	✓	✓	✓		✓
Atkinson	✓	✓	✓	✓	✓
Generalized Entropy measures	✓	✓	✓	✓	✓

an indicator. The criterion of interpretability captures the extent to which a change on an indicator can be readily linked to a specific real-world change.

The Gini index is an example of a complex indicator: it aggregates the entire distribution of income or wealth into a single number (see equation 4 above). The value of the Gini coefficient is interpreted as "half the average absolute difference between two individuals chosen at random in the population, in relation to the average standard of living of the population as a whole" (Bourguignon, 18). Bourguignon illustrates how to interpret this coefficient by using real data: "In a society where

the average standard of living is $40,000, a Gini coefficient of 0.4 would mean that the average gap between two individuals chosen at random in the population would be $32,000." The fact that the Gini Index takes into account all individual (or households) means that a change could reflect shifts to many different parts of the distribution. We do not know, for instance, whether a change in the indicator is the result of some people becoming richer, or of many becoming poorer. The Gini coefficient is not an intuitive measure of inequality; it is hard to understand the real-world meaning of a change in the indicator.

The other two indicators that meet the Pigou-Dalton transfer sensitivity principle are The Atkinson index and the General Entropy measurements. Both require assuming a value for a given parameter, which further complicates the interpretation of both indices.

In contrast, the remaining three indices that do not meet the Pigou-Dalton transfer sensitivity property are much easier to interpret. For example, if the share of the richest 10% percent goes from 20% to 30%, then one could easily communicate that change by saying that the richest decile of the population became 10% richer relative to the population. Similarly, one can interpret changes to the Palma Ratio in a meaningful way. For example, if a country goes from having a Palma Ratio of 2 to a Palma Ratio of 4, one could say that the proportion of income held by the richest 10%, relative to the poorest 40%, doubled. This means that for these indices, the observed numerical change can be traced back to changes in the share of income of certain groups of the population.

2.4.3   Assessing Normative Utility:

Normative utility refers to the extent to which an index properly captures the normative component of the concept it is measuring. I center my discussion on the normative utility of inequality indicators by returning to earlier debates to incorporate notions of welfare into the measurement of economic inequality. To do so, I follow Sen's *capabilities* approach to economic welfare.

In the 1980s, Sen strongly critiqued the lack of conceptualization behind "development," which consisted of little more than the indicators used to measure it: Gross National Product (GNP) and Gross Domestic Product (GDP). Sen worried that welfare economists were measuring development without considering information about health, morbidity, longevity, and education. His critique was accompanied by a theory of welfare that was based on notions of functionings and capabilities (Sen (2001, 1973); Nussbaum (2011)). This conceptual framework allowed Sen to define development "as a process of expanding the real freedoms that people enjoy" (Sen (2001), p.5). According to Sen, human development and human welfare require removing the major barriers to freedom, such as poverty, tyranny, unemployment, and reversing the neglect of public facilities like sanitation, education, and health services. Sen's ideas strongly influenced major institutions charged with reducing global poverty. Today, scholars and practitioners alike use the Sen-inspired Human Development Index (HDI) to compare countries according to their level of development.

However, Sen's influence was far less substantial in the literature on economic inequality. Contemporary debates about how to measure economic inequality are

detached from issues of human wellbeing and empowerment.[12] From a Sen-like perspective, economic inequality is fundamentally a problem of inequality of freedoms. Yet the most commonly used indicators of economic inequality work only to calculate a statistically complete measure of the dispersal of economic resources. This approach to measurement provides no insight into the extent to which existing measures actually capture the inequality of human welfare. Accordingly, I propose an alternative approach that can begin to incorporate notions of economic welfare into the measurement of economic inequality. Much as Sen shifted the measurement of development to reflect a human-centric normative perspective, I propose that scholars shift the measurement of economic inequality to reflect a normative perspective that places economic welfare front and center.

This approach consists of using a series of variables that have been well established to indicate economic welfare: mortality, health, security, education, and labor stability. I separately consider additional variables (mainly per capita GDP and GNP) that have been established to measure the aggregate economic output of a country. I then assess the size of the difference between a country's level of economic welfare and the size of its economic output. I call this difference the *welfare gap*.

The distance between a country's aggregate economic output and its level of economic welfare – i.e., the welfare gap – captures the extent of economic inequality in a society. Two distinct but intertwined phenomena are associated with the welfare gap. First, in a highly unequal society, a large difference exists between the economic welfare of those at the top versus those at the bottom. Ceteris paribus, increasing economic inequality involves an increasing dispersion in the *welfare* of the elite and

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[12]Atkinson and Bourgignon are the exception.

the so-called masses.

Second, if two societies have the same level of aggregate economic output, the more unequal one has a lower level of economic welfare. Everything else equal, economic inequality and economic welfare are inversely related. In the extreme case in which all income and wealth are concentrated in one individual, everyone else will face economic hardship and the level of economic welfare will be very low. At the other extreme, where income and wealth are equally distributed, individual levels of economic welfare match aggregate levels of economic resources.

The idea of a welfare gap suggests that indices with high normative utility should be able to predict the economic wellbeing within a society. To assess whether this is true, I use statistical regressions that summarize the extent to which inequality indices have the capacity to predict economic welfare. I use a panel-data set with country-level statistics for economic inequality and several variables associated with economic welfare. These data come from the World Bank Data Bank and cover all countries for 1960-2017 for which there is available data. I employ both Ordinary Least Squares regression as well as LASSO regressions in predictive models of economic welfare. For each measure of economic welfare used as the dependent variable, I estimate the equation by always controlling for GDP and varying the inequality indicator.

The results of this exercise are striking. The results show that the share of the top 10% (i.e, Top 10%) is a better predictor of economic welfare than the other indices, including the Gini coefficient. The next best measure is the share of the top 20% (i.e., top 20%). The substantive implication is that increasing inequality of income is particularly problematic for economic welfare when the top segments of the population have higher concentrations of resources. Increasing inequality of income

is less problematic for economic welfare when the bottom segments of the population have higher concentrations of richness. The results suggest that elite enrichment is especially associated with diminishing human welfare.

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$$Welfare_{i,t} = \beta_0 + \beta_1 * GDP_{i,t} + \beta_2 * Inequality_{i,t} + \epsilon_{i,t}$$

I compare the predictive power of the different inequality measures by looking at the R-square coefficients of the models. Table 2 shows the rankings based on the adjusted R-squares for each economic welfare index. [13]

This exercise suggests that the inequality indices with the highest predictive power are the Top 10% and the Top 20% measures. Besides, it shows that the indicators with the least predictive power are the ones measuring the income share of the lowest

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[13]In the following link [unavailable to maintain blind review], you can find an interactive tool that uses R to estimate the models. The tool allows you to choose both the dependent and independent variables. It displays a scatterplot with the adjusted R square, as well as the distribution of both variables and the regression output.

Table 2.2: *Ranking of Indices per predictive power (OLS)*

	Primary Education	Secondary Education	Tertiary Education	Mortality Rates	Births Att. Skilled Person	Homicide Rate
HIGH	Top 10%	Top 20%	Top 10%	Top 10%	Top 10%	Palma
	Top 20%	Top 10%	Top 20%	Top 20%	Top 20%	P80_20
	Gini	Gini	Palma	Gini	Palma	Top 20%
	Palma	Bottom 20%	Gini	Palma	Gini	Gini
	P80_20	Palma	P80_20	P80_20	P80_20	Top 10%
	P90_10	P80_20	P90_10	Bottom 10%	Bottom 20%	Bottom 20%
LOW	Bottom 20%	Bottom 10%	Bottom 20%	P90_10	P90_10	Bottom 10%
	Bottom 10%	P90_10	Bottom 10%	Bottom 20%	Bottom 10%	P90_10

decile and quintile. This could indicate that to understand the implications of income inequality on welfare one needs to pay close attention to the richest sectors of the population. Finally, the Gini coefficient is mid-level for most welfare indicators.

With regards to the regression coefficients, it is important to note that they all have the expected sign following the expectations from the welfare gap. That is, higher levels of inequality are associated negatively with welfare levels.

To complement this analysis, I use LASSO to identify the most important variables for economic welfare. The results are very similar to OLS, which suggests that they are robust. Using the standardized magnitudes of the coefficients, Lasso regression allows one to rank the variables per their importance. Table 3 presents the rankings of the inequality indices for each welfare measure. It shows that Top 10% is again a more important predictor of welfare measures. Furthermore, it shows that variations on the Gini index are weakly correlated with variations on welfare inequality. Here too, the signs of the coefficients are in the expected direction.

Table 2.3: *Ranking of Indices per predictive power (LASSO)*

	Primary Education	Secondary Education	Tertiary Education	Mortality Rates	Births Att. Skilled Person	Homicide Rate
HIGH	Palma	Top 20%	Top 10%	Bottom 10%	Top 10%	P80_20
	Top 10%	Palma	*	Palma	Palma	Palma
	P80_20	Bottom 10%	*	P80_20	P80_20	Top 10%
	Bottom 10%	Top 10%	*	Bottom 20%	Bottom 10%	Top 20%
	Gini	Gini	*	Top 20%	Gini	P90_10
	P90_10	Bottom 20%	*	Top 10%	P90_10	Bottom 10%
	Bottom 20%	P90_10	*	P90_10	Bottom 20%	Gini
LOW	Top 20%	P80_20	*	Gini	Top 20%	Bottom 20%

$$Welfare_{i,t} = \beta_0 + \beta_1 * GDP_{i,t} + \sum_{j=1}^{n} \gamma_j * \text{Inequality Indicator}_{j,i,t} + \epsilon_{i,t}$$

These two exercises present a way of assessing the normative utility of indices vis-à-vis welfare. Overall, the results suggest that the finding is robust. The Gini coefficient, the most commonly used index to measure economic inequality for its completeness advantages, is not the strongest predictor of economic welfare. Less complete indicators are better measures if one cares about the effects of economic inequality on welfare inequality.

2.4.4 Discussion

A review of existing approaches to measuring economic inequality demonstrates the choices that have been made by scholars and the costs associated with them. Scholars have given priority to measurement completeness by focusing on the Pigou-

Dalton Transfer Sensitivity Principle as the most important axiomatic property to determine whether an indicator is complete. As a consequence, because it achieves completeness, the Gini coefficient has become the leading measure of economic inequality for both scholars and practitioners.

Yet the concern with completeness has come at a very heavy cost. For one thing, aggregate inequality indicators (such as an income Gini) do not reveal much about the changing determinants of inequality, when the latter affect this indicator in opposite directions. The Gini coefficient offers a hard to interpret measure when compared to easily understandable alternatives, such as the share of nth decile measures. In addition, the Gini coefficient does not reflect the normative value that inspired the original concern with inequality. In particular, the Gini coefficient is detached from the idea that economic inequality and economic welfare are linked together.

The inherent trade-off identified here between measurement completeness and measurement interpretability has important implications for social science research. I argue that priority should be given to interpretable indices over complete indices in contexts in which we need researchers and policymakers to better understand the drivers of economic inequality and how it changes in different societies. Furthermore, how economic inequality transforms into inequality of welfare needs to be incorporated back to the discussion.

One potential route forward is that future research on economic inequality directly measures welfare and fully incorporates Sen's capabilities framework to this approach. This exercise is beyond the scope of this chapter since it would require a deep change in how multilateral agencies and governments approach the measurement of economic inequality. The approach presented here is a less costly alternative to trying to

incorporate a Sen-like approach through the conceptualization of the welfare gap.

Table 2.4: *Ranking Inequality Indices*

Index	Normative Utility	Measurement Interpretability	Measurement Completeness
Gini	Medium	Low	High
Theil	Medium	Low	High
P90	High	High	Medium
Atkinson	Medium - High	Low	High
Palma Ratio	Medium - High	High	Medium

2.5   Measuring Economic Inequality in Latin America

As I explained in the introduction, the focus of this dissertation is on long term dynamics of economic inequality and inequality traps. The concept of inequality trap is used to describe trajectories of inequality characterized by being high and persistent. The idea of inequality traps results from identifying two dimensions in which inequality trajectories vary across cases: the level, and the stability. The goal of this section is to identify which countries have been trapped by high levels of inequality, which countries have had persistently low levels of economic inequality, and which countries changed their trajectories and managed to escape such traps. Empirically, this can be observed when, despite short-term variations in inequality

per a given indicator, the series reverses back to the mean, suggesting that inequality is not structurally changing.

In this section, I use insights from the measurement framework and discuss how we can use the income share of the richest 10% to get at the main dependent variable of this project: long-term inequality and inequality traps. Figure 2.2 shows the Income Share of the Richest 10% for all countries in South and Central America. The graph displays for each country the available data points between 1960 and 2018 and a smoothed trend estimated that minimizes the error. In addition, the horizontal line shows the mean level for all countries in Latin America throughout the period. This line serves as a reference to be able to distinguish countries according to their level of economic inequality.

Using the mean as reference, it is possible to see that countries like Uruguay, Venezuela, and Argentina have had consistently lower levels of economic inequality in the region. The graph also shows that for these countries, and despite short-term variations, the trajectory seems to stay at similar levels. In contrast, countries like Colombia, Chile, Brazil, and Honduras have had persistently higher levels of economic inequality. Because of this, I characterize these countries as being trapped by inequality. A few countries stay around middle levels of inequality throughout the period like Costa Rica, Panamá, and Mexico. In contrast, only a few countries present changes in their trajectories. In particular, Perú, Ecuador, and Bolivia were able to escape extremely high levels of economic inequality in the second half of the twentieth century. The graph also shows that in most countries, inequality has been decreasing since the early 2000s. The downward trend has been documented widely in the social sciences (Huber and Stephens (2012); Lustig (2015)), and existing explanations point

Figure 2.2: *Economic Inequality Trajectories*
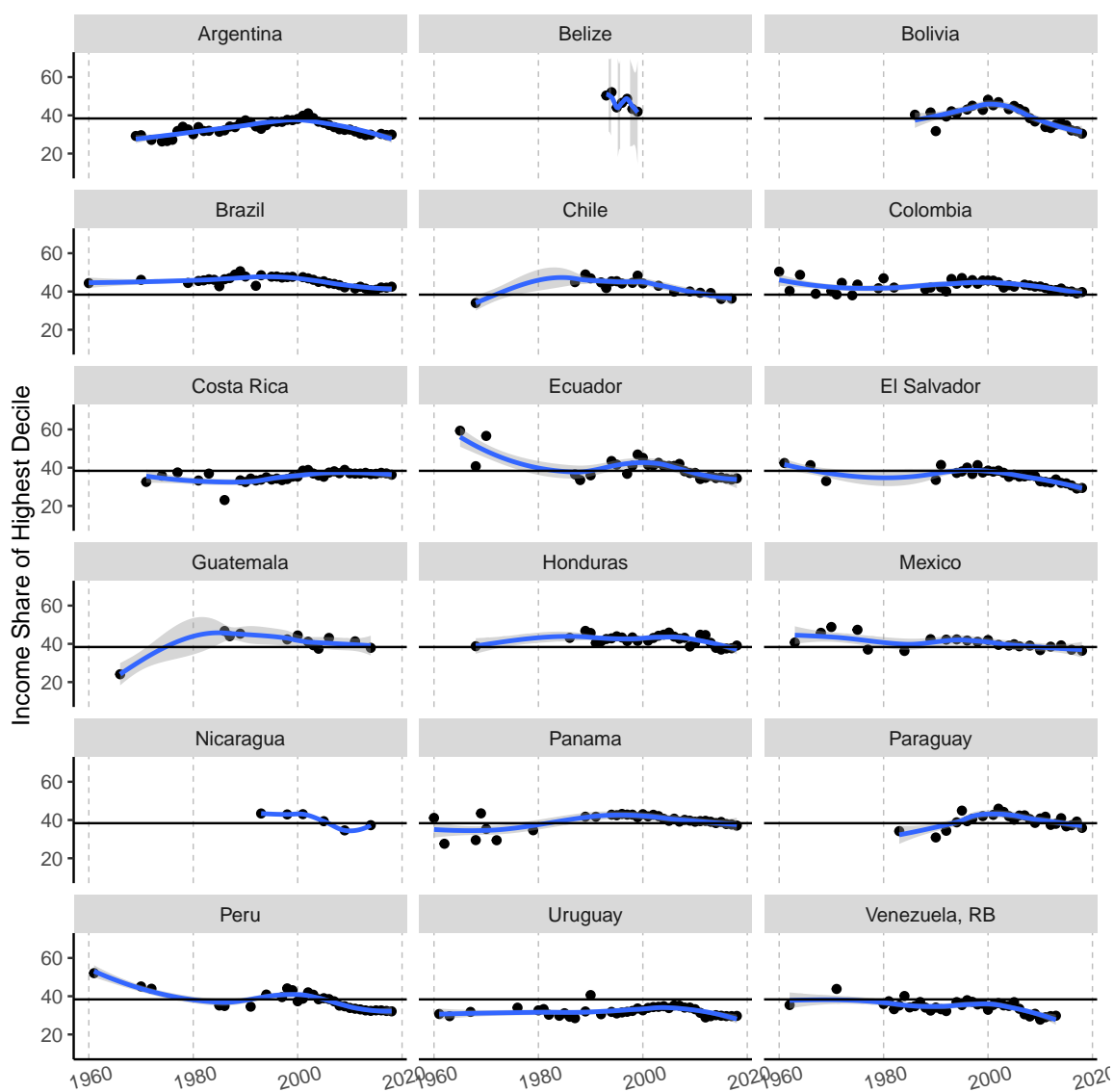
to the left-wave in the region and to important social policy reforms. However, I think we have yet to see which countries will experience a reversal to the mean and which countries actually saw a permanent break with past levels. Based on available data we can already see that this downward trajectory stalled reversed (Colombia, Argentina, Perú) or even reversed (Venezuela, Honduras, Nicaragua, Brazil).

I use this graph to code countries into categories of economic inequality and their level of stability. I summarize the coding of cases in 2.5. Classifying countries per their level of inequality and the stability in the trajectories allows one to see the variation on the outcome around which this project is centered. As I explained in the introduction, this variation is the basis of the different components of the research design. For theory building, I selected cases that vary both in the outcome and on the main explanatory factors of economic inequality. In Uruguay, despite short-term variations around its mean, inequality has been relatively stable and much lower than in other countries in the region. Chile experienced a period of decreased inequality between 1960 and 1970 when it appeared to have escaped an inequality trap. However, in the 1980s, the trajectory changed upward and returned to similar values of those in the 1950s. The case of Colombia shows brief periods with a small decrease, but these were followed by a rapid reversal to the mean. Honduras too seems to be trapped in high levels of economic inequality. However, the trajectory is more unstable than that of Colombia. Finally, I want to draw attention to Perú. In contrast to what happened in most countries in Latin America, the country witnessed a decreasing trajectory starting in the 1960s that suggests that the country managed to escape a high inequality trap.

Table 2.5: *The Outcome: Level and Stability*

Country	Level (1960)	Level (2018)	Stability	Notes on coding
Low and Persistent Inequality				
Argentina	Low	Low	Medium Stability	Even though Argentina has been below the mean line for most years, during the economic crisis of 2001, inequality reached a country high. However, the line reverted back to pre-crisis levels.
Uruguay	Low	Low	Stable	Low levels throughout the period.
Venezuela	Medium	Low	Stable	Low levels throughout the period.
Medium and Persistent Inequality				
Costa Rica	Medium	Medium	Stable	Stability on mid levels of inequality seems to be higher in Costa Rica than in most other countries in the region. It was initially the least unequal country in Central America. However, unlike other countries in the region, inequality did not decrease since early 2000s.
Mexico	Medium	Medium	Stable	Mexico's level of inequality seems to be close to mid-levels throughout the period.
Panama	Medium	Medium	Stable	Panama's level of inequality seems to be close to mid-levels throughout the period.
Trapped by Inequality				
Brazil	High	High	Inequality trap	Brazil has had very high levels throughout the period - Inequality trap. Similar to what happened in many other countries in the region, the country saw a decline for the first few years of 2000s. However, the downwarn trend is no longer clear.
Chile	Medium	High	Inequality trap	Chile has had persistently high levels of inequality. There was a period in which inequality decrease (1960s) that this graph fails to fully capture. However, with Pinochet, the country returned to inequality levels similar to those pre-1960. With governments of La Concertación, the country saw decline in the level of inequality but not as steep as that of other countries in the region.
Colombia	High	High	Inequality trap	Colombia has had persistently high levels of inequality - Inequality trap.
Honduras	Medium	High	Unstable	Honduras showcases one of the most unstable trajectories of economic inequality in the region.

Cont. The Outcome: Level and Stability

Escaped Inequality Traps

Ecuador	High	Low	Escaped Inequality Trap	The country went from having extremely high levels of economic inequality to having relatively low levels.
Peru	High	Low	Escaped Inequality Trap	The country went from having extremely high levels of economic inequality to having relatively low levels.
Bolivia	High	Medium - Low	Decreased 2000*	Around 2005, the country started to see a significant decrease in the level of inequality. The decrease in Bolivia is one of the most steep declines in since 2005.
El Salvador	Medium	Medium - Low	Decreased 2000*	El Salvador shows a strong decline since 2000.

Insufficient Information

Paraguay	No data	Medium	Insufficient Information	Paraguay is today at mid-levels of economic inequality.
Nicaragua	No data	Medium	Insufficient Information	There are very few data points for the case of Nicaragua.
Guatemala	No data	Medium	Insufficient Information	There are very few data points between mid-1960s and mid-1980s.
Belize	No Data	Insufficient Information	Insufficient Information	There are very few data points to be able to code this case's trajectory of inequality.

In Figure 2.3 I incorporate available additional data points to each country series and to further explore the temporal variations of inequality trajectories of the five countries that I study in-depth. Besides, in addition to the Income Share of the Highest ten percent, I also include the Gini Coefficient given that I was able to collect data from the 1940s. The graphs present the smoothed lines using time as a predictor of the inequality indicator. The variation in the level and stability of inequality trajectories for the five selected cases becomes more clear by putting all of the lines in the same plot and with the addition of the trend lines. As I mentioned

earlier, Colombia and Chile, show persistently high levels of inequality, while Uruguay shows low levels throughout the period. Per both indicators, Perú shows a decline in the level of inequality since the mid 1960s. The picture for Honduras is less clear, since the trajectories of both indicators seem to be different and less stable.

Figure 2.3: *Long-Term Trajectories of Economic Inequality Selected Cases*

(a) *Gini Coefficient*

(b) *Income Share richest 10%*
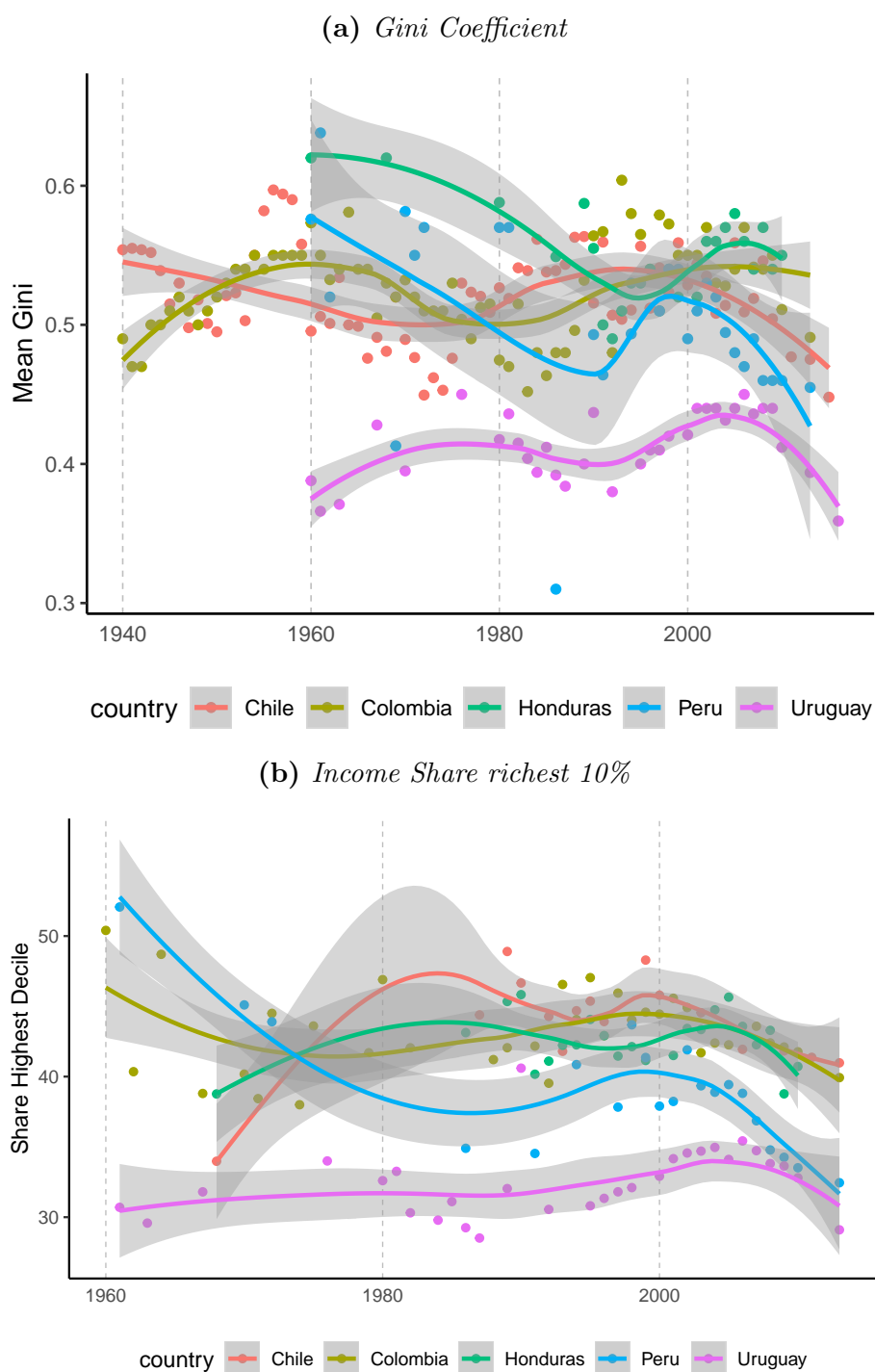
Source: Own calculations using data of Gini Income from United Nations University - WIDER, Milanovik 2014, Rodriguez Weber Historical series for Chile and Colombia, Frankema. Notes: I calculated average GINI and Income share by country in this way: available data points (sometimes more than one observation per year-country with different sources) were averaged by country year.

Chapter 3

A Theory of Economic Inequality in the Long Run

This chapter presents a theory of economic inequality in the long-run. The first part of this theory is a "causes of the cause" argument. I focus on the main cause – i.e. redistributive state power - and develop its conceptual and historical foundations. In the second part of the chapter, I put this argument into an overall theory of long-run inequality.
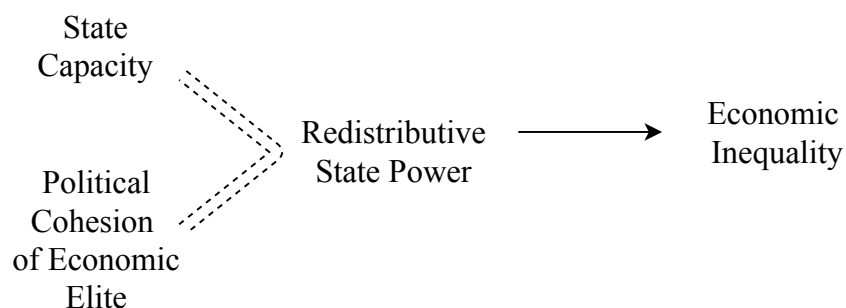
My argument begins with the assumption that every form of power distribution is permanently contested by the powerless and defended by the powerful (Winters and Page, 2009). With this in mind, it is possible to think about a country's trajectory of economic inequality as a function of opposing forces combining to produce a given distribution of economic resources. In this sense, stability is not a synonym of the absence of change; in this dynamic equilibrium, stability is the result of a balance of the competing forces. On the contrary, change results from a shock to the balance of relevant forces, one that the system cannot compensate. I propose a theory that draws on this notion of opposing forces to explain how trajectories of economic inequality are shaped in the long run. The argument focuses on the balance of three forces: pressures for redistribution, state infrastructural capacity, and the political cohesion of economic elites. In what follows, I explain how these forces interact and under what conditions countries manage to escape economic inequality traps towards decreasing levels of inequality.

The first part of this chapter conceptualizes redistributive pressures, state capacity and the political cohesiveness of the economic elite. In the second section, I show how the state and the economic elite interact to get at a given RSP. In the third section, I explain how RSP shapes economic inequality trajectories in the long run.

3.1   States, Elites, and Redistribution

In this section, I lay the foundation for the theory of economic inequality. I will discuss three key concepts that are at the center of my argument: a) redistributive pressures, b) state capacity, and c) the political cohesion of the economic elite. The state and the economic elite are at the center of RSP. Together, they shape the

responses to redistributive pressures and inequality trajectories.

3.1.1 Redistributive Pressures

Throughout history, the extreme concentration of property and income has attracted a range of threats (Winters, 2011). I conceptualize Redistributive Pressures as the forces threatening the concentrated possession of income and wealth of the economic elite. These forces can take different forms. First, they can be direct and take the form of threats to take over properties and goods. An example of this can be found in the peasant movement of La Convención in Perú in the late 1950's. The more radical faction with the slogan of "land or death" resulted in the redistribution of 300 Haciendas. Second, they can take the form of indirect claims made through social mobilization and contentious politics to demand the government redistributive policies. Third, they can be indirect through electoral support and votes for candidates competing with redistributive agendas (Acemoglu and Robinson, 2006; Boix, 2003).

The idea of redistributive pressure captures the 'sustained challenge to the capitalist system by the non-owning classes' (Domhoff, 1998, p. 12), which, according to Marxist theory, is inevitable. Pressures in favor of redistribution are a consequence Bloomey's idea of property as "held against others" and relational (Blomley, 2003). Property is chronically contested, and as a result, the challenge of the economic elite is to maintain their material positions. In addition, "The larger the property and wealth claimed, the more numerous [...] threats become" (Winters, 2011), page 22).

Two theories link high levels of economic inequality to pressures for redistribution. The first approach relies on the psychological mechanisms triggered by inequality.

Inequality is associated with a sense of relative deprivation that leads to frustration among the poorer sectors of society (Runciman, 1972), 10). Higher levels of inequality increase the levels of frustration and legitimize claims for social justice (Gurr, 1971).

The second approach emphasizes social identification as a cause of social mobilization and rebellion. In this view, collective action is facilitated by a collective consciousness, the identification of a collectivity with common values, interests, goals, and sentiments that results in the sense of mutuality and solidarity (Gurr, 1971). The socioeconomic class can be a source of common identity that facilitates collective action and, in turn, can be associated with organized pressures from below.

Historically, forces favoring redistribution have come in the form of social mobilization and contentious politics and respond to changes in the economic structures as well as to the rise of new ideas on social justice. For example, in the 1920s and 1930s in Latin America, rising pressures to redistribute came from the left-wing social mobilizations around the labor question (Collier and Collier, 2002), and the changes associated with industrialization and urbanization. In addition, following the great depression, ideas around the role of the State in the economy imposed important redistributive pressures on the system. Another classic example of these challenges is the rural Marxist-Leninist guerrilla insurgencies that emerged in the 1960s across Latin America. These groups challenged the territorial reach of the state and its monopoly of violence. Besides, the presence of a redistributive discourse was extremely threatening to the landed economic elites. These examples demonstrate the pressures constantly being put on the existing distribution of material wealth and the importance of thinking about the state and the economic elite in responding to those pressures.

3.1.2 Defining State and State Capacity

The goal of this subsection is to define state capacity with reference to redistribution. I argue that state's capacity and autonomy not only vary across states, but they also vary within states. For example, a state can have high coercive capacity and at the same time have low extractive capacity. Similarly, a state can be autonomous vis-à-vis certain groups and lack autonomy vis-à-vis others. In what follows, I explain the importance of thinking about the capacity to redistribute is an important dimension across which states can vary.

For this theory, my conceptualization of the State aligns with Skocpol's view of the state as "[...] a set of administrative, policing, and military organizations headed, and more or less well coordinated by, an executive authority" (Skocpol, 1979). For Skocpol, in the Weberian tradition, the state "fundamentally extracts resources from society and deploys these to create and support coercive and administrative organizations". As such, these layers of bureaucratic organizations are the basis of state power. Skocpol emphasizes on a conceptualization of the State as potentially autonomous. In reaction to a Marxist understanding of the State as an instrument of class domination, Skocpol sees state capacity and state autonomy as dimensions across which states can vary.

State Capacity:

The first component of my conceptualization of RSP is state capacity. The capacity of the State is conceptualized here as infrastructural power, as delineated by Michael Mann. State infrastructural power reflects "the capacity of the State to ac-

tually penetrate civil society and to implement logistically, political decisions through its territory. [...] that determines how far its bureaucratic apparatus can reach to exert control and regulate social relations" (Mann, 1984). A State with high capacity, or a strong state, is one that can maintain political order, protect citizens, guarantee property rights, tax, and redistribute resources (Soifer, 2015; Mann, 1984). Other things being equal, as a state gets stronger [1], it is plausible to expect that it acquires a higher capacity to collect taxes, to enforce property rights, to repress threats to the status quo, and to put in place redistribution schemes. All of these functions, traditionally associated with a modern state, are important determinants of economic inequality and economic development. However, while necessary, state capacity is not sufficient for the implementation of state policies. Existing works on the capacity of the states to shape development outcomes emphasize on the importance of the autonomy of the state.

For example, in *Embedded Autonomy*, Evans explains how the State shapes economic development and focuses on embeddedness and autonomy as characteristics across which states vary. In this work, autonomy is one of the key variables explaining the extent to which state interventions successfully foster economic transformation. Only states that are both embedded within the society and autonomous from it can successfully promote economic policies(Evans, 1995). Evan's treatment of autonomy as a variable for states resembles Migdal's idea that states vary in their capacity to transform society. According to Migdal, the transformative capacity of the State is a function of societal strength. Migdal assumes that societal strength is an attribute of society as a whole, failing to recognize that different segments or groups in society vary per their level of strength. Both Migdal and Evans point to the importance of

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[1]I use state strength and state capacity interchangeable.

the role of the State in influencing economic outcomes. However, both show that absolute state capacity is only part of the story. Its strength vis-á-vis social groups is equally important (Migdal, 1988). Therefore, the notion of the relative power of the State is aligned with a view of the State for which autonomy is not a definitional aspect but something that might vary across states.

An important limitation of these conceptualizations of the state, and its capacity and autonomy, is that they portray a picture of the state as a monolithic entity and of state autonomy as characteristic of the state as a whole. Using Orloff and Morgan's notion of the "many hands of the state", I view state autonomy of the State as a variable within the different sets of administrative, policing, and military organizations that constitute the bureaucratic apparatus of a state (Morgan and Orloff, Morgan and Orloff). For example, a state can have high infrastructural capacity (coercive and administrative powers) and yet only fully use its capacity vis-à-vis certain actors and policy domains. Morgan and Orloff argue in favor of looking into the concrete ways in which states do the work of governing to understand the State and its power. This focus allows the authors from an overly abstract categorization of the State. It is possible to think about the State as being autonomous from some sectors of the society and not autonomous vis-à-vis others. I depart from this notion and allow state autonomy to vary within a state and vis-à-vis actors. In this theory, I am concerned with state autonomy vis-à-vis the economic elite. In the next section, I provide the conceptualization of the economic elite and the circumstances under which a state can be autonomous from this particular segment of society.

3.1.3   Political Cohesiveness of the Economic Elite

A politically cohesive economic elite is one that is characterized by the cohesive stance of the different sub-types of economic elites regarding a state redistributive policy. The political cohesiveness of the economic elite is the second component of RSP. For simplicity purposes, I will conceptualize and measure this concept as dichotomous, that is a politically cohesive economic elite vs. a politically divided economic elite. Sartori's metaphor of the ladder abstraction provides tools to specify a clear conceptualization (Sartori, 1970). The concept of the elite, "serves as an umbrella concept for all actors holding concentrated minority power at the top of a community or a state." Winters (2011) elite is defined here as a minority of individuals that are empowered by its possession of a concentrated power resource. The constitutive attributes of the concept of elites are two: i) they constitute a minority of individuals and, ii) they possess a concentrated power resource. Note that the logical relationship between these two constitutive elements is AND implying that they are both necessary and jointly sufficient attributes. The possession of a power resource gives elites the capacity to influence the decisions affecting society more broadly. Given this conceptualization, the negative pole of an elite is, therefore, the majority of individuals that do not possess a concentrated power resource.

According to this definition, there are two main actors in which the elite is divided further: the political elite and the economic elite. The individuals who occupy these roles may or may not be the same people and this does not pose problems for the argument. For example, current president of Chile, Sebastián Piñera, is one of the richest people in the country and in turn he belongs to both types of elite: political and economic. Following the definition of elite, one can say that the political elite is
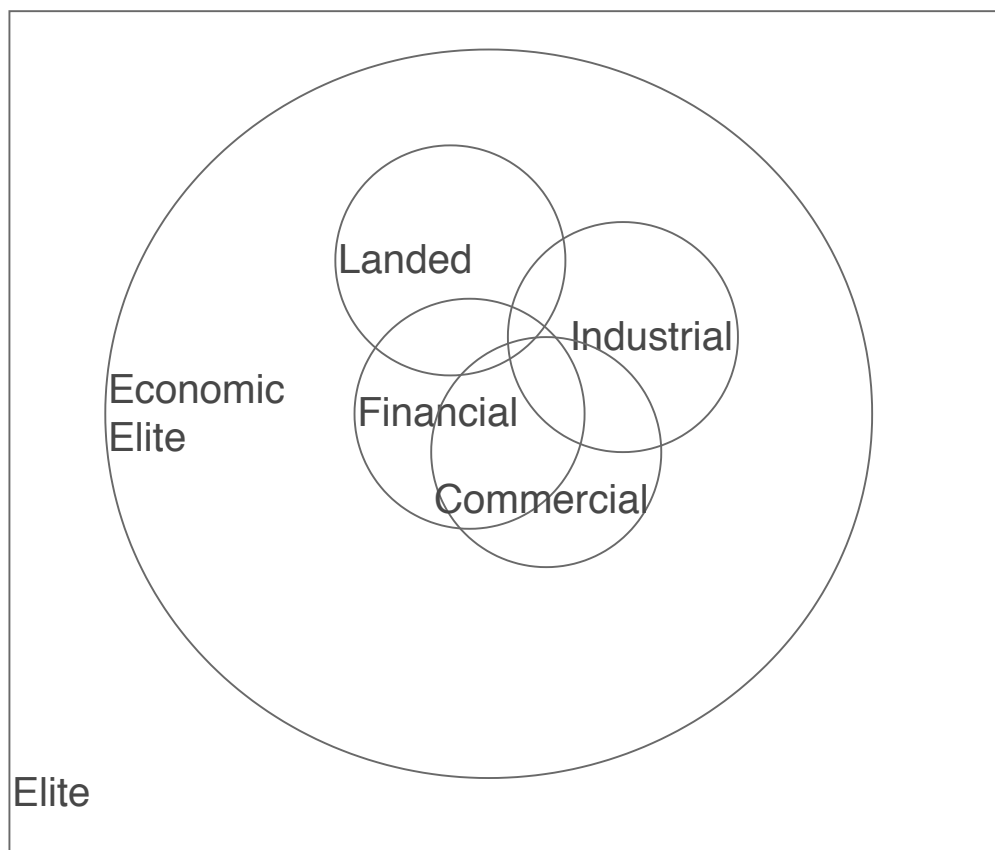
Figure 3.1: *Conceptual Structure of Elites*

constituted by minority of individuals that are empowered by their roles of leadership in the government and the state. Their holding of public office, gives members of the political elite capacity to directly influence decisions that affect the society in broad.

As Figure 3.1 shows, the *economic elite* is a subset of the elite formed by the minority of individuals empowered by their possession of material or economic resources: e.g., land, wealth, income, or capital. As an economic elite gets more affluent, it has more funds to invest in protecting this interest. The possession of a power resource gives elites the capacity to influence the decisions affecting society more broadly. I assume that members of the economic elite are interested in maintaining (or increasing) economic resources under their control. Different types of economic resources

allow one to identify different types of economic elites. For example, the landed economic elite is, therefore, the minority of individuals that concentrate land properties. Similarly, the minority of individuals concentrating capital in the industrial sector is the industrial economic elite. Other subtypes of economic elites include financial, commercial, etc. As such, this classification allows a single individual to be part of multiple subtypes of economic elites, which means that these are not exclusive categories. The final component of the concept of political cohesion of economic elites deals with the political alignment or misalignment of the different subtypes of the elite. The cohesiveness of elites has been a central topic in elite theory. Consensus within stems from the elite's dense network that gives them satisfactory access to central decision-makers (Hazan, 2001). In fact, according to Mill's model, cohesiveness is a defining attribute of the power elite. Competition among business, executive political and State security elites is limited since members of the power elite are intertwined and share educational and social backgrounds. Similarly, For Burton and Higley (1998), power is dispersed among numerous elite groups that agree on the basis of rules of the game governing their competition (Higley and Burton, 1998).

These models of elite power have two limitations. First, they cannot account for elite splits or elite divisions because they assume cohesiveness is a defining feature of the power/ruling elite. Second, they fail to provide a clear conceptualization of the power elite resulting in unclear boundaries distinguishing it from different types of elites. As a result, the lack of clear conceptualization of elites and the different types of elites has been problematic for the operationalization and measurement of elite cohesiveness.

Beyond elite theory, the political cohesiveness of the economic elite has been at

the center of important theories of explaining social change. For example, Barrington Moore's explanation is centered on the role of the bourgeoisie in abolishing the domination of the landed elite and bringing capitalist democracy to England, the United States, and France (Moore, 1993). Similarly, in *Demanding Democracy: Reform and Reaction in Costa Rica and Guatemala, the 1870s-1950s*, Yashar finds that the differences in terms of consolidating democracy between Guatemala and Costa Rica are in part a consequence of different levels of expressed political cohesion among the elites (Yashar, 1997). In *Ordering Power*, Slater emphasizes the capacity of the elite to solve the collective action problem to respond to contentious politics, as an important explanatory factor of regime durability and state capacity in South East Asia (See (Slater, 2010, p. 45) O'Donell and Schmitter in their theory of democratization emphasize on elite pacts as an important component of transitions to democracy in Latin America (O'Donnell et al., 2013).

However, the literature often talks about a cohesive vs. divided elite without providing a clear conceptualization sustaining the basis of such cohesiveness. For this theory, I see political cohesiveness is a qualifying attribute of the economic elite vis-'a-vis a policy or a set of policies. This allows me to empirically assess the cohesiveness of the economic elites by looking at their stances, communications, and positions. The concept of political cohesiveness of economic elites allows me to categorize societies or countries based on whether or not the economic elite is politically cohesive. I conceptualize this disagreement or lack of cohesiveness as a politically divided economic elite.[2] In contrast, when different subtypes of economic elites have

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[2]Cohesiveness does not require that 100% of the members of the economic elite to act cohesively. If the most important sectors of the economic elite act cohesively then one can think of a cohesive economic elite. Which are the important sectors is historically determined and depends on the composition of economic production.

the same stance vis-à-vis a policy, they can cooperate and act as a cohesive actor. I conceptualize this as a case of political cohesion of the economic elite. One could potentially measure whether members of the economic elite are in agreement or disagreement in a variety of topics. For example, one might wonder whether different subtypes of the economic elite disagree about who to vote in the presidential race. Or they might have disagreements on what is the best policy to achieve certain goal. Because the range of topics and policies in which economic elites might disagree is so broad, I narrow the conceptualization of political cohesion around state's policy orientation in responding to redistributive pressures. In a society in which members of a certain subtype of economic elite are also members of other subtypes, the political cohesiveness of the economic elite is more likely. In sum, I define a *cohesive economic elite* as one that is characterized by the political cohesion of sub-types of economic elites.

I argue necessary condition for the capacity of the economic elite to defend their interests and influence state policies. As a cohesive front, the control over the economic production of the economic elite makes this group of individuals extremely powerful vis-à-vis the State. On the contrary, when the economic elite is politically divided (or non-cohesive), it's capacity to influence state policy is significantly reduced.

I depart from Fairfield's argument to explain how cohesiveness matters for the economic elite's power vis-à-vis the State (Fairfield, 2015). Fairfield provides a compelling argument to explain how business elites can influence state policy through their agenda-setting powers. On the one hand, they rely on their instrumental power (partisan linkages, institutionalized consultation, informal ties, election to public office, cohesion, lobbying). On the other hand, their structural power allows them to

create a credible fear of capital flight that makes them important veto players. Fairfield argues that when business elites wield high levels of structural or instrumental power, revenue-enhancing direct tax reforms are unlikely to be enacted or even formulated at the agenda-setting stage. My argument differs from Fairfield's in that I recognize subtypes of elites within the economic elite. When economic elites have opposing political positions, their veto player power is significantly reduced.

Which elite groups are dominant in the economy depends on the socio-political and economic contexts. In Latin America, during the period of state formation, the most important group accumulating and controlling most of the economic resources in the economy was the landed elites. In the second half of the XXth century, as the composition of the economic activities changed in Latin America, the weight of the landed economic elites became less important, and industrial and commercial economic elites gained prominence. The historical changes in the importance of different economic activities mattered for the cohesiveness of economic elites. Because of this, I will be attentive in the operationalization to the weight of different sectors.

3.2 Redistributive State Power

I define Redistributive State Power (RSP) as the power of the State to redistribute income and wealth from the richer to the poorer segments of the society. I argue that a country's RSP depends on two factors: State Capacity and the Political Cohesiveness of the Economic Elite.

Redistributive State Power= f(State Capacity, Economic Elite Cohesion)

I argue that the RSP can help us understand under which circumstances redistributive pressures result in an actual change towards more economic equality. Pressures for redistribution can affect each of RSP's constitutive elements. On the one hand, these forces can pose challenges to order and to the monopoly of violence by the State (Eaton, 2012). In reaction to these pressures, states will try to maintain order and territorial control, which will lead to increases in their infrastructural capacity. But if they lose control and cannot retain power, the states will lose some of their infrastructural capacity. On the other, these forces challenge the economic elites' ownership of valuable resources (Blomley, 2003). The economic elites will seek to maintain or increase cohesion to protect their own interests as a group. However, if they cannot achieve or retain cohesion, they will be divided and even turn against each other when facing the redistributive pressures. In the absence of strong resistance from a united economic elite, the State will choose to maintain order and control by redistributive institutional reforms. Therefore, how each factor of the RSP responds to the redistributive pressures has great importance in determining the RSP outcome. In this section, I present a typology of RSP that allows us to trace how the interaction between the State and the economic elite can shape economic inequality in the long run. Table 1 presents the four ideal types of RSP resulting from the combination of State's infrastructural power (weak, strong) and the cohesiveness of the economic elite (cohesive vs. divided). In addition to the balance in these two forces, I expect these types to vary according to their stability. The interests of these two interacting forces suggest that some equilibriums are more likely to be stable than others. This section also analyzes the resulting types of redistributive state power and the conditions under which one should expect either stable trajectories of economic inequality or changes in the trajectory of economic inequality.

Table 1: A typology of Redistributive State Power

	Weak State	**Strong State**
Divided Economic Elite	Balance of the weak	Commensalism
Cohesive Economic Elite	Parasitism	Mutualism

Table 3.1: *Caption*

Balance of the strong / Mutualism: Under this equilibrium, the State is strong, and the economic elite is politically cohesive. This equilibrium is self-perpetuating because the interests of the State are aligned with those of the economic elite. This is because the economic elite will protect state capacity, which protects the elite from redistributive pressures, and the State will protect the unity of the elites in order to increase its own capacity. In the resulting equilibrium, the State will not try to institute redistributive policies in response to pressures.

State Relatively Weak / Parasitism: In biology, **parasitism** is defined as a type of interaction between organisms in which the parasite lives on or in the host organism and causes it some harm. Parasites are usually much smaller than their hosts and cause them to harm without killing them. This is because they live off of them. Parasitism is a good metaphor to describe an interaction in which the State is infrastructurally weak and faces a cohesive economic elite. Under this equilibrium, the economic elite is politically cohesive and, as such, has the capacity to influence state policies. However, because the State has low levels of infrastructural capacity,

it's coercive power to repress emerging threats is limited. The weakness of the State under parasitism makes this equilibrium less stable than mutualism.

State Relatively Strong / Commensalism: The term commensalism is used in biology to describe a relationship between two organisms in which the commensal, usually a smaller organism, obtains benefits from the other without harming it. The State can be thought of as the host, which is not harmed by the presence of the economic elite (the commensal). The economic elite is politically divided and, in turn, has a lower capacity to shape state policies. I expect this equilibrium to be stable since the State has the capacity to either repress threats or to put in place redistribution schemes that effectively appease the pressures for redistribution.

Balance of the Weak: If both the State and the economic elite are weak, we can talk about a Balance of the Weak. Under this equilibrium, the State has a low capacity to penetrate the lives of civilians. In addition, the economic elite is politically divided and, as such, cannot act as a collective to shape state policies. I expect this type to be an unstable equilibrium because both the State and the economic elite have an interest in becoming stronger. Economic elites are interested in protecting their privileged position, and in turn, they will deploy power resources to defend this position. The order in which these two things occur will determine if the new equilibrium is parasitism, commensalism, or mutualism. For example, in Chile, during the period of state formation, a politically cohesive economic elite agreed on the importance of having a strong state to defend property rights. As a result, Chile quickly arrived at mutualism. In the next chapter, I analyze four cases to show how countries reached different equilibriums of RSP and the economic inequality trajectory that followed. If, on the contrary, a cohesive economic elite sees

the strengthening of the State as an inconvenience for their interests, the result is parasitism. This is the case in Colombia after the period of state formation. If, in the midst of elite divisions, the State reaches high infrastructural capacity, the resulting equilibrium will be commensalism.

3.2.1 RSP versus similar concepts in the literature and alternative explanations:

The concept of RSP is related to important concepts that capture a more general notion of the relative power of the state vis-à-vis certain societal groups. In this section, I explain the main differences between RSP and State autonomy and Migdal's relational understanding of the State. The main difference between RSP and state autonomy is that the former emphasizes the autonomy of the state vis-à-vis a particular segment of the society – the economic elite.

The concept of RSP is therefore related to concepts of state autonomy and the relational strength of the State. However, unlike these concepts, the definition of RSP captures the relative power or autonomy of the state vis-à-vis the economic elite. I don't view state autonomy as a characteristic of a state in general. Instead, the State can have autonomy vis-à-vis certain segments of the society and not autonomous vis-à-vis others. Therefore, the RSP concept is underscoring that state autonomy is not a defining feature of the State as a whole. Instead, it is a relational concept that can vary for different types of actors of civil society.
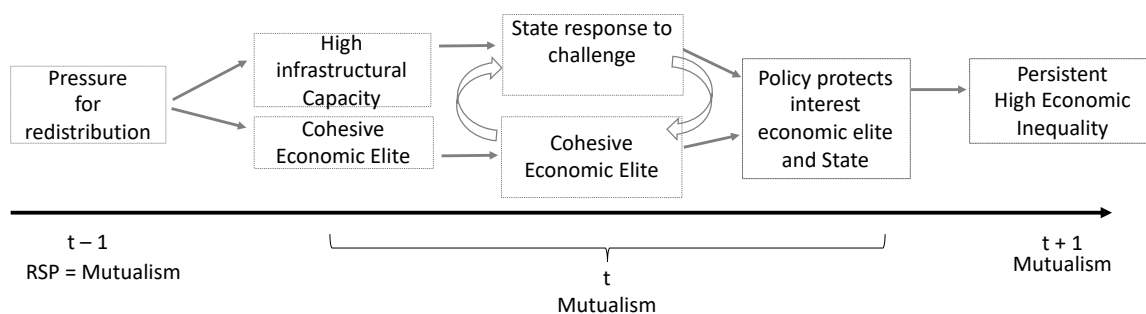
Figure 3.2: *Mutualism*

3.3   Models of Long-Run Economic Inequality

In this section, I analyze how redistributive pressures interact with the RSP to produce long-term trajectories of economic inequality. In particular, I explain how the type of RSP shapes the responses to such pressures of redistribution and the conditions under which a given equilibrium can be broken.

One of the interesting puzzles around inequality is that it is associated both with forces of change and with self-perpetuating mechanisms. On the one hand, higher economic inequality is inherently associated with higher and more systemic pressures for redistribution (Meltzer and Richard, 1981; Gurr, 1993; Blomley, 2003). On the other, higher levels of economic inequality result in the fact that those who benefit from such inequality have more power resources to defend their possession of wealth (Ansell and Samuels, 2014). The role of the State is crucial in mediating this duality of inequality.

In mutualism, the cohesiveness of the economic elites and the alignment of their interests with those of the State results in high levels of economic inequality. State Policies are designed to privileging the interests of the economic elites. Furthermore,

high infrastructural power allows the State to actually implement those policies. Figure 3.4 illustrates how the State and the economic elite interact in the face of redistributive pressures in a context where there is mutualism. Under mutualism, the State has a high capacity, and the economic elite is cohesive. The capacity of a cohesive economic elite means that their power has been institutionalized, and the interests of the State and those of the economic elite are aligned and enacted through state policy. The state policy, in response to the redistributive pressures, will most likely defend the interests of the economic elite, and economic inequality will persist. In the face of insurgencies, for example, the State has the capacity to use its coercive apparatus to repress. The history of Chile provides examples of how state power was used to repress challenges and protect the interests of the economic elite (Weber, 2015). Another alternative is that the state policy engages in some bargaining with the mobilizing sectors and propose a policy reform that manages to tame the pressures while maintaining the interests of the economic elite fully protected. For example, through poverty alleviation schemes that don't structurally change inequality in the long-run. Under this type, I would expect to see a state with overall high levels of state capacity that coexist with high and persistent levels of economic inequality. Besides, I also expect that in the presence of redistributive pressures, the state defends primarily the status quo distribution and uses its coercive and administrative apparatuses to do so.

In parasitism, the cohesiveness of the economic elites and its relative power over state policies results in high levels of economic inequality, similar to mutualism. However, unlike mutualism, the State will not be able to use its infrastructural power to respond effectively. If, in the midst of pressures, the State fails to respond, economic elites need their own strategies to defend their positions.
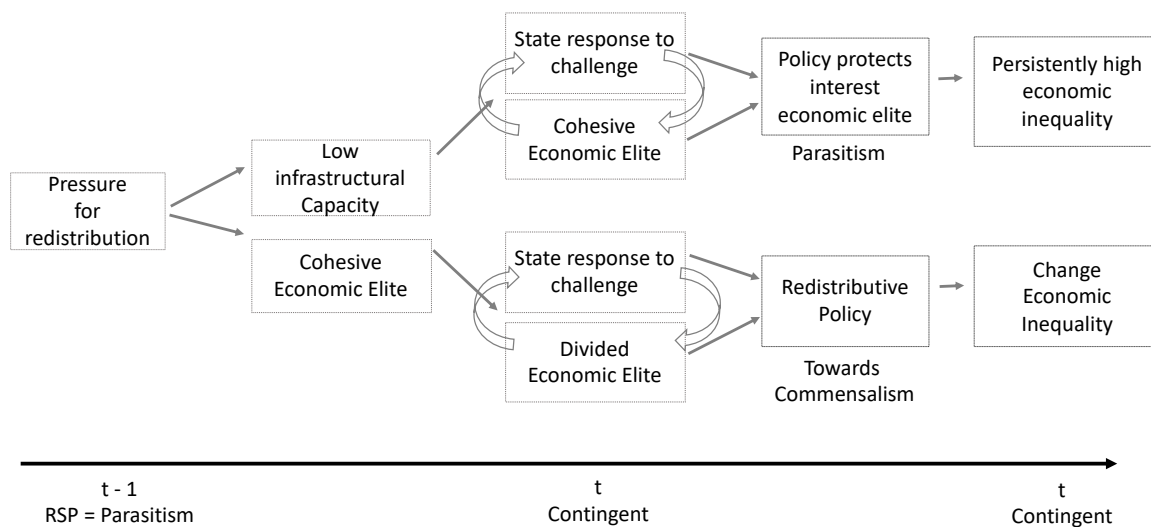
Figure 3.3: *Parasitism*

Redistributive threats also put pressure on the cohesiveness of the economic elite. Mainly because oftentimes, the pressures are not equally threatening for all sub-types of the economic elites. For example, the pressures from workers in urban settings put pressures over industrial elites but not necessarily over landed elites. Similarly, claims to land rights made to land-owners might not be threatening for industrial elites in the city. In the bargaining process, the cohesiveness of the economic elite is threatened. If under these pressures, the economic elite stops being politically cohesive, the State can engage in policy responses that are not so dependent on high coercive capacity (e.g., violent repression of the threat)—for example, implementing selective redistributive policies in alliance with only one faction of the economic elite. An example of this can be seen in Perú in 1968 when the government was able to implement a radical land-reform in the Sierra region enabled by an alliance with industrial and commercial sectors based on Lima. If this is the case, the equilibrium will change towards commensalism.
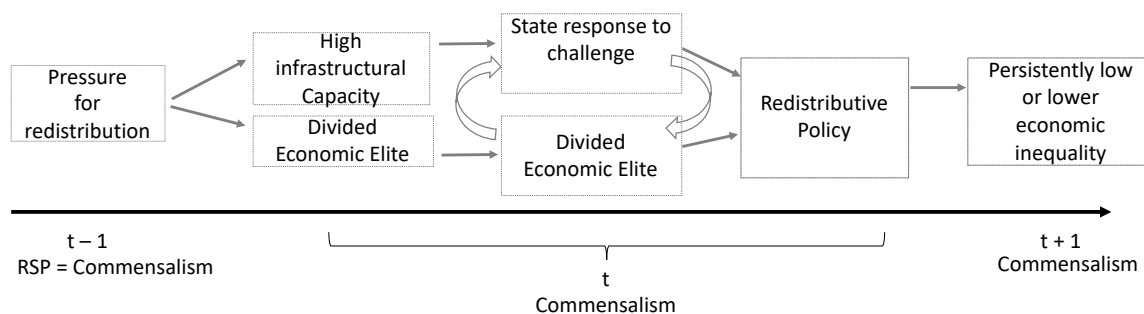
Figure 3.4: *Commensalism*

If the economic elite becomes politically divided and the State remains infrastructurally weak, the equilibrium will likely go back to a "balance of the weak" type. Under parasitism, pressures for redistribution can result in a different type of RSP. As a result, whether economic inequality stays stable or changes depends on the capacity of the economic elite to maintain a cohesive political position to shape state policy and on State's infrastructural power.

Commensalism characterizes an equilibrium in which the State has high infrastructural capacity, and the economic elite is politically divided. Under this equilibrium, state policies do not respond to the influence of a divided economic elite, and as a result, under redistributive pressures, the most likely outcome is that the State responds with redistributive reforms. Given that the State wants to maintain its infrastructural capacity, redistributive schemes that decrease the level of economic inequality, not only appease threats but make them less likely and systemic in the long run. As a result, I expect that in the short-run economic inequality will tend to decrease, and in the long-run, I expect the equilibrium to stabilize around low levels of economic inequality.

As I explained earlier, the balance of the weak equilibrium is very unstable. Be-
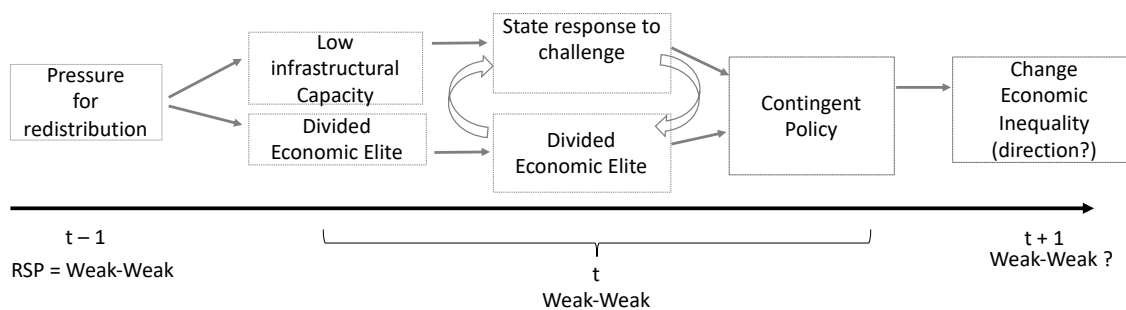
Figure 3.5: *Balance of the Weak*

cause of this, in the midst of the bargaining process between the State and the economic elite, the response to the threat is contingent. When countries fail to escape this equilibrium, I expect trajectories of economic inequality to be very unstable.

When comparing the different types of RSP, it is possible to see that the strength of the State will determine the stability of economic inequality and its potential to change. Cases in which the State has high capacity, then we expect stable trajectories of economic inequality (mutualism and commensalism). On the contrary, in places in which the State has low capacity, it is more likely to observe a change. The rise of threats to the status quo distribution will result in the possibility of a change in the trajectory.

high infrastructural power → change is increasingly difficult

high infrastructural power → change is possible under certain conditions

3.4 Institutional responses and redistribution

As I explained earlier, RSP conditions the response to redistributive pressures and conditions whether or not these pressures turn into redistributive policies. As

such, RSP conditions long term trajectories of economic inequality because it is at the core of the *politics of redistribution*. RSP allows me to distinguish the infrastructural capacity of the State with the actual implementation of redistributive policies and reforms. In other words, high levels of state capacity are necessary for a state to have high levels of RSP, but they are not sufficient. In this section, I explain how the range of institutional responses have the potential to shape economic inequality.

Once the redistributive pressures emerge, what are the institutional channels that enable states to protect the interests of the economic elite or enact changes on inequality? There are multiple institutions at the national level with the potential to shape the distribution of economic resources. However, there are two groups of institutions that are theoretically important and that have been historically important in shaping the distribution of economic resources: taxation and land reform. Taxation is perhaps the most salient and significant means by which wealth is redistributed. Via progressive schemes of taxation, states can decrease the level of economic inequality in a given society. In Latin America, because of the historical and political importance of concentration of land ownership, land reforms have been an extremely important redistributive reform (Albertus, 2015; Saffon Sanin, 2015; Vergara, 2018). In societies highly dependent on land-based economic activities, a reform that redistributes the main productive factor will also result in lower levels of inequality. Because of their potential to change the status quo distribution, redistributive efforts in these two groups of rules are at the center of the dynamic equilibrium of inequality. In Latin America, they have been the focus of citizens demanding redistribution and are also a focus of wealth-defense strategies of the economic elites (Soifer, 2013; Boix, 2003).

The focus on institutions and institutional reforms is aligned with a view of institu-

tions as mainly distributional apparatuses that create and reproduce power structures that aid in their reproduction (Mahoney, 2010). As a result, institutional change results from power struggles.

State Capacity is linked to taxation: where states are sufficiently capable, they can extract funds from social actors. "Impulses to extend capacity and secure more revenues often come at extreme moments of extreme pressures, such as when states face an external threat from a neighboring country or an internal threat of insurrection" Schneider (2012).

Chapter 4

RSP in Latin America: A Comparative Historical Analysis of State Formation and Inequality

In this chapter, I summarize the analysis that led to the theory-building component of this dissertation presented in Chapter 3. As I explained in the introduction, the research design for theory building is centered on a comparative historical analysis of state formation in four countries: Chile, Uruguay, Honduras, and Colombia. The cases were selected on the dependent variable, which allows me to theorize on the factors behind economic inequality. The goal of this analysis was to find relevant variation across countries that could explain economic inequality's long-term trajectories. This analysis combines secondary sources, archival documents, and interviews with country experts made during trips to conduct preliminary fieldwork in Chile, Uruguay, and Colombia.

Through a comparative analysis, I find that decisions made during the period of state formation had long-lasting effects in terms of the Redistributive Power of the State and economic inequality. Following independence, countries in Latin America were left in the *balance of the weak* category. The colonial state and many of its rules and bureaucratic apparatuses were either gone or weakened as a consequence of the crisis of the Spanish Empire. Short term effects of the wars of independence included the deepening of fiscal deficits and negative economic growth (Prados de la Escosura, 2003, 2004) and a legitimacy crisis of creole elites (McFarlane, 1998). Besides, relative to the Colonial period, economic elites had lost much of their economic power. During Spanish colonialism, minerals had been at the center of the economic activities. However, independence coincided with the collapse of the mining industry. As a result, the merchant and mining segments of the economic elite were extremely weakened too.

Despite the weakness of both the states and the economic elites, countries started to move quickly into more stable levels of RSP. The period of state formation was one of instability and political conflict within elites and was characterized by intense institutional crafting. Within this context, space opened up for agents to decide upon how their newly independent countries would look. The intentionality with which the processes of state formation were carried out suggests that independence did leave some room to decision making (Centeno, 2002; Lopez-Alves, 2000). The decision-making process resulted in contingent decisions that had long-lasting consequences for RSP, and more generally, for patterns of the state-society relationships. This unstable equilibrium characterized by a weak economic elite and a weak state rapidly unfolded into more stable RSP and economic inequality patterns. The characteristics of this period make the *critical event* framework useful to understand how coun-

Figure 4.1: *State Formation and RSP*
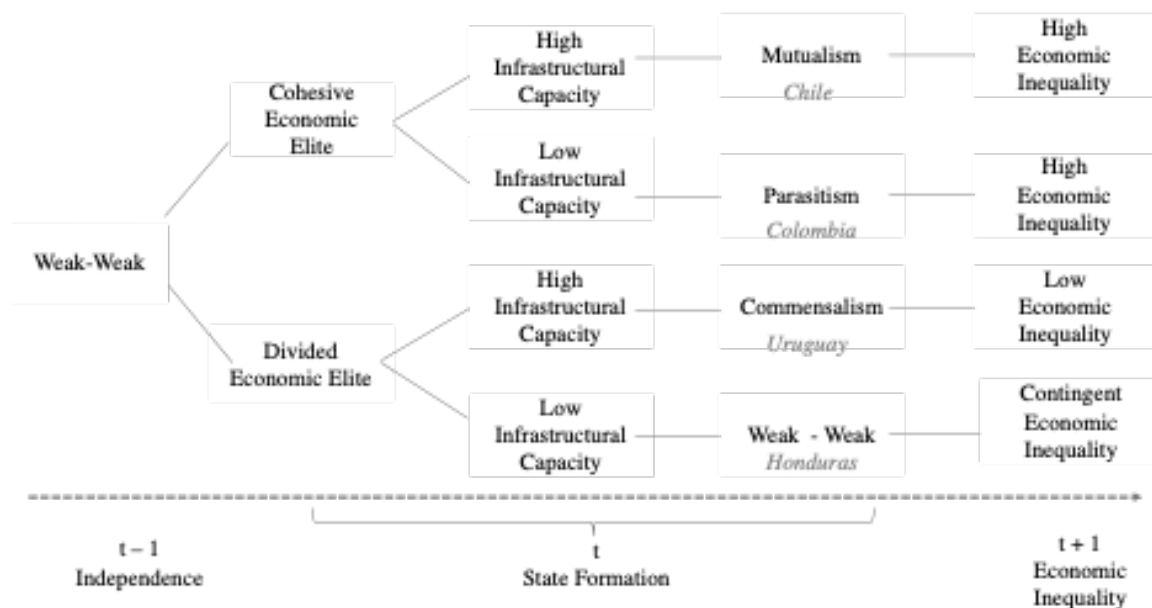
try trajectories unfolded—figure 4.1 summarizes the findings of this theory-building exercise.

During the period of state formation, Chile's economic elite acted as a cohesive unit that fundamentally agreed on the importance of building a strong central state with the capacity to protect property rights. This cohesion resulted in mutualism, a stable equilibrium that results in high levels of economic inequality. In Uruguay, after a long period of elite conflict, the foundation for a strong central state was built during the Battle's government. Political divisions within the economic elite eventually resulted in commensalism and, in turn, lower economic inequality levels. In Colombia, in 1863, members of the economic and political elites reached a consensus on creating a federalist organization of government characterized by a weak central state. These decisions resulted in the formation of a weak central state and cohesive economic elites: parasitism. In Honduras, pressures from external forces canalized

through the enclave economy and an economic elite divided along with economic activities maintained an equilibrium characterized by a weak state and a divided economic elite. Figures 4.2 and 4.3 show available data of economic inequality measured with the Gini coefficient and the share of the income held by the richest 10%. Figures 4.2 displays the series of historical levels of economic inequality calculated by Weber (2015) using social tables to estimate earlier values. Unfortunately, this series is not available for Honduras. In Figure 4.3, I show the series for available data on a more recent period using data from multiple sources and after multiple imputations. Because the data comes from multiple imputations, I include the 95% confidence interval, which becomes thicker for missing data points for which there were no close values.

The figures show that Chile and Colombia have had persistently high levels of economic inequality. That is, both countries are trapped in a high-level inequality trap. Being trapped by economic inequality means that a reversal follows periods in which inequality decreases in the short run to the mean. Similarly, economic inequality has been relatively lower for the entire period for the case of Uruguay. Available data for the case of Honduras showcases a more unstable, but the caveat applies that this series has a higher percentage of missing values.

In the following section, I analyze the period of state formation and how it shaped RSP trajectories. I begin by discussing important antecedent conditions and then proceed to the period of state formation and how different institutional configurations consolidated a particular type of relationship between the state and the economic elite.

Figure 4.2: *Estimates of Gini Coefficient*
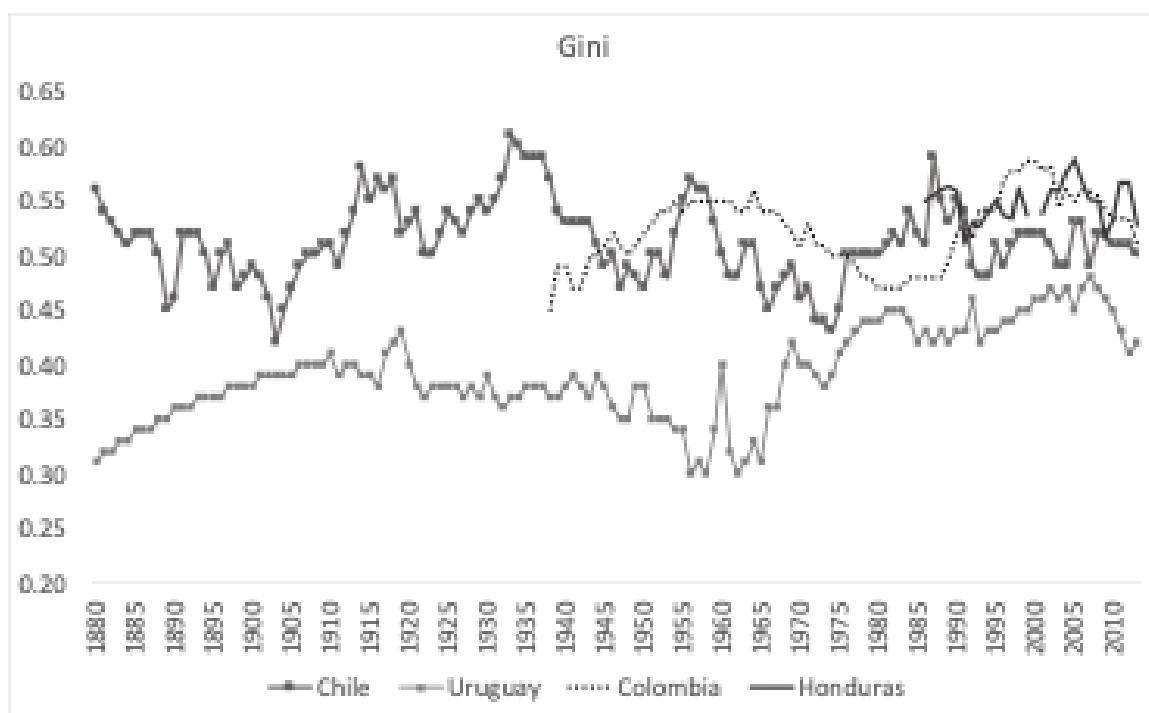
Source: Notes: Chile, Uruguay from Rodriguez Weber (2017), Colombia 1938 – 1988 Rodriguez Weber, 1990 – 2015 Milanovic (2019) Honduras: Milanovic.

Figure 4.3: *Inequality Trajectories Updated Data (after multiple imputation)*

(a) *Income Share Richest 10%*
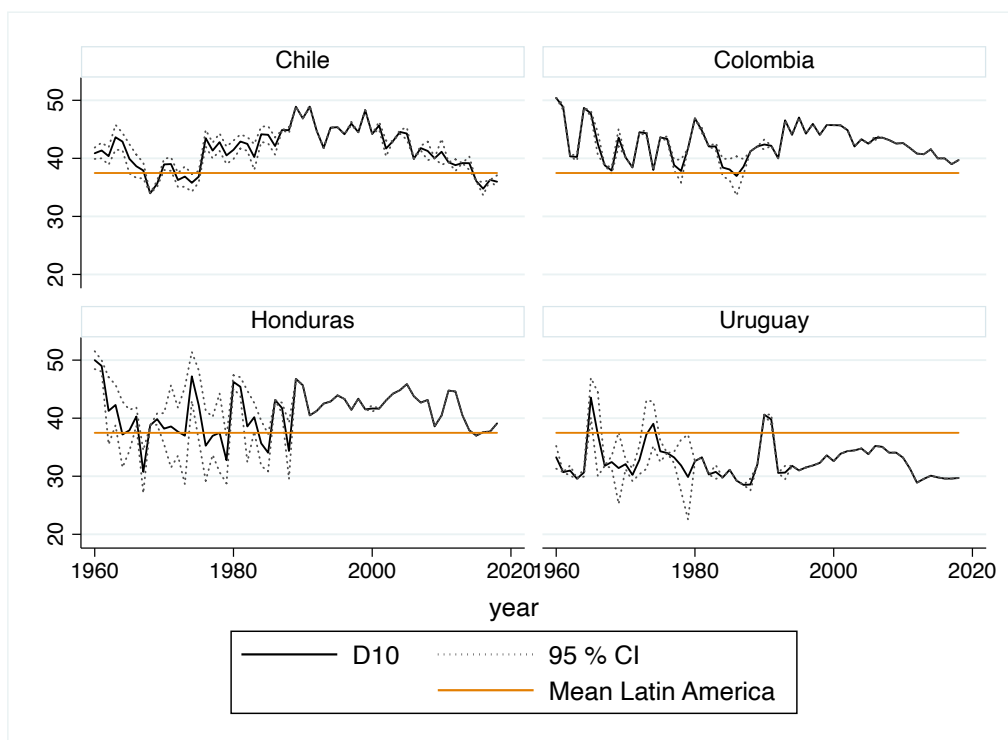
(b) *Gini Coefficient*
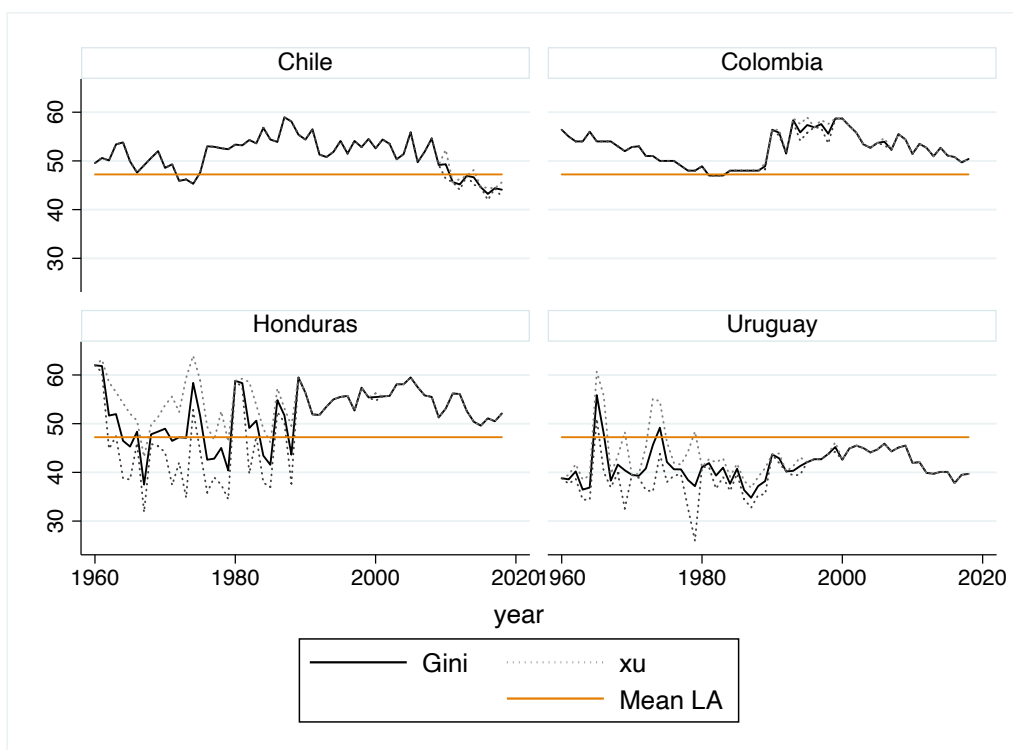
Sources: Own calculations based on WDI, Worldbank, SEDLAC See Data Appendix Chapter 2

4.1 Antecedent Conditions

Even though the material base of economic elites was deeply harmed in the years leading to independence, colonialism left strong institutions of social domination. These structures empowered the creole elites, and this had two consequences. On the one hand, they were the ones acting as leaders during independence and in its aftermath. On the other hand, they had an incentive to put a set of rules that would guarantee their dominant position in society and give them legitimacy to govern. Overall, the point of departure for these new nations was a strong link between political and economic powers. The unequal distribution of social and political power carried over to the initial stages of state formation.

A comparison of these cases allows us to identify what seem to be important antecedent conditions influencing important decisions made during the period of state formation. The first important factor is identified by Soifer (2015) in his theory of state capacity. According to this theory, the distribution of political and economic power shaped the configurations of the states and their capacity in the long-run. In some cases, a single urban center concentrated economic and political power. In others, at least two regions shared power resources (political and economic). The second factor has to do with the distribution of economic activities among the economic elites. For parsimony, I will group economic resources in two: those traditionally associated with extractive economic activities (land-based, agriculture, mining, cattle breeding) and those traditionally associated with commercial, economic activities. In most countries, the Hacienda role was decisive in unifying the economic interests of the economic elites. Where *hacendados* were involved in other non-extractive economic activities, land ownership acted as a unifying characteristic that allowed

economic elites to be politically cohesive.

In Colombia, political and economic power was dispersed in multiple centers, and for decades the country lacked a single predominant center (Soifer, 2015; Lopez-Alves, 2000). These centers, where most of the population was concentrated, were isolated from one another because each of these centers produced and consumed its goods. The lack of trade among the regions meant that there was no particular interest in building a central state capable of facilitating commercial activities, strengthening of a national army, or improving the infrastructure. In fact, at the regional level, economic elites benefited from the weakness of the central state (Safford and Palacios, 2002).

The economic elite's geographical divisions did not materialize into the absence of political cohesiveness on the part of the economic elite. Writing in the late nineteenth century, Alejandro Lopez noted that there was not a single member of the industrial, commercial, or political elite that was not at the same time a land-owner. In Colombia, land ownership was something that unified members of distinct factions of the economic elite. The power of land-owners and the colonial legacies of Hacienda were determinant in unifying these interests. The political cohesiveness of the economic elites manifested itself later regarding their positions on the role of the central state and the disproportionate power held by Congressional Representatives. This cohesiveness meant that, even though factions of the ruling elite were divided across religion and political views, these divisions were orthogonal to preferences on policy orientation regarding economic matters. Guillén notes the absence of evident conflict between the landed elites and the commercial elites (Guillén Martínez (1979), 304).

In sharp contrast, in Chile, the political salience of regionalism was limited, Santiago concentrated political and economic power. As Soifer (2015) shows, this was

critical for initiating a stable trajectory of high state capacity. Another important aspect of how power was distributed in Chile was that economic elites were not divided across commercial (urban) and extractive (rural) activities. In Chile, around 1830, the nation's most valuable economic sector was mining, and most powerful economic elites drew their money from the extraction and export of minerals. However, their resources did not stop there. In fact, in order to extract minerals, Chilean elites needed to secure large extensions of land. In turn, the most prominent land-owners were not dependent on their agricultural production; land served other purposes. It was a means to control access to mineral deposits and key resources for its extraction process such as water and forests (Valenzuela (2001)). There was no distinct class of land-owners at the top of the social pyramid at any point in the XIX century. In fact, between 1830 and 1860, the value of mining exports was about three times larger than the value of agriculture. The wealthier and most powerful class had its capital in mining, banking, and commercial activities, but they were also the largest land-owners. In turn, the extractive-commercial (rural-urban) split was tenuous and did not result in major conflicts within the economic elite. The Chilean economic elite's unified interests were a primary concern about protecting their property rights, strengthening the State apparatus to do so, and maintaining their export-driven activities.

The structure of the labor force in rural areas was one that contributed to low levels of conflict. Kurtz (2013) attributes the absence of conflict in Chile to a system of labor tenancy called *Inquilinaje*. This system was one of un-coerced labor that emerged from a situation in which Chilean Elites were extremely land-rich but also cash-poor given the low competitiveness of their products (Loveman, 1976). In combination with the fact that labor was not particularly scarce, this generated a low land conflict situation. The consequence of this situation was that landlords did not

require local control over the coercive apparatus. Furthermore, this also meant that the development of agriculture was not counterproductive to urban areas. In turn, elite cooperation between urban and rural factions was facilitated in the Chilean case via Inquilinaje - an institution that prevailed commanding the labor force and the relationships with land-owners. Inquilinos were at the top of the dependent rural population hierarchy; they were responsible for maintaining the land, but they could hire a third party to do so while producing goods of their own. As I have said before, land-owners were not dependent on agricultural production. Therefore, they were not demanding productivity from the inquilinos since agriculture was a secondary use of the land. As Valenzuela notes, the reason behind the survival of this institution was not one of efficiency. Instead, the institution's distributional effects, benefitting both the land-owners and Inquilinos, favored the maintenance of the status quo.

In sum, the political cohesiveness of economic elites facilitated a concerted state-building project in Chile. An example of such cohesiveness can be identified in 1861-1891 with the liberal-conservative fusion government (Scully, 1992; Bauer, 1975). As I will show later in this chapter, the basis of such cohesiveness was mainly around the primacy of private property and the role of the state in guaranteeing order and property rights protection. In Uruguay too, economic and political powers were concentrated in Montevideo. At the beginning of the XIX century, the main economic activities were organized around cattle breeding; "It was a predominantly pastoral economy characterized by the concentration of land ownership and backwardness in exploitation" (Hanson, 1938). These large estates devoted to extensive exploitation were particularly harmful to profitable employment opportunities. First, slavery was legal in Uruguay until 1842. Even after abolishing slavery, the rural worker in Uruguay was unprotected by labor codes, lacked limits on the hours of work and was wholly

dependent on the will of the land-owner (Hanson, 1938). Besides, rural unrest was a permanent threat for the landed elites in Uruguay, and it fueled the civil war that affected Uruguay throughout the XIX century. This meant that rural elites were highly dependent on land ownership of extensive property, and their main interest was to defend their lands. Rural unrest shaped the main interests of the rural faction of the economic elite for whom the state needed to respond to this threat.

In addition to the importance of rural activities, by 1830, a very large portion of Uruguay population were European immigrants living mainly in urban areas. This migration coincided with the increasing importance of commercial activities controlled by urban elites in Montevideo. The fact that immigrants mostly controlled commercial activities resulted in the division of the economic elite along sectoral lines. Furthermore, this division was one that mapped into the political and urban-rural division that fueled conflict in Uruguay for most of the XIX century. Unlike what occurred in Chile, in Uruguay, there was a clear tension between the urban and the rural segments of the economic elites (Kurtz, 2013; Lopez-Alves, 2000; Soifer, 2015).

The territory of Honduras was not at the center of activities of the colonial power (Mahoney, 2010; Lapper et al., 1985). Instead, it remained a province of Mexico until 1821 and remained part of the Central American Republic until 1838. As such, the conditions in which state formation emerged were shaped low presence of colonial bureaucratic institutions and decentralized infrastructure for extractive and commercial activities. In terms of economic activities, Honduran elites depended until the 1820s on three primary sources of wealth: a tobacco factory near Comayagua, silver mines near Tegucigalpa, and cattle market (Euraque, 1996). The dispersion of economic power in three regions translated into a weak oligarchy (Schneider, 2012) and

the dispersion of political power. During colonialism, the capital was established in Trujillo. After independence, in 1824, it was established that Tegucigalpa and Comayagua would alternate as capital cities of the state. Only after 1880, the capital city was definitely translated into Tegucigalpa. The geographical dispersion of both political and economic powers shaped the process of state formation in Honduras and the persistence of a weak-wake type of RSP.

4.2 State Formation: A critical event for RSP

The period of state formation was marked by peaks on institutional crafting in these countries. In this section, I describe key institutions that designed during this period. These institutions can be understood as the main formal rules of the State's bureaucratic apparatus. I define institutions as the "rules or generalized procedures that provide a guide for behavior and that promote predictable patterns of interaction (whether consensual or conflictual)" (Mahoney, 2010). In this chapter I emphasize on a view of institutions as primarily distributional instruments. Without downplaying the coordinating effects of institutions, I argue that the main difference between these constitutions is their distributional implications.

The role of the antecedents described in the previous section can be found in each of the cases of institutional design that I explain in this section. The emphasis here is on the distributional effects of the Constitutions first ruling the country. The Colombian Constitution of 1863 debilitated the central State and granted autonomy to regional economic elites. The Chilean constitution responded to the interests of an elite empowered by multiple economic resources and ties to urban and rural sectors. This meant that there was a general interest in protecting property rights

and strengthening the central State's capacity to do so. On the contrary, in the case of Uruguay, the officers in charge of territorial units were more autonomous and their goal was primarily to promote agriculture and pastoral activities; this supports a view of the Constitution as representing the interests of the Landed upper class.

Furthermore, it empowered them vis-á-vis the central government. The distributional effects resulted in very different paths that can be associated with the trajectories of economic inequality. In Honduras, 11 constitutions ruled the country between 1825 and 1924. Initially, the institutional design was marked with the tensions inherent to the dissolution of the Federal Republic of Central America in 1841, followed by decades of political instability.

4.2.1   El Olimpo Radical in Colombia:

In Colombia, between 1861 and 1862 the country witnessed yet another civil war. This time, the warring sides were composed by a radical faction of the Liberal party and the Conservative Government. The winner was the radical faction of the Liberal Party. After rising to power, it installed a Constitutional Assembly to rewrite the constitution and reorganize the country towards federalism. This period of liberal reforms is known as El Olimpo Radical. I find that whereas there was a faction participating in this conflict with centralism and a unitary system of government as their flag, economic interests were shared by both parties. According to Roll, a constant in the history of political parties in the country, economic interests prevailed over partisan ideals persistently (Roll, 2001). This reality is expressed in 1859 by Madiedo, who in a satirical way shows ideological incongruences in both parties that he attributes to the fact that leaders of the parties were [literal translation of a

fragment] "nothing more than sons of the same parents, with the same teachings, with the same ideals [...] (Madiedo, 1978).

The starting point of the United States of Colombia, as the country was named then, is 1863 with a new Constitution that marked a period characterized by a series of reforms towards a radical break with the colonial past. During this time, economic elites saw the strengthening of the central State as an obstacle to progress (Soifer, 2015, 47). Three main areas were targets of such reforms. First, federalism was instituted as the system of government accompanied by a small central state. Second, laissez fair was the dominant economic policy. The reformists aim to promote exports and imports of goods to modernize the economy and insert the United States of Colombia into the world economy. Thirdly, some reforms aimed to elevate the freedom of citizens. In particular, there was a shift towards a secular education and religious freedom which meant that the power of the Catholic Church was separated from the power of the State.

The idea behind these institutional reforms was that economic development would be achieved by dismantling the State and minimizing its interference. I claim that the result of these liberal reforms was the institutionalization, and further deepening, of an imbalance between the power of the central State and the power of local economic elites. I argue that these reforms generated a long-term legacy of power asymmetry that favors the interests of the economic elite. identify the 'Olimpo Radical' as potentially a critical event that shaped the relative power of the Colombian state vis-á-vis the local economic elites.

During this juncture, institutional innovations included autonomy for each province to control its army, which necessarily hindered the monopoly of force in the hands

of the national State. In fact, in 1867 a constitutional ruling determined that the national government had to stay neutral in the event of a conflict within a state (Soifer, 2015, 53). Milicias Hacendatarias (militias of Haciendas) were in charge of security provision and had the coercive control in their regions. Each province could decide to the organizational and institutional basis of the bureaucratic apparatus autonomously. Besides, provinces were in charge of designing and implementing its own commercial and fiscal regimes. The high level of autonomy given to local elites meant that land-owners and commercial elites assumed control of most bureaucratic positions. According to Roll, the repartition of bureaucratic positions strengthened the links between traditional party brokers (gamonales) and economic elites at the regional level. He attributes this period as crucial for the establishment of gamonalismo, identified as an important aspect of politics in the country. Scholars have also signaled how gamonalism has served as an instrument of domination against societal pressures for change and as a defense mechanism favoring local economic elites against modernization efforts (Roll, 2001).

The Jesuits, an important faction of the Catholic Church and one of the biggest land-owners, were expelled from Colombia during this period. Besides, the constitutions abolished the status of portions of land declared as indigenous safeguards. The result was that even larger portions of land were available for being transferred by the state to particulars (See Bethell (1984)). Unsurprisingly, adjudication of land was also dependent on local governments province. The nature of adjudications continued a pattern that preceded 1863, the state had been adjudicating land to foreign and national companies in exchange of infrastructural projects and land served as a resource for the State to pay its debts.

Land adjudication intensified during this juncture and large portions of adjudications became important political transactions. The result was the heightened importance of land which also meant the power of the Hacienda and land-owners was decisive in each of these provinces. It also meant that land-owners saw in the period of liberal reforms an opportunity to enlarge their properties (Kalmanovitz, 2003, 124).[1] While it is important to recognize that some of initial efforts of land distribution redistributive in nature, in 1860 a law was passed that required recipients of land a minimal rent. A few years later, a fiscal regulation approved in 1873 and a law in 1874 prevented land distribution as part of the social policy (Código Fiscal, Ley 106 de 1873, Ley 61 del 24 de junio de 1874).

In sum, the 1863 Constitution and subsequent laws, further debilitated a weak central state and empowered local economic elites by granting autonomy to the provinces. The local governments set the terms of the commercial and judicial regimes, formed and managed their armies and were in charge of adjudicating land ownership. During this period, the deepening of state weakness made the distribution of land the means to mitigate financial pressures and the way of financing infrastructural projects, an increasingly important part of state activities. As this advanced, the finances of both the national and local governments depended increasingly on economic decisions of the private sector and landowners in particular .

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[1] According to Kalmanoviz the federal and central governments distributed a vast amount of land usually to very few individuals. For example, only 0.05% of the land was distributed to colonos. In contrast, one individual and member of the economic elite Juan Uribe in Antioquia received 102,717 hectares as a public debt payment. Similarly, Francisco José Saravia received 25,000 hectares in Cundinamarca and 26,474 in Meta. Lorenzo Gallón received 60,000 in Cauca and Juan Manuel Arrubla 30,000 in Antioquia. Most of these were payed by the government for public debt.

4.2.2   Elite Conflict in Uruguay:

The year 1814 marks the independence from Spain in the territory occupied today by Uruguay. In 1815 Artigas, one of the leaders of independence, initiated a campaign in favor of land redistribution, a principle of equality was present in the motto of this reform "... los más infelices serán los más privilegiados..." which translates into *those who are the most unhappy will be the ones that benefit the most.* The egalitarian effort of Artiguismo was interrupted in 1815 with the Portuguese Invasion of the territory. The path towards independence was not achieved until 1828, year in which independence of the Estado Oriental del Uruguay was stablished. The Convention that gave origin to this nation also stablished a Congress in charge of writing the first Constitution in 1830.

A period of conflict and instability followed Independence in Uruguay. Marked by the tensions between the urban and the rural divisions, known respectively as Blancos and Colorados, conflict characterized the XIX century (Barran and Nahum, 1968; Hanson, 1938; Lopez-Alves, 2000). Taken at face value, the constitution of 1830 had a very restrictive notion of electoral representation. Representation was contingent on a minimum rent or income. Historians interpret this restriction as a reaction to Artigas's views of land redistribution as a means to alleviate rural unrest (Abdala, 1982).

Aligned with this view, Real de Azúa (1988) claims that state makers had two objectives: demobilize the rural masses and make the military establishment a political outcast. However, at the time, state makers noticed that trying to accomplish both led to a contradictory policy intervention. They had two alternatives: control

the rural poor by drafting them into the army (strengthening the army) or to empower land-owners to control their labor force and repress banditry. Among these alternatives, land-owners' empowerment was selected, which resulted in the creation of Junta Económico-Administrativa - an institution governed by the following rules; i) only property owners could be chosen, ii) there was liberty to reform or adjust the rules dictated by the Executive branch and iii) there was autonomy from the central government. The main goal of this was to promote agriculture and cattle breeding through the empowerment of rural elites. The conflict within these two parties, representing the economic elite's distinct factions, meant that this constitution was hardly implemented. As we will discuss later in this chapter, the constitution further fueled existing tensions by privileging landed elites.

4.2.3 Rapid Strengthening of Central State in Chile:

The years following the independence of Chile where ones of intense institutional crafting. Constitutions were written in 1818, 1822, 1823, 1826,1828, and 1833. The importance of the capital meant that most of these were centralist constitutions. However, there was a brief period after 1826 in which Federalism was established. According to revisionist historians, the conflict between the elites in Concepción and Santiago was real and the alternative of a federalist Chile was not implausible. [Delgado, 2014] The existence of alternative visions within the elite speaks to the intentionality embedded in the state building project. The resolution of the elite's conflicts was key for initiating a stable state building project in 1833. Even though the Constitution of the Republic (1833) was not the first constitution, it was the first to be implemented and ruled until 1925. As I said, it marks the beginning of a period of stability and a very strong state throughout the territory.

The winning alternative of centralism and a strong president can be seen through the structure of territorial administration and the creation of the intendnt, an important figure declared in Chapter VIII of the Constitution, articles 106 to 122 in particular, where the territorial administration was structured.The Intendant, who was appointed by the President and operated under his instructions and strict orders, was in charge of the administration of provinces, departments, and municipalities in Chile. Besides, the Intendant had in charge lower levels of administrative units (departments, municipalities, districts, delegations, sub-delegations). However, it was made explicit that the Intendant should always respond to the orders of the President. According to the Constitution, one of the main goals of the Intendant office and its sub-ordinates was to promote education, agriculture, industry and commerce throughout the territory. The main idea behind this figure was to strengthen the executive power, which was thought as necessary to promote development of the country via property rights protection. This officer was in charge of lower levels of administrative units but was always responsive to the President's orders. In turn, the Constitution delineated a close relationship of sub-ordinance between the center and the territories. The main goal of the constitution was to empower the president and to strengthen a centralist vision of the State.

4.2.4   Instability and weakness in Honduras:

High levels of political instability and economic stagnation characterize the period of state formation in Honduras. Instability becomes evident by looking at the number of constituional reforms, the country had 11 Constitutions since Independence until 1925. The conflict around which city should be declared the capital exemplifies this weakness and the level of political instability. The first Congress of the Republic

of Honduras in 1824 declared that Tegucigalpa and Comayagua would alternate the status of capital. This alternation was maintained until 1880 when Tegucigalpa was declared as the capital.

According to Euraque, low levels of economic production and growth were insufficient to sustain a centralized state. Only after 1870s can one start talking about a sustained effort to build a centralized state that would resemble those of its neighboring countries (Euraque, 1996). Evidence of this efforts can be found in the government's attempt to build roads that would connect Tegucigalpa (in the central region) with coastal cities. However, these efforts were halted by corruption and the incapacity to repay debts to fore investors. The presence of foreign actors and the relative weakness of local elites relative to banana enclave owners dramatically shaped the process of state formation (Schneider, 2012, 57).

Unlike what occurred in other countries in Central America, coffee did not play an important role in the process of state formation in Honduras. In fact, "The country did not develop a class of coffee growers capable of building a national class" (Williams cited in Euraque (1996)) which meant that it lacked an active class that pushed for the creation of a state that went beyond the capital city. Agriculture in general, and coffee were secondary to the mining sector. The dominance of the enclave economic model, mainly around banana production, meant that once the United Fruit Company became an important political and economic force, it had a disproportionate power. Such power allow them to either shape state policy and even implement their governance structure (Euraque (1996)).

4.3   Legacies of Persistent RSP

4.3.1   Parasitism in Colombia:

In this section, I show how the distribution of power during a critical period in the process of state formation, resulted in a long-lasting legacy in terms of the RSP in Colombia. Two key aspects of the configuration of power marked this critical moment; first, economic and political powers were dispersed across multiple centers. Second, even though power was divided across geographical lines, there was enough agreement amongst local economic elites that saw in the central state an impediment to economic development and took steps to dismantle the strength of the central state. These efforts to dismantle central state capacity empowered local economic elites at the same time. In what follows, I demonstrate how the institutional reforms made during this critical period fundamentally marked how the central state relates to elites at the local level. To do so, I rely on both secondary literature and archival material. Mainly, transcripts of Constituent Assemblies's debates in the process of crafting new constitutions both in 1863 and then again in 1884-85. I identify the institutional reforms made during Olimpo Radical as critical in shaping the resulting trajectory of a relatively weak state and a politically cohesive economic elite.

The institutional arrangements installed in the 1863 Constitution had consequences in multiple spheres of the country's political and developmental path. In most aspects, the radicalism of the liberal Constitution resulted in reactive sequences of change that difficult tracking a path of continuity in many of its institutions. However, I aim to show that parasitism endured periods of radical institutional reform. In

particular, its legacy survived to Nuñez's project of Regeneración, a project intended to bring the country back to the conservative agenda. This project's main components included a unitary state, Catholicism as the official religion and protectionist measures.

In 1880, Rafael Nuñez raised to power in a context of crisis, both economic and political. The national economy was fragmented, economic activity was bounded within each of the four regions (Cauca, Antioquia, Interior, and the Atlantic Coast), and internal commerce was mostly inexistent. Besides, the regions were heavily dependent on the exports of raw goods and imports of manufactured goods. An international economic crisis in 1873, together with a drop in the exports of quina and tobacco, had deep negative consequences for the regions. Around the same time, in 1876, a civil war broke out. In an attempt to face the crisis, Nunẽz initiated a series of reforms towards the unification of the country and the strengthening of the central state that included: the foundation of the National Bank, protectionist measures like the imposition of imports tariffs and subsidies for national industries, and the increase in public expenditure and goods provision. Initially, given the state's weakness and the depth of the political conflict, his attempts of reform failed. Until 1884, Nunẽz was able to bring together a Constitutional Assembly that wrote in 1886 the new Constitution, one that ruled until 1991. Most of the articles written in this Constitution were intended as counter-reforms to the 1863 constitution. As I said earlier, the 1886 Constitution aimed to return the country to a unitary system of government. It made the Catholic Church regain its political status as the official religion. Besides, protectionist measures were implemented, and the central state regained a role in the economy.

However, surviving these efforts of counter-reform, was the imbalance of power between the central state and the power of regional economic elites. The central state was strengthened following these reforms. However, it is relative weakness vis-á-vis the local economic elites, was maintained. According to Kalmanovitz, despite the centralist reform that led to the strengthening of the central state, it stayed close to landowners and commercial elites. By analyzing the archival material of the debates over the proposed reforms to replace the 1863 constitution, it is possible to see how the power of local elites was protected and reproduced in Nuñez's project. The Senate, composed by representatives of each department (former provinces), became a very important body in this newly formed central state.

On the one hand, an article (see Figure 4.4) was introduced to restrain the election of senators to citizens with minimal rent. A revision of the Constitution's text reveals the introduction of a required minimum annual income of $1,200 pesos to become a Senator. Compared to the estimations of average annual income between 1850 and 1900, this minimum income required was between 10 and 20 times the average income. The introduction of this requirement can be interpreted as a way of guaranteeing local elites' participation in this unitarian government. The result was the intended; senators belonged to local economic elites and, in turn, represented such interests. Other rules complemented this article, including specifications on how senators would be elected and by what segments of the population.

Figure 4.4: *Income Requirements to be Eligible for Senate*

ARTÍCULO 94.

Para ser Senador se requiere ser colombiano de nacimiento y ciudadano no suspenso, tener más de treinta años de edad, y disfrutar de mil doscientos pesos, por lo menos, de renta anual, como rendimiento de propiedades ó fruto de honrada ocupación.

In looking through the archival documents containing transcripts of the debates among members of the Constitutional Assembly, I was stroke by the absence of debate regarding this article. It seems to be the case that the role of the Senate, and the segment of the society that was intended to be represented by it, was not controversial. In addition to the functions of law-making, as representatives of the departments, senators were in charge of most decisions in terms of public finances, bureaucratic positions, celebrating contracts, allocation of budget, and territorial divisions of the country. The relative autonomy of local elites was maintained in this newly centralist Constitution.

As evidenced in the transcripts of the debates, a point that was subject to heated discussions was one of the territorial divisions. That is the further division of states. Most of the writers' discussions of this Constitution had to do with the formation of new departments. A careful look into these debates shows that the main concern was on how the process of centralization posed risks to territorial borders and divisions. This is relevant because the stakes and the payoffs of having senators representing local elites were very high.[2]

4.3.2 Mutualism in Chile

I claim that the Constitution empowered the central government in Chile and initiated a positive feedback sequence towards a strong centralized state that mirrored economic elites' interests. In fact, what followed the 1833 Constitution can be analyzed as a self-reinforcing sequence of institutional change that fed both state

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[2]I am reading trough archival material, and this is the general intuition that I have, I am trying to find a good way to process the data found in these debates to provide a systematic account. Comments on this will be greatly appreciated

strength and economic elites. Partial evidence of this can be found on the subsequent reforms that followed the Constitution, and that progressively advanced the foundation of a liberal democratic state. Elections were held every two years, almost without interruption (1891 being the exception). Valenzuela attributes this Constitution as the beginning of a process of democratization. According to him, it was the most important of all the Republican Constitutions. First, it established the separation of powers, typical of liberal democracies, including an independent judiciary and a relatively strong bicameral congress. Second, the military was subordinated to the constitutional government. Third, it encouraged freedom of the press, and a lively and critical press can be found as early as the 1840s. Fourth, it traced the path for the freedom of association and political and social purposes and was institutionalized with an amendment in the 1870s. Fifth, concerning the right to vote, the subsequent reforms (1874, 1884, 1885, and 1888) were progressively extending the right to vote. Overall, the subsequent reforms resulted in the institutionalization of a democratic regime that retained many of the institutional practices of the past (Valenzuela, 1977). Because of this positive feedback in Chile, during the XIX century, the state was progressively getting stronger. This strong state was characterized by its strong ties with the elites, which resulted in the fact that the formation of the state and state projects mirrored their interests very well and continued to strengthen their privileged positions.

4.3.3   Commensalism in Uruguay

The histories of Chile and Colombia contrast with Uruguay's case in that the economic elite was politically divided. During a civil war, the state was not in a gradual path of strengthening its capacity, and the two elite factions were in constant

conflict throughout the XIX century. The Constitution contributed to feeding the existing dispute since it unevenly distributed power in favor of the landed upper class and triggered the response of their counterpart. The Uruguayan case can be seen as a reactive sequence in the sense that the events that followed the Independence and the First Constitution were embedded in the ongoing conflict and often constituted the actions of one party and the response of the other. Between 1830 and 1903, "twenty-five governments guided the Uruguayan ship, out of this, nine were forced out of power, two were liquidated by assassination and one by grave injuries, ten resisted successfully one or more revolutions. Only three were free of serious disturbance during their period in office" (Hanson, 1938). This ended up forming a very weak state that was not able to maintain institutional stability until very late in the XIX century. López-Alves documents that by 1870 the central power remained unable to penetrate the country-side and depended almost entirely on the parties and local political chiefs. In the end, this resulted in very weak ties between the state and the elites. This disconnection may have been the key to the fact that in 1900, after almost 70 years of institutional instability and state collapse, a complete renewal/abrupt change of the Constitution and the birth of the first welfare state in Latin America. Scholars have studied this puzzling character of rapid change and depth of these reforms in Uruguay and have emphasized the role of José Battle y Ordoñez in leading the process. "How great an abyss existed between the Uruguay toward the end of Guerra Grande and that which was born in 1900?" (Barran and Nahum (1968) cited in Lopez-Alves (2000)).

4.3.4 Balance of the Weak in Honduras:

The case of Honduras exhibits a singularity of having a weak state and a weak economic elite. An analysis of existing literature on state formation and its legacies shows the economic elite's division along geographical and political lines. Besides, the state remained extremely weak until the second half of the XXth century. Research on the process of State Formation suggests that the lack of a strong centralized state, in conjunction with geographical and political divisions among the economic elites, allowed foreign investors, mainly in banana plantations and silver mining, to have disproportionate political control. The importance of the United Fruit Company in shaping the political institutions has been well documented in the literature (Schneider, 2012; Euraque, 1996). In fact, one famous joke told to describe this overall weakness is that "their country is so poor it cannot even afford an oligarchy" (Euraque, 1996). Unlike what occurred in neighboring countries, coffee and banana did not serve as the basis for a landed oligarchic government. Instead, it was foreign companies dedicated to banana exports at the center of power and led the country's integration to the world economy. He adds, "the higher classes are composed of wealth, education, and refinement, and these classes really constitute the government element and govern all public action. There is, however, no unity of purpose of action amongst them. They are divided into numberless factions, each faction representing some individual of dominant intellectual ability, or qualities of leadership, or possession of such personal charms as attract or draw other men unto them" (Euraque (1996),end note 23). This quote shows a pattern of elite division that prevailed in Honduras.[3]

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[3] "The conflict was not simply an urban-rural cash, even if that process was surely part if it, The main dispute turned on the emerging opposition between North Coast Elite and working class liberalism, even tinged with left-wing socialism, and the more conservative social and political culture of the interior and Tegucigalpa." (Euraque, 1996, 59)

4.4   Conclusion

Relatively low levels of economic inequality have survived in Uruguay despite multiple sources of instability in the country. On the contrary, high levels of Economic Inequality have been the norm in Colombian and Chilean history. A century of deep transformations in many dimensions of the political, social, and economic spheres was not enough to solve structural inequalities. Attempts to redistribute have been insufficient, sometimes sabotaged by the economic elites' active efforts to protect their richness and sometimes sabotaged by state's incapacity to follow through with proposed policies. I believe that these sources of sabotage have a common origin in the redistributive power of the state. In the last section of this chapter, I explored how the redistributive state power became an enduring trait in these countries in Latin America. This framework allows us to identify key differences that I believe are a fundamental piece to solve the puzzle of the divergent trajectories of economic inequality in these cases. A critical difference in these countries that anteceded the critical event of state formation can be found in the structure of power sustaining the economic elites and shaping their interests in state formation. The elite split in Uruguay resulted in a chaotic period of state formation, which led to the misalignment of the interests of the state and those of the economic elite. On the contrary, their unified interests allowed the economic elite in Chile to implement a vision of the state that mirrored the elite's economic interests and favored their privileged position. The decision to dismantle the state in Colombia necessarily created a pattern of relative state weakness vis-à-vis the local economic elites. In Honduras, foreign actors' power and political instability left the country with a weak state and a divided elite.

I trace the origins of the low levels of redistributive state power in Colombia by

studying state formation's critical event. I identify its legacies even in moments of radical institutional change as the project Regeneración. After the new Constitution of 1886, prior levels of the relative autonomy of provinces/states during federalism were replaced (and maintained) by an extremely powerful Senate that represented the interests of the local economic elites. Chile presents a different story. This analysis of the first Constitutions allowed me to identify how the distribution of power is reflected in the text. The Chilean Constitution protected elite interests and represented the beginning of a very stable period in which elites consolidated a cohesive position while the state achieved high infrastructural capacities. In Uruguay, the Constitution aimed to empower landowners to respond to the rural unrest threat. The result was a long-lasting civil conflict in conjunction with a weak state and weakening of elites. In the early 1900s, in the context of elite division, Battle's government initiated a series of reforms that strengthened the state's capacity and the redistributive capacity as a result.

Chapter 5

Parasitism in Colombia and Perú: Redistributive Pressures, Weak States and, Economic Elites

The Interwar Period was of critical importance to the long-term political and economic development trajectories in Latin America (Collier and Collier, 2002; Bertola et al., 2009). Intense social mobilization and demands for more favorable socioeconomic conditions by the working classes characterized the decades between 1920 and 1940. The economic crisis brought by the Great Depression in 1929 intensified these demands since it showed the limitations of the agro-export model and the enclave economies. In addition to financial hardship, the 1930s brought ideas from Keynesianism and state-led development models, a significant ideological change regarding the role of the state in the economy (Julio, 2008). Emerging forces and ideologies crystallized through renewed dynamics around partisan politics as well as the emer-

gence of political leaders outside of the traditional establishment in many countries in the region (e.g., APRA (Alianza Popular Revolucionaria Americana)in Perú, New Liberalism in Colombia). Together, these forces threatened the existing economic and political power distribution tied to the export-led development model.

The state and political elites responded to amounting pressures and to the ideological shift regarding the role of the state in the economy with important institutional changes in many countries in the region (Collier and Collier, 2002; Fals Borda, 1959). In this chapter, I compare the institutional responses to the redistributive pressures in Colombia and Perú. In particular, I focus on tax and agrarian legislation reforms as the key redistributive institutions. Ideas about the role of taxation radically changed, which resulted in important tax legislation reforms that considered, for the first time in the region, the redistributive potential of a progressive tax system. Similarly, the idea of property as a social function influenced land reform policy in Colombia (Babie and Viven-Wilksch, 2019), page 171) and the constitutional reform in Perú of 1933 (See article 31). These institutional changes in Perú and Colombia cannot be seen solely as the way to appease the redistributive pressures produced by social and labor mobilization. They were part of a more complex process of institutional reform that included the expansion of voting rights to previously excluded segments of the population, labor incorporation reforms (Collier and Collier, 2002). Besides, these changes went in tandem with attempts to strengthen the state apparatus and the expansion of its territorial control.

Yet, while important and transformative in many respects, I argue that the institutional reforms and the emerging political forces did not alter the balance of power between the state and the economic elites (Cueto, 2015). Instead, in both coun-

tries, the economic elite was able to shape state policies to protect their interests. Economic elites' ability to challenge the state was possible because they acted as a cohesive unit and maintained a relative strength vis-a-vis the state. In turn, in this chapter, I aim to answer: How did Peruvian and Colombian economic elites manage to keep their cohesion and a relative strength vis-à-vis the state, despite significant pressures for redistributive reforms and the resulting institutional changes to appease those pressures?

To answer this question, I combine process tracing and comparative historical analysis to understand how these policies came to be in each country. I rely on primary and secondary sources around legislative changes to demonstrate how economic elites' cohesive response enabled them to influence such state policies. In particular, I zoom in into tax reforms in Colombia and Perú and land reform in Colombia and collected archival documents on the bill's conception, the reactions by different segments, the changes made to the laws, and news coverage around them. I complement this data with secondary sources on the topic. I organize the evidence around the observable implications of the argument presented in Chapter 3 in the form of causal process observations, as can be observed in Table 5.1. Through these CPOs, I identify the mechanisms maintaining the power asymmetry between the economic elite and the state. Ultimately, this chapter contributes to our understanding of economic inequality's long-term trajectories by showing how these equilibria were maintained in both countries. In doing so, I can speak more broadly about the politics of redistribution and the forces sustaining persistent economic inequality in Latin America.

The literature on Historical Institutionalism provides a theoretical framework to examine the different types of forces behind institutional reforms and their legacies.

For this project, I draw on Mahoney's definition of institutions as "rules or generalized procedures that provide a guide for behavior and that promote predictable patterns of interaction (whether consensual or conflictual)" (Mahoney, 2010). Institutions have discriminatory benefits: they give disproportionate advantages for some segments of the population and are inherently associated with conflict and power asymmetries (Knight, 1992). Through this lens, I analyze the processes through which the creation of the income tax and land reform came to be as well as their distributional consequences. My work is in line with a view of institutions as structures of power distribution (Knight, 1992; Mahoney, 2010; Moe, 2005; Pierson, 2004). A comparison of the the struggles in the writing process, and their distributional effects and posterior legacies. This chapter is organized around these institutional reforms and their legacies.

Before 1930, Colombia and Perú had similar levels of Redistributive State Power (RSP). I define Redistributive State Power (RSP) as the power of the state to redistribute income and wealth from the richer to the poorer segments of the society. I argue that a country's RSP depends on State Capacity and the Political Cohesiveness of the Economic Elite.

The agro-export model that became the center of political and economic power in the second half of the nineteenth century in both countries sustained parasitism: an equilibrium characterized by a weak state and a cohesive economic elite with the capacity to shape and dictate state policies. However, in 1930, the economic crisis brought by the Great Depression, in conjunction with extensive social mobilization, evidenced the limits of the agro-export model, and threatened the existing distribution of power. The 1930s, brought significant pressures for redistribution, which caused

Table 5.1: *Structure of Causal Process Observations*

Country	Periods	Part of Argument:	Structure of Causal Process Observations		
			Cohesive Economic Elite?	Capacity of Economic Elite to influence State Policy	Redistributive State Power
Perú	T1: 1910-1930	Emergence of Redistributive Pressures	Yes. Owners of sugar plantations in the north were at the center of political life	Yes. The economy and the state depended on export sectors. They had veto power, risk of capital flight was very high since most owners and capital was	In alliance with the military, repression to social mobilization was heightened
	T2: 1931 - 1938	Institutional Response 1: Tax Reform	Yes. Letters sent to Constitutional Assembly reveal extreme cohesion in the positions of members of different economic sectors.	In Congress, reform lost some progressive elements and modifications to protect economic elites were included.	An authoritarian government protected the interests of the economic elite through repression. Very low redistributive capacity.
Colombia	T1: 1919 - 1932	Emergence of Redistributive Pressures	Yes. Export booms facilitated a cohesive elite formed by hacendados-landowners, hacendados-bankers, hacendados-comerciantes: united by a common interest of protection of private property through increased gobernability	Yes. The economy and the state depended on export sectors. They had veto power, risk of capital flight was latent.	Relative capacity of state vis-à-vis economic elite was somewhat heightened because changing ideas of the role of the state and emergence of new political leaders
	T2: 1932 - 1936	Institutional Response 1: Tax Reforms 1934 , 1935	Yes. Foundation of Apen in March 7, 1935 as a response.	Yes. Changes were introduced to the bill that reveal the influence of a cohesive economic elite represented by APEN.	A cohesive economic elite was able to diminish the redistributive potential of the reform. Showing the limits of the state in implementing redistributive reform.
		Institutional Response 2: Agrarian Reform 1936 (Ley 200)	Yes. APEN maintainted the cruzade against the government and targeted this reform.	Yes. The reform was utilized by landed elites to legitimize previuos land invasions.	Somewhat heightened because of conflict around titles. In the implementation, it failed increasing the power of landowners. Partially attributed to state weakness in enforcing. Non autonomous local authorities in charge of implementation.

Figure 5.1: *Timeline and Summary of the Argument*
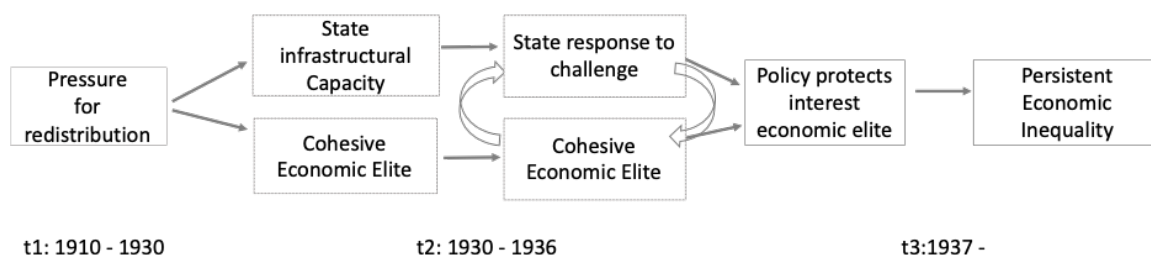
political elites to respond with a series of institutional responses. However, I maintain that the redistributive potential of these reforms was limited. In both countries, the economic elite maintained a cohesive front that allowed it to shape a state policy that protected their interest. As a result, Perú and Colombia continued on a path of high levels of economic inequality.

In a way, the combination of economic crisis with the extensive social mobilizations and the emergence of anti-oligarchic political discourses contributed to the political alignment of different economic elite segments. Figure 5.1 illustrates the argument.

Following this introduction, I first describe how pressures favoring redistributive reforms emerged and the conditions that shaped those pressures to explain how they threatened the status quo distribution of power. In the following section, I analyze the process leading to the institutional reforms and how economic elites responded to them. The reconfiguration of the political arena and the important institutional innovations make the continuity of the balance of forces between the economic elites and the states more puzzling.

5.1 Emergence of Redistributive Pressures

In the first decades of the twentieth century, social mobilization around workers' rights was on the rise around the globe. During this period and following the global trend, most countries in Latin America saw intense social mobilization. Influenced by revolutionary ideologies and models of trade unionism emerging in Europe after the First World War, the frequency and intensity of rural and labor mobilizations in this period resulted in key institutional transformations and the emergence of new political forces in most countries in the region (Collier and Collier, 2002). In particular, reforms were introduced to voting rights, to regulate labor rights, and in terms of taxation.

However, the context in which the emergence of social movements in Latin America occurred had significant differences compared to what was happening in Europe and North America. First, because in Latin America, these movements challenged a system that had the colonial structure of hacienda at its core with low levels of industrialized economic activities. Haciendas were still a key institution structuring economic and political powers in many countries in the region (Cotler, 2005; Kalmanovitz, 2003). The concentration of land exceeded economic power since it meant that hacendados (landowners) held a disproportionate share of political power. Second, Latin American countries depended economically on the export of raw goods, and most of the production was organized around economic enclaves with a significant share of foreign capital. Before the Great Depression, commodities were the main engine of economic growth in both countries. The countries' financial dependency on these exports meant that landed and commercial elites benefitted greatly from these booms. Third, most states in the region were infrastructurally weak and

highly dependent on economic elites.

In the next two subsections, I will briefly discuss these three factors in Colombia and Perú. In particular, I emphasize on the export booms and the model of enclave economies as critical antecedent conditions (Slater and Simmons, 2010) that shaped redistributive pressures and the institutional responses between 1920 and 1940 in Perú and Colombia. Following the summary of crucial antecedent conditions, I demonstrate that in Colombia and Perú, similar redistributive forces threatened the existing distribution of economic and political power.

5.1.1 Export booms and the consolidation of Parasitism in Perú and Colombia:

By the turn of the twentieth century, Colombia and Perú had similar levels of GDP per capita. Pushed by the growth of primary goods' exports, both countries started to see economic growth in the first decades of the twentieth century (see Figure 5.2. This period of export-led economic growth (1900-1930) was consequential for the strengthening of the state and the consolidation of an agro-commercial elite in both countries.

In Perú, the first commodity boom came with the inflow of resources from Guano exports (1840-1890). Revenues from the Guano boom benefitted the consolidation of the state. However, scholars have shown that the"[. . .] the supposed powerful and independent state that arose during this historical juncture [. . .] was an instrument employed by influential groups to further their particularistic interests-often to the detriment of the interests of other elites or the nation at large" (Gorman, 1979), page
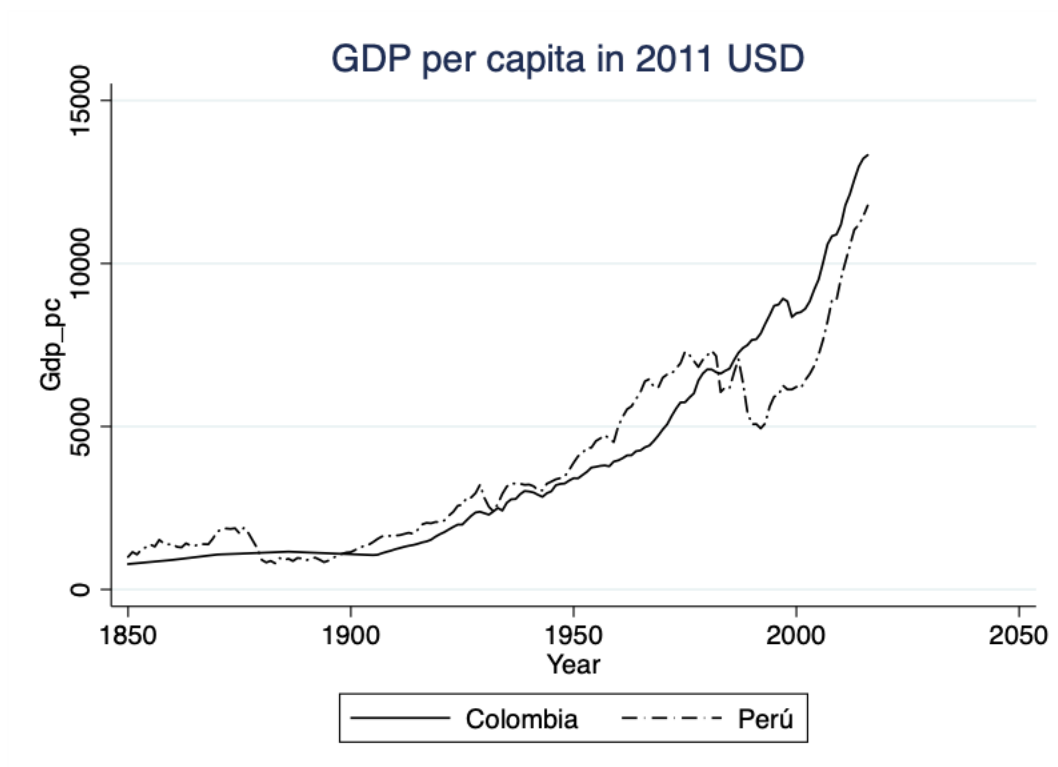
Figure 5.2: *GDP per Capita*
Source: Maddison Project Database, version 2018. Bolt, Jutta, Robert Inklaar, Herman de Jong and Jan Luiten van Zanden (2018), "Rebasing 'Maddison': new income comparisons and the shape of long-run economic development", Maddison Project Working paper 10

396). The state used revenues from the guano boom to aid the consolidation of the sugar industry in the North of the country (Klaren, 2005). The power concentrated by owners of sugar plantations became central in the political and economic history of Perú in the twentieth century.

The most prominent members of the sugar elites exploited the economic crisis brought by the Pacific War in the late 1880s. The crisis "spearheaded a wave of concentration and consolidation of the industry [sugar industry], buying out their weaker, often bankrupt competitors, organizing the production into larger economies of scale and generally modernizing their operations between 1885 and 1930" (Klaren, 2005), page 38). This expansion allowed the consolidation of the enclave model as the sugar industry expanded towards the country's northern region, accompanied by numerous migrations of workers from the Sierra region to work in the plantations. The model extended later to other products like cotton and rubber. The growth of revenues aided a process of expansion of the agricultural frontier, which intensified the concentration of land properties (Gonzalez Alvarado, 2016).

Between 1900 and 1930, the exports of sugar, rubber, and cotton brought higher economic growth levels to the country. With these booms, the agro-export elites were able to consolidate their concentration of power, which gave rise to what scholars have referred to as an oligarchic state sustained by a pact between different segments of the agro-export elites including landed, financial and commercial elites (Gonzalez Alvarado, 2016). More importantly, the export-led economic booms facilitated the economic elite's cohesion and heightening their economic and political importance. The export economy accounted for the entire productive apparatus, which generated strong links between economic elites and gave them a disproportionate

power vis-à-vis the state.

Furthermore, in addition to controlling activities tied to the exports of raw goods, members of the agro-export elites initiated expanding to the industrial sectors. For example, Casa Grace (one of the largest sugar and cotton haciendas in the northern coast) controlled 60% of the cotton exports, acquired textile factories in Lima and in 1918 controlled 45% of the textile production of the country (Cotler, 2005, 139)).

Like in Perú, landowners, and haciendas were at the center of political and economic life in Colombia. With the consolidation of the export economy between 1850 and 1880, the main two sectors of the economic elite, landed elites and commercial elites, merged (Reinhardt, 1986).

The historiography has painted a picture of intense political conflict within the elite in Colombia, as represented by a confrontation between the main two political parties. However, members of the economic elites belonged to the two rival political parties (Liberals and Conservatives). Merchants, landowners, and industrialists were present in both parties, which explains why they were mostly in agreement in terms of economic policy and the importance of the export sector for economic growth. As I will show in this chapter, economic elites united across party lines to protect their interests.

Coffe became the first product that Colombia exported at a large scale in the 1880s. The pace coffee production growth resulted in the expansion of the agricultural frontier and the occupation of land previously owned by the state and in the diversification of agricultural products (sugar, fruit). The goal of increasing production guided this process of colonization and subsequent legislation around land titles

and redistribution. This process resulted in higher levels of land concentration, as has been shown in the literature (LeGrand, 1988; Saffon Sanin, 2015). For example, Saffon Sanín shows that during the export-led growth period, the agricultural frontier's expansion through land dispossessions of settlers (colonos) favored landowners. Additionally, an analysis of land titles' allocation during this period suggests that it mostly favored landowners. Table 5.2 shows the summary statistics of the process of land-title distribution for landowners and peasants for the period between 1853 and 1930.

Table 5.2: *Title Allocation before Land Reform*

	1853-1873	1874-1892	1893-1917	1918-1930	Total (1853-1930)
Titles allotted to landowners through bonds	206	192	324	120	842
Titles allotted to peasants through free grants	318	413	1479	266	2476
Total number of titles allotted	524	605	1803	386	3318
Sq. km allotted to landowners	5323.1	4166.6	3895.7	2039.0	15424.3
Sq. km allotted to peasant settlers	1627.1	1913.2	4409.7	3497.2	11447.2
Total number of square kms allotted	6950.2	6079.8	8305.4	5536.1	26871.5
Sq. km allotted per title to landowners	25.8	21.7	12.0	17.0	18.3
Sq. km allotted per title to peasants	5.1	4.6	3.0	13.1	4.6

Source: López-Uribe and Torres (2018) and own calculations

The concentration of property ownership meant that with the export booms, the ties between landed elites and merchants strengthened. With the boom, coffee-growers (and later on sugar-cane, banana growers) were later also able to diversify

their productive activities and extend their control over the financial, commercial, and the nascent industrial sector. This trend was particularly marked in the regions of the country dedicated to the production and export of coffee in the Andean region. In his book entitled "Coffee in Colombia, 1850-1970: An Economic, Social and Political History", Marco Palacios refers to this process as the creation of the oligarchy (Palacios, 2011).

As was the case in Perú, the strengthening of the state apparatus in Colombia in the late nineteenth and early twentieth century was dedicated mostly to serving the interests of the agro-export sectors. Overall, the fact that in both countries economic development and the strengthening of the state were pushed by export commodity booms, facilitated the formation of a politically cohesive economic elite with the capacity to shape the direction of state policies. In both countries, the merging of agricultural activities with commercial, financial, and nascent industries, at the center of an oligarchic structure of power, became under threat with the emerging social forces and the economic crisis brought by the great depression of 1929.

5.1.2   Emergence of Redistributive Pressures in Perú

In Perú, the first general labor strike took place in Lima in 1911. Following that one, and until 1920, general worker strikes happened almost every year in Lima. The biggest of these strikes took place in the capital city between January 13th and 15th of 1919. In the rural areas too, between 1915 and 1925, peasant communities in the Andes mobilized to oppose waves of land enclosures.

These initial mobilizations led to a series of changes that included the shortening to eight daily working hours, and the institutionalization of labor unions for workers

in the textile industry (Federación de Trabajadores en Tejidos del Perú). However, for the first three decades of the XXth century, most of these protests were met by violent repression. They did not significantly change the structure of economic and political power (Collier and Collier, 2002).

It is important to note that even if social mobilizations were not successful in achieving most of their goals, this initial period of social unrest brought new political forces and leaders that became fundamental for the political history of Perú. In particular, Victor Raúl Haya de la Torre and José Carlos Mariategui became notable political figures. Haya de la Torre founded in 1924 APRA a political party that aimed to represent workers' struggles and fight against American imperialism in Perú. Haya de la Torre and APRA were central players in Peruvian politics throughout the twentieth century. José Carlos Mariategui founded the Peruvian Socialist Party in 1920 and became an influential political leader in Perú and for the socialist parties more broadly in Latin America.

The economic crisis sparked by the Great Depression brought a window of opportunity to these new political forces to participate in the political arena. After eleven years leading the military dictatorship, General Oscar Leguía was forced to step down in 1930. A military junta took brief control and called for democratic elections and a constitutional assembly. In 1931, two candidates fought for the presidency; Luis Miguel Sánchez Cerró and Raúl Haya de la Torre. With 50% of the vote, and despite fraud allegations from Aprismo, Sanchez Cerró became president in 1931 and led the country through a constitutional reform. The Peruvian historiography perceived Sanchez Cerró as a victory of the agro-export elites and the economic model that it represented (Lossio, 2015), page43).

Despite the pressures from the opposition and the increase in the social mobilizations aiming at improving the conditions of the population, Sánchez Cerró maintained a repressive approach to mobilizations. The government of Sanchez Cerró engaged in severe political repression of the opposition parties: PCP (Partido Comunista Peruano[1]), and APRA. In fact, Haya de la Torre was incarcerated. Following the assassination of Sanchez Cerró in 1933, army general, Oscar Benavides rose to the presidency and approved the Constitutional Reform 1933. This constitution contained progressive transformations that included labor reforms, expansion of voting rights, and tax reforms.

However, despite the progressive character of these reforms on the paper, Benavides "firmly restablished reestablished the oligarchy's influence in Peruvian national politics" (Collier and Collier, 2002, 152). As part of the constitutional reform of 1933, he banned Aprismo from participating in politics while paradoxically also implementing some of the labor reforms proposed by APRA (Drinot, 2011) to appease the mobilizations. To demonstrate the importance of the oligarchic powers during Benavides regime, I zoom in into the tax reform of 1934. A revision of the archival documents surrounding this process shows the prevalence given by this government to the interests of a cohesive economic elite.

Redistributive Pressures in Colombia:

Contrary to Perú, where the labor movement took off early, one of the first labor strikes in Colombia occurred in 1920 in Bello, a municipality in the department of Antioquia when around 400 female workers in the emerging textile industry, organized to demand better working conditions. Petitions of protesters included shorter hours,

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[1]In 1930 the name of Partido Socialista del Perú (Socialist Party of Peru) was changed to PCP.

equal payment vis-à-vis their male co-workers, and the expulsion of male foremen accused of sexual harassment. After 21 days, the owner of the company gave in to the strikers' demands. Because it was small in scale and led by female workers, economic elites and the state did not perceive this strike as threatening. However, this episode marked the beginning of a series of labor movements throughout the country. Labor strikes continued to emerge across Colombia in the following years. A partnership between the state's coercive apparatus and elite/powerful business owners increasingly met these strikes with violent repression.

A few years later, in Barrancabermeja, a small city on the Magdalena River's shore, the first large labor conflict in Colombia erupted. On October 8, 1924, workers at Tropical Oil Company organized a strike to demand a wage rise. The protests lasted for three weeks and were composed of around 3,000 workers. The government responded with repression, which resulted in a violent encounter between "huelguistas" (strikers) and the national army. This pattern of mobilization and repression continued until the 1930s. In 1928, a labor strike in the United Fruit Company ended in the infamous Banana Massacre (Massacre de las Bananeras), the result of the violent response led by the government of Miguel Abadia Mendez in alliance with the United Fruit Company's heads. In 1929 and as a result of the Great Depression, 150,000 workers lost their jobs. Strikes and manifestations increased.

Existing studies of labor mobilization in Latin America locate the Colombian case as one in which labor mobilization was small in scale and emerged relatively late (Collier and Collier, 2002). However, parallel to labor mobilizations, conflicts around land property rights intensified in the second half of the 1920s. Together these two forces were perceived as extremely threatening by political elites. Besides,

the tardiness of labor movements meant that they coincided temporarily with the Great Depression and were influenced by communist ideologies. Writing in 1929, the Ministry of Labor published a communication referring to social unrest:

"The idea is prevalent among the hacienda owners that the government must give them police protection for the solution to the problem. It is clear that, above all, the danger of revolt must be avoided ... and that the rights of the owner must be guaranteed in the legitimate contracts that exist. But it is also necessary that the landowners become convinced that this is not the solution to the problem, for, as we believe to have shown, the communist propaganda is not the only cause of the malaise whose existence nobody can any longer deny."

Nationally and locally, the idea and the fact of strikes suddenly became common knowledge. The social meaning of waged work began suddenly came to be debated in terms of"classes,the social question, and revolution." (Kalmanovitz, 2003). The attention given to labor strikes and peasant movements around land titles and the responses by the political leaders suggest the importance of this period and the extent to which it posed challenges to the status quo distribution of power. In Colombia, as a response to the "social question," new forces emerged within the Liberal party. Together with the emergence of unions and other leftist political groups, these new liberal forces symbolized a new chapter in Colombian history. They contributed to the deterioration of the conservative hegemony that ended, after 45 years, in 1930 with the election of Enrique Olaya Herrera. Olaya Herrera implemented a series of labor reforms that included the protection of contractual relationships and collective negotiation, the recognition of labor unions, and the establishment of an eight-hour day and forty-eight-hour working week.

In addition to labor reforms, peasant mobilizations resulting from the process of land dispossession carried out between 1880 and 1930 were central to the liberal party agenda (Saffon Sanin, 2015). Overall, the 1920s and 1930s signified significant pressures for the oligarchic power structures that consolidated during the export booms in Perú and Colombia. In this context, the governments initiated a series of institutional reforms that were progressive on the paper. However, a lack of capacity to implement them, combined with the successful pressure to modify the original laws and sabotage their implementation, contributed to their disappointing outcomes. In the next section, I will illustrate the politics of redistribution by analyzing three reforms and its distributional consequences.

5.2   Institutional Reforms

In this section, I focus on the institutional reforms to the main redistributive institutions: tax and land reforms legislations. These reforms were the result of endogenous redistributive pressures that were intensified with the Great Depression. In addition, they were also influenced by recommendations emerging from the Kemmerer Missions. Led by economist Edwin Kemmerer, the goal of these missions was to recommend a series of legislative changes to the monetary and fiscal systems in South Americans countries . In Perú, the most important reform happened in the context of the Constitutional Assembly through the approval of the law 7904 through which the income tax was created. In Colombia, the government of Lopez Pumarejo pursued two reforms to the main redistributive institutions: a tax reform in 1935 and a land reform in 1936. In Perú, the government of Benavides reestablished the oligarchy's influence in Peruvian national politics and maintained excluded from the political

arena the challenging political forces that emerged in the 1920s. The defense of elite interests was done in Perú via authoritarianism and repression. In Colombia, the government faced the creation of a right-wing movement organized by businessmen, APEN, which accused the President and his Minister of Finance of "communists" and of violating the principle of private property. However, the country maintained a democratic regime type and the defense of elite interests was made through democratic institutions.

5.2.1 Tax Reform in Perú:

In this section, I will draw from documents collected at the congressional archives in Lima, including the minutes and transcripts of the Constitutional Assembly's debates between 1931 and 1933. The focal point of the section will be the discussions around the Income Tax Law ("Ley 7904 Sobre del Impuesto a la Renta") promulgated in 1934. Since this Law was the center of tax legislation until 1969s, an in-depth analysis of the Law - from its conception, debates, and final document - illuminates the fundamental dynamics around redistributive politics in Perú at the time.

On July 7 of 1934, the Law was promulgated. It came into effect on January 1 of 1936, and was valid until 1968. The government proposed the Law in the spirit of modernizing the state and expanding its territorial and fiscal reach. In the reason statement (Exposición de Motivos) shows that one of the main objectives of the Law was to organize and unify tax legislation into a single Law around the income tax. In a communication describing the bill, the government recounted existing laws and reforms about the taxation system between the 1880s and 1931. With it, the government argued that the multiplicity of laws and decrees, together with the exemptions

granted throughout the years, made the tax legislation ineffective and difficult to implement. Analysts of the history of tax legislation in Perú, highlight the importance of this Law in centralizing taxes under the umbrella of "income tax" (García Castro, 2010). Within the Law, five different taxes were created. These included a capital income tax, a tax to both labor and capital income obtained in the exercise of liberal professions, property taxes for urban and rural lands, salary taxes, and a progressive income tax.

The second objective of the government was to increase tax collection and decrease tax evasion. In the motive declaration, the Ministry made it clear that the state's capacity to collect taxes was deficient in the past. The report included interesting statistics demonstrating how low tax collection was before the 1930s. For example, the government estimated that out of more than 10,000 companies that should be reporting and paying taxes, only between 700 and 800 did so. Finally, the government was interested in adjusting the tax system to citizens' payment capacity and increasing the progressivity of taxes - lost in the multiple layers of legislation, reforms, and counter-reforms. Among the advantages that scholars have pointed about the 7904 Law, legislators considered both the proportionality of taxes and the different payment capacities of citizens when drafting the Law (García Castro, 2010).

After the new Income Tax was proposed to congress by the Minister of Finance (Ministro de Hacienda), responses from the nascent industrialist sectors, commercial and banking elites, landowners, and miners arrived promptly. Table 5.3 shows the CPOs found in these letters from different segments of the economic elites. Together, these showcase a remarkably cohesive group. The letters are similar in that they express extreme discontent with the proposed Law and how it attempted against

these sectors. Besides, in most cases, the organizations "implored" the constitutional assembly to reconsider the Law because of its potential to cause "grave damage" to the economy and the country.

These letters provide important causal process observations to understand how the redistributive power of the state shaped the redistribution politics in Perú in the 1930s. A careful reading of the letters allows one to understand the economic elite's key characteristics and how they perceived the role of the state and their own in the economy. First, they portray an economic elite that is united by their shared interests. It is possible to see different organizations representing landowners, industrial and commercial elites, and banks came together with a unified goal. Differences among economic elites in terms of their economic activities did not limit their capacity to act cohesively in the face of a common threat.

Second, there are a series of narratives that are put forward in the letters worth mentioning to understand the perceptions of the economic elites regarding the role of the state and their own in shaping economic policies. First, they converged in the fact that the tax reform threatened economic progress and order. Besides, they argued that by approving the reform, the country would fall into a path of extreme socialist ideologies. Letter writers also called for a "technical evaluation of the reform" and claimed that tax evasion should not be penalized.

In comparing the proposed bill with the final Law, I identified crucial changes that demonstrate the power of a cohesive economic elite in shaping the character of the Law. The most important of these changes include the elimination of articles through which the government attempted to calculate the value of rough eriazo[2] land

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[2]An eriazo property is a real estate with a non-agricultural destination, in which there are no

properties and tax them. Besides, an article that permitted the expropriation of eriazo lands was also deleted from the final version. (See Figure 5.3 and 5.3).

Ultimately, scholars agree that despite some progressive elements, the tax reform of 1934 found in the weakness of the central state, one of its biggest enemies. Besides, a cohesive economic elite mobilized against the reform, obtaining important victories in shaping the reform.

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buildings (not built)

Figure 5.3: *CPO 6. Examples of Modifications of the Law*

Original

Approved

milares, principalmente con los vecinos; y

D).—En los casos en que un predio rústico sea explotado por el sistema de merced conductiva pagadera en productos del mismo predio, se calculará la renta bruta por el precio medio de los productos en el año precedente. En estos casos, cuando os productos estén afectos a derechos de exportación, se descontarán estos de la renta bruta anual y entonces al calcularse la renta líquida, no se aplicarán las deducciones que permiten los incisos "A" y "B" del artículo siguiente.

efectivamente obtenido por los productos, cuando sea debidamente comprobado.

Artículo 43o.—Todo propietario de un terreno eriazo, excepto las comunidades indígenas, deberá declarar su valor en el plazo que determine el Poder Ejecutivo en la reglamentación de esta ley, determinando su extensión y demás condiciones, para poder conservar sus derechos de propiedad. Los propietarios que no cumplan con hacer su declaración dentro de

d).—En todos los casos, se rebajará además el monto de los intereses que el propietario acredite haber pagado por operaciones de crédito hipotecario o anticrético que afecten al predio, que no hubieran sido deducidos de otros de sus ingresos y sobre los que se hubiera abonado el impuesto sobre la renta del capital movible.

Artículo 42º.—El impuesto predial rústico afectará también a la renta que se obtenga por el ganado, maquinaria y accesorios existentes en el predio arrendado.

Artículo 43º.—Todo propietario de un terreno eriazo situado en la vertiente del Pacífico, excepto las comunidades indígenas, deberá declarar su valor en el plazo que señale el Poder Ejecutivo en la reglamentación de esta ley, determinando su extensión y demás condiciones, para poder conservar sus derechos de propiedad. Los propietarios que no cumplan con hacer su declaración dentro de los plazos reglamentarios, perderán definitivamente el derecho de propiedad.

CPO 6 Cont. Examples of Modifications of the Law

los plazos reglamentarios, perderán definitivamente el derecho de propiedad.

Artículo 44o.—Cualquier ciudadano peruano podrá pedir que se decrete la expropiación de un predio eriazo para irrigarlo sobre la base del precio declarado. El Poder Ejecutivo reglamentará las condiciones y plazos dentro de los cuales debe hacerse la irrigación, so pena de perder todo derecho el expropiante, pasando el terreno a ser propiedad del Estado.

Artículo 45o.—Los propietarios de terrenos eriazos, para conservar su propiedad, pagarán un impuesto anual equivalente al tres y medio por mil, sobre el valor declarado.

deba pagarse o

Artículo 100o.—No se considerarán como comprendidas en lo dispuesto en el artículo 27o., de esta ley, y estarán gravadas con el impuesto a las utilidades industriales y comerciales a que se contrae el Título I, del Capítulo II, las utilidades que perciba una persona individual o colectiva por razón de arrendamiento de propiedades mineras o agrícolas en forma de participación en los productos o cual-

(Articles eliminated)

Table 5.3: *CPOs Tax Reform in Perú – Ley 7904*

Event	Part of Argument:	Structure of Causal Process Observations		
		Cohesive Economic Elite?	Capacity of Economic Elite to influence State Policy	Redistributive State Power
	Institutional Response 1: Tax Reforms 1934	**Yes. Letters sent to Constitutional Assembly reveal extreme cohesion in the positions of members of different economic sectors.**	**In Congress, reform lost some progressive elements and modifications to protect economic elites were included.**	**An authoritarian government protected the interests of the economic elite through repression. Very low redistributive capacity.**
CPO #	Date	EVIDENCE/ Quote [My own translation – Spanish in Appendix]	Document	Significance
1	4/4/33	The President of our Chamber of Commerce in Arequipa, on the occasion of the reading of the Report that he presented at the end of the year of 1932, gave a cry of alarm to all the institutions representing "capital" from the Southern region, to solidly unite and present a single front in defense of their interests in grave danger, proclaiming the connection and cooperation of all dispersed institutions, to save from trance the individual and collective wealth, the fundamental basis of public wealth; and avoid the coming disaster."	Letter sent to the members of the Constitutional Assembly, the Vice President of the Chamber of Commerce of Arequipa	Evidence of a cohesive economic elite.
2	3/28/33	We must not forget that people accept the burden of contributions and taxes, and satisfy them with good will and conviction, when they are inspired by justice and equity; for that feeling of solidarity, absolutely necessary, that must exist between the fiscal interest of the State and the interest of the nation's taxable mass. Under these principles, the social and political life of the people develops normally and calmly, awakening the spirit of mutual cooperation between both elements; but it is known that when taxes are excessive, and the methods of collecting them are characterized by extremist inquisitive hardness, restlessness is encouraged, and it is not prudent to provoke it at the present time, in the midst of an impoverished and disoriented society. Peru is not yet sufficiently educated, nor has it reached a state of culture, to be able to introduce tax legislation of advanced socialist characters. And the imposition of taxes with that criterion and with a collection regulation that is unusual, given our way of being, will encourage dishonest methods of defrauding the Treasury, despite the harsh and new penalties projected, on the one hand and the abuse of the collection, on the other, thus originating, unfortunately, immoral	Letter sent by "La Liga de Hacendados e Industriales del Sur del Perú" (Ligue of Landowners and Industrialists from Southern Perú) declares the opposition of these groups to the reform.	Evidence of a cohesive economic elite.
3	30/09/33	Comparison between project and approved reform: the section that suffered the most changes was that of expropiation of property.	Originally, articles 43 and 44 attempted to tax land properties and to calculate the value of land. Both of these articles were eliminated from final project.	Originally, articles 43 and 44 attempted to tax land properties and to calculate the value of land. Both of these articles were eliminated from final project.
4	30/09/33	The final version of the law resulted from a series of modifications as a response to the letters sent by tax payers.	High Capacity ~ law suffered multiple modifications	Example of an article suppressed. This is an example of an article that was removed because it added a tax to utilities of commercial and industrial activities.
5	3/8/35	Approved Law link here: https://peru.justia.com/federales/leyes/7904-jul-26-1934/gdoc/		

5.2.2 Institutional Reforms under La Revolución in Marcha in Colombia:

Despite not being electorally powerful, the Communist Party, workers unions and other leftist political groups, in combination with multiple labor strikes and rural unrest, symbolized a new chapter in Colombian historiography. They contributed to the deterioration of the conservative hegemony that ended, after 45 years, in 1930 with the election of Enrique Olaya Herrera. Olaya Herrera led a government of transition and marked the beginning of a key period of modernization of the Colombian State.

In 1934, Alfonso López Pumarejo, the face of the "new liberalism", won the presidential elections and initiated a government that has been denominated as "La Revolución en Marcha". The government pushed forward an agenda to modernization of the state that put it in the center of economic development. López initial discourses were clear on the importance of modernizing the economy such that political, social, and economic power went from the landowners to the industries (Roll, 2001, 57). Among the most important reforms one can find a Tax Reform in 1935 and a Land Reform (Ley 200 de 1936). The former also resulted from Kemmerer's policy recommendations. I selected these reforms because they were perhaps the two most important with the potential to redistributive. Precisely because of this, they were the target of intense opposition by the economic elite. In this section, I describe the most important aspects of these reforms. I draw on documents collected at the Congress Library in Bogotá, including the minutes and transcripts of the debates, newspaper coverage and secondary literature.

Figure 5.4: *Direct (income and property) taxes as percentages of the total revenue*
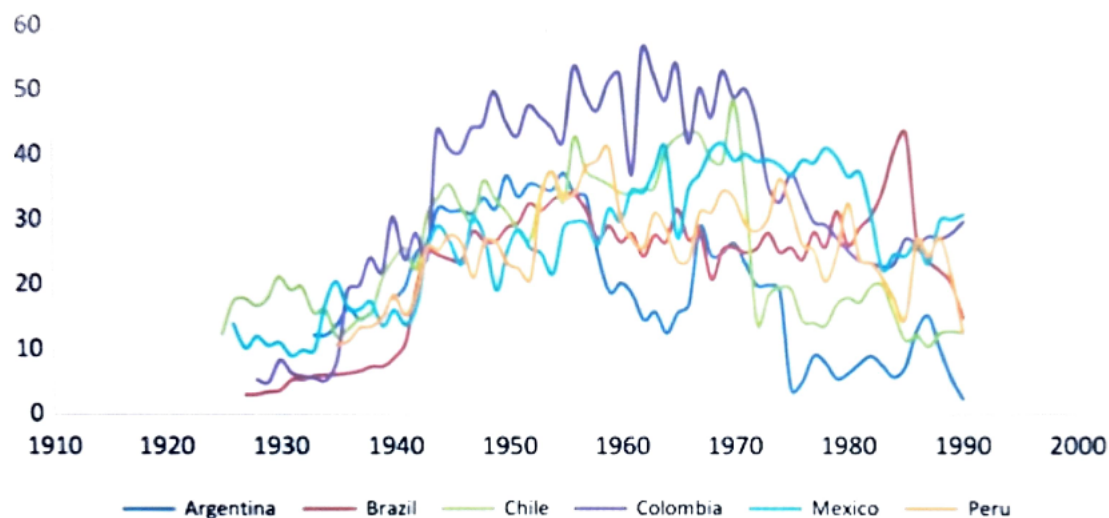
Two Progressive Tax Reforms: 1935 and 1936

Two progressive tax reforms were approved during Lopez's Marching Revolution. The Law 78 of 1935 and the Law 63 of 1936 strengthened direct taxation in the country through the increase on the income tax and with the creation of a wealth tax, excess profit tax, and inheritance tax (Toscano, 2014; Perry and Cárdenas, 1986). In fact, as Figure 5.4 shows, these reforms made Colombia one of the countries with the most progressive tax structures in the region.

These reforms did not happen without considerable political opposition from the wealthy classes and the most representative interest groups. As I explained earlier, the opposition was led by a right-wing movement named APEN () organized by businessmen, who which accused the President and the Minister of Finance of being communists and of violating private property. APEN did not arise only as a reaction

against the tax reforms of 1935 and 1936, but also against Law 200 of 1936 - the first attempt at agrarian reform in the country - and against government's interventions in favor of the labor movement in their union confrontations and in favor of peasant movements over land conflicts (especially the conflicts that arose in the coffee areas of Cundinamarca) (Perry and Cárdenas, 1986).

This opposition saw some victories, as the exemption to the coffee exporters, and imposed limits of the progressive reach of the reform. As a columnist wrote in El Espactador on November 18 of 1935, Congress "imposed a setback to the government initiative of direct taxes, because the young legislators, chosen to defeat the APEN, behaved as if to win the prize for moderation."

Ultimately, these reforms were approved because they went in tandem with other reformist project that found great support among worker unions and leftist parties (Perry and Cárdenas, 1986; Mora Toscano, 2013). As such, they were perceived by members by moderate members of the liberal party to be necessary reforms to appease popular revolt and strengthen the state apparatus.

Table 5.4: *CPOs Tax Reform in Colombia*

Event	Part of Argument:	Structure of Causal Process Observations		
		Cohesive Economic Elite?	Capacity of Economic Elite to influence State Policy	Redistributive State Power
	Institutional Response 1: Tax Reforms 1935, 1936	Yes. Foundation of Apen in March 7, 1935 as a response.	Yes. Changes were introduced to the bill that reveal the influence of a cohesive economic elite represented by APEN.	Low - the most progressive elements of the reform were erased from original bill.

CPO #	Date	EVIDENCE/ Quote [My own translation – Spanish in Appendix]	Document	Significance
1	1/3/36	Link to complete text of reform: http://www.suin-juriscol.gov.co/viewDocument.asp?id=1624360	Ley 78 de 1935 - Published Law	Progressive Tax reform: income tax. Created taxation for profit excess and a tax for wealth. In addition, attempted to coordinate and create and income tax.
2	4/23/36	Link to complete text of reform: http://www.suin-juriscol.gov.co/viewDocument.asp?id=1615252	Ley 63 de 1936 - Published Law	Progressive Tax Reform: created inheritance and donations tax.
3	3/8/35	"Owners, industrialists, merchants, capitalists and farmers of Colombia. The peoples have never fully understood at the moments when transcendental events take place, that these will have the importance and repercussion that is later recognized. [...]	Published in El Tiempo link: https://news.google.com/newspapers?id=kuUdAAAAIBAJ&sjid=h1AEAAAAIBAJ&pg=848%2C709385	APEN was created in response to the Tax Reform - it representing the voices of all sectors of the economic elite launched a direct opposition to tax reform of 1935. Evidence of a cohesive economic elite
4	1/3/36	The original bill of Law 78 included a tax for coffee exports and a tax on inheritances. Both of these removed after pressures from the coffee export sector.	Difference between bill and published law. Evidence of the power of the coffee export sector.	Evidence of power of a cohesive economic elite in shaping state policy.
5	11/18/35	"[Congress] imposed a setback on the government initiative of direct taxes, because the young legislators, elected to defeat the APEN, behaved as if they wanted to win a prize for moderation"	Opinion piece published in newspaper El Espectador	Evidence of power of a cohesive economic elite in shaping state policy.

Land Reform Law – Ley 200

Legrand divides the history of agrarian struggles in Colombia into two periods per two different sources of conflict. Between 1870 and 1925, economic elites had disagreements regarding the appropriation of wastelands (baldíos). However, there were lower levels of conflict around property rights. After 1926, however, with widespread rural unrest, intra-elite conflicts disappeared, and the primary source of conflict was between landowners and settlers (colonos) claiming land titles and disputing property rights. In this context of widespread rural unrest, Lopez Pumarejo's government approved a land reform law (Ley 200: Ley de Régimen de Tierras). The government had two stated goals with this reform: decrease the uncertainty about land ownership and land titles, and give legal strength to the notion that land ownership carries the obligation to use land productively (Hirschman, 1963).

In his opening statement, the Minister of Government argued that "[t]he current regime of real estate is insecure for the owner, harmful for the worker, and inconvenient for the State" (Own translation from (Ministerio de la Economía Nacional, 1939, 137). In answering a letter written by a group of landowners published on September 6 of 1934, President López said: "The government [...] will try to protect the owners who are unjustly attacked [...]. But, it is not ready to choke off all aspirations of the Campesino to economic improvements by the bloody application of such juridical concepts that permit the unlimited abuse of the right to own land without exploiting it, and which at times authorize expropriation without indemnization when colonos and tenants are concerned". As such, the motivations behind the reform seemed clear.

Even though in Lopez Pumarejo's discourses, a clamor for social justice and redis-

tributions were present and appeared to be central pillars of his reformist project, the main goal of this reform was not to redistribute land. As Senator Gerardo Molina, the only declared socialist in congress said in one of his interventions; "Some speakers have said that this project is liberal and not Marxist; that is evident. The project is liberal and less than liberal, since elsewhere liberalism has gone further; In Europe, for example, as a result of the war, the agrarian reform was made by the direct procedure of expropriating the latifundio to distribute it; and it was a liberal reform. Here we have not dared to follow that path, and that is why we have taken an indirect method, that of the extinction of property by non-cultivation, a late, delayed, and unscientific procedure that, as will be seen, over time, did not will be effective. I want to reassure the Senate's nervous elements, telling them that across all this legal initiative, there is no hint of socialism" (See Table 5.5 for more details).

The first article of the law was aligned with Lopez's idea of the social function of land. The fundamental principle was that private property should be in favor of those who occupy the land and make economic use of it. However, and unlike a previous failed attempt of land reform in 1933, expropriation was not presented as one of the available legal paths to achieve this goal. This idea was captured by Lopez Pumarejo in one of his addresses to Congress in 1935 "Because the great majority of private landholdings in Colombia lack perfect titles, in the light of abstract jurisprudence, they should return to the public domain. Technically, we find ourselves faced with the juridical alternative of directing this country towards a socialist orientation or revalidating such property titles and purifying them of imperfections. My government has chosen the second path" (cited in (LeGrand, 1988, 431)).

Article two established that in the absence of legal titles, the property was con-

sidered baldía (wasteland) and, in turn, was susceptible to be allocated to occupants as long as it was being used productively. It also contemplated as valid private titles that could show a chain of 30 years of transfers. However, the law excluded lands that were occupied by settlers of more than two years who claimed the lands were public. In that case, the only valid titles proving ownership were those conferred by the state prior to 1821 (art. 4). Saffon Sanín argues that the introduction of this clause opened the"legalization of land dispossessions carried through abusive applications of the law". Article six established that only settlers who had been located in the land for more than five years, and did not know the land was private, could become owners. This article separated and protected settlers acting in"good faith" from those who had challenged landowner titles in the past. This article guaranteed that the land went to the hands of colonos whenever there had been no conflict with landowners. In cases in which conflict anteceded, the advantage was given to landowners. It also allowed landowners to continue the practice of allowing colonos to cultivate their lands (for a maximum of five years) to then claim them as their own.

In Article six, the law also established that landholdings left unexploited for less than ten years would be recovered by the state. In sum, the law"only protected the rights of colonos who had not openly attacked the rights of landowners and that had been strong enough to successfully occupy uncultivated lands for an extended"period (Saffon Sanin, 2015). One of the modifications to the original law was the inclusion a provision that established an exception for properties of less than 300 hectares (Article 6). For Palacios and Martínez, this provision was a clear incitement to fraudulently subdivide the properties, removing the tiny tusk left in the reform.

An additional limitation for the redistributive potential of the law occurred in the design of the implementation. The law created land tribunals to address pre-existing land conflicts. The nature of these tribunals and their ties with local power structures meant that local elites could use the land tribunals to solve disputes in their favor (Saffon Sanin, 2015).

Overall, Lopez Pumarejo's land reform introduced significant changes that decreased uncertainty around land titles to ameliorate existing conflicts between colonos and landowners. Overall, Ley 200, favored landowners by legalizing land disposessions (Safford, 1995), page 141). As Saffon Sanín puts it "clarification tended to be favorable to the perpetrators rather than the victims of dispossession, given the latter's lack of strong and certain titles and the law's reticence to invert the burden of proof in their favor" (Saffon Sanin, 2015), page 119). Furthermore, it provided landowners with incentives and mechanisms through which land dispossessions could continue. As was the case with the tax reform, opposition to the land reform was led by APEN. As Tirado Mejía argues, the opposition went beyond influence to Congress. In fact, also under the command of the APEN, the landowners exerted violence on the campesions that claimed land ownership or other rights (Tirado Mejia, 1991).

Table 5.5: *CPOs Land Reform in Colombia*

Event	Part of Argument:	Structure of Causal Process Observations		
		Cohesive Economic Elite?	Capacity of Economic Elite to influence State Policy	Redistributive State Power
	Institutional Response 2: Agrarian Reform 1936 (Ley 200)	Yes. Foundation of Apen in March 7, 1935 as a response.	Yes. Changes were introduced to the bill that reveal the influence of a cohesive economic elite represented by APEN.	A cohesive economic elite was able to diminish the redistributive potential of the reform. Showing the limits of the state in implementing redistributive reform.

CPO #	Date	EVIDENCE/ Quote [My own translation – Spanish in Appendix]	Document	Significance
1	1/21/37	Link to Law: http://www.suin-juriscol.gov.co/viewDocument.asp?ruta=Leyes/1654991	Published Law	Final text of approved reform.
2	4/11/35	"The current regime of real estate is insecure for the owner, harmful for the worker, and inconvenient for the State (Martinez, 1939. p 137)"	Government Minister in the Explanatory Statement of the Law.	Demonstrates the spirit of the law
3	1/21/37	A comparison between the proposed bill and the finalversion of the law shows demonstrates the influence of a cohesive economic elite. Provision that established an exception for properties of less than 300 hectares (Article 6). Besides, Initially, the law considered that the law would exclude land protectt by resguardos indígenas. This was excluded from the final law.	Transcrips Congressional Debates	Evidence of the influence of a cohesive economic elite. For Palacios and Martínez, this provision added to article 6 was a clear incitement to fraudulently subdivide the properties, removing the tiny tusk left in the reform.
4		Terrified before the political incidence that the masses could take, receptive to the call to participate in the development of the country, the oligarchic clans of both parties, were unified to form the APEN. The Apen persecuted popular and union organizations that were outside bipartisanship with illegal and criminal methods, covertly using members of the military and police forces [1]	Calvo Ospina (2008) - Secondary source	Demonsrates that the political cohesion of economic elites went beyond bi-partisan feuds.
5		"Under the command of the APEN, the landowners exerted violence on the campesions that claimed land ownership or other rights" (Tirado Mejía) [2]	Tirado Mejía 1991	Influence of economic elites to shape policies.
6		"Some speakers have said that this project is liberal and not Marxist; that is evident. The project is liberal and less than liberal, since elsewhere liberalism has gone further; In Europe, for example, as a result of the war, the agrarian reform was made by the direct procedure of expropriating the latifundio to distribute it; and it was a liberal reform. Here we have not dared to follow that path, and that is why we have taken an indirect method, that of the extinction of property by non-cultivation, a late, delayed and unscientific procedure that, as will be seen, over time, did not will be effective. I want to reassure the nervous elements of the Senate, telling them that throughout this legal initiative there is no hint of socialism." [3]	. Cited in Martínez, 1939 page 294.	Inetervention from Senator Gerardo Molina in a Congressional debate. Gerardo Molina was the only declared socialist in Congress.

5.3 Conclusion

As opposed to what occurred in other countries in the region, the Great Depression, and the crisis it brought to the agro-export model, the economic policy model did not change radically in Colombia and Perú (Cueto, 2015; Stoller, 1995). Colombia and Perú contrast with cases like Brazil, Mexico, and Argentina, in that the model of Industrialization through Import Substitutions was not fully adopted. Instead, the agro-export model continued to be at the center of economic and political life.

In this chapter, we show how a cohesive economic elite maintained a relative strength vis-à-vis the state in both countries – an equilibrium characterized by parasitism. In fact, in both cases, the narratives used by economic elites to legitimize their opposition were similar: the reforms threatened economic progress and order and meant falling into extreme socialist ideologies. The economic elite used similar discourses that put private property at the center of the path towards economic development. Overall, a careful analysis of the redistributive reforms in both countries allows us to see the process through which a cohesive economic elite managed to shape influence state policy and ultimately protect their interests.

Despite these policies' potential to alleviate the deep economic inequalities that characterized both countries, the results were disappointing—most of the reforms found as enemies a politically cohesive economic elite and weak state. In Colombia, the opposition of a cohesive economic elite materialized with the formation of a political movement, backed by a bipartisan coalition, named APEN. This group represented the interests of land-owners, the industrial and financial elites. It was founded to defend private property and with a vision of radical liberalism to defend

the nation against the "socialist" tendencies of López Pumarejo. The destiny of the tax reform was similar; a counter-reform followed it in 1946. In Perú, the story is similar. An analysis of the congressional debates leading to the 7904 Tax Reforms shows the victories of a cohesive economic elite in changing the original reform to favor their interests.

An essential difference between these two countries can be found their regime types. While a military dictatorship led the defense of the interests of the economic elite in Perú, in Colombia's economic elite's defenses utilized democratic institutions. As such, in Perú, the anti-oligarchic and leftist discourses were repressed via coercion. In contrast, in Colombia, the economic elite's defense took the form of interests' groups in its interaction with Congress. As I explained in the previous chapter, Senators represented the interests of local landed elites at the national levels. This comparison shows that in the face of similar redistributive threats, the combination of a cohesive economic elite with a weak state is sufficient for the survival of parasitism and high levels of economic elite. This distinction is important because it shows the limits of theories that point into the importance of regime trajectories for economic inequality.

In the following chapter, I compare the two countries between 1960 and 1970. In Perú, the military government, in alliance with a sector of the economic elite, implemented a series of structural reforms that permanently altered the balance of the forces, which resulted in a decrease of economic inequality in the long run. In contrast, the economic elite in Colombia responded to pressures as a cohesive collective and maintained its relative strength vis-à-vis the state. In this chapter, I show that while the change in the balance of power between the state and the economic elite in Perú

enabled the country to embark on a path of lower inequality, Colombia remained in the same, long-term pattern of high inequality. In doing so, I answer: Under what conditions a country is capable of escaping an inequality trap?

Chapter 6

From Parasitism to Commensalism in Perú and Persistency in Colombia

6.1   Introduction

After World War II, oligarchic structures of power faced important challenges in Latin America.[1]   In the 1960s, inspired by the success of the Cuban Socialist Revolution and catalyzed by an economic crisis, leftist insurgent groups were on the rise throughout Latin America (Wickham Crowley, 1992, 30).   The revindication of peasants and the prominence of land reform in the discourses associated with insurgent movements were particularly challenging to the position of landowners and

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[1]Oligarchic is the term often used to refer to the concentration of power (economic and political) in the hands of the few. In Latin America, this power was closely related to land ownership.

the existing balance of power in the region.

For the first half of the twentieth century, in Colombia and in Perú, power was characterized by a disproportionate concentration of political and economic power in the hands of the landed economic elites.[2] High levels of socioeconomic inequality and extreme concentration of land ownership fueled the mobilizations and legitimized demands for redistribution of land and wealth. Even before the emergence of armed insurgencies and the Cuban Revolution, landed elites in both countries perceived the emergence of forces that threatened their possession of the land and the political power attached to it. In Colombia, during the period of La Violencia (1948-1958), the formation of self-defense zones by peasant organizations were seen as extremely threatening by the dominant sectors of the society.[3] In the 1950, Perú saw the emergence of peasant mobilizations in the Sierra region with the most important mobilization taking place in Valle de la Convención. With more than 300,000 peasants, this mobilization resulted in the invasion and effective redistribution of more than 300 haciendas. Peasant movements started to gain steam and, by 1960, had become widespread across the national territory.

Similar to what was happening in many countries in the region, the success of the Cuban revolution inspired armed insurgencies in the early 1960s in Colombia and Perú. In both countries, the combination of an infrastructurally weak state (see Chapter 3) and high levels of inequality, with the pre-existing redistributive pressures made leftist armed insurgencies particularly threatening for the state, and the landed

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[2]For a good analysis of the oligarchic form of domination in Peru see Cotler (2005). For a good description of Colombia see Safford and Palacios (2002)

[3]Link to newspaper article on the speech given by Lleras Camargo in December 9, 1960 And see 6.1 Speech on July 21st in Congress, mention of Cuban revolution and how to maintain order in Colombia: Link See 6.1 ID 31

elites. Political elites in both countries became acutely aware of the risks posed by these forces and initiated a series of institutional reforms as a response. However, and despite the similar threats to the status quo in both countries, the political and institutional responses varied widely.[4]

In this chapter, I compare Colombia and Perú during the 1960s and 1970s, emphasizing on reforms made to key *redistributive institutions*: agrarian reform and tax legislation. I define redistributive institutions as a subset of institutions with the potential to redistribute economic resources. These reforms were the state's main response to appease the emerging challenges coming from social mobilizations in each country. Additionally, they were part of a broader attempt to modernize and strengthen the state apparatus.

In Colombia, the response to the redistributive threats was led by the Liberal and Conservative parties, within an institutional arrangement of executive power alternation known as Frente Nacional (1958-1964). During this period, a series of institutional reforms were made to key redistributive institutions. The two most significant policies were a tax reform approved in 1960 and an agrarian reform approved in 1961. The process through which these institutional reforms came to be, reflects the political cohesiveness of the economic elite and their capacity to influence state policies. Ultimately, the policies were designed to appease the redistributive pressures while protecting the interests of the economic elite. As a result, Colombia stayed trapped on parasitism and high levels of economic inequality.

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[4]In considering the nature and severity of the threats posed by redistributive pressures: the important evidence is the relative levels of success or failure of each insurgent groups. Instead, the way in which the threat was perceived. In both cases, it is possible to see that the threat was perceived as real and destabilizing and measures were taken to appease redistributive pressures.

In Perú, the first response was led by President Fernando Belaúnde Terry (1963-1968), who implemented a series of moderate redistributive reforms, including a "partial agrarian reform." This initial response protected the interests of the economic elite and did not tame the pressures for redistribution. As a result, on October 3, 1968, a military coup led by Juan Velasco installed a government (1968-1975) with a more radical redistributive agenda. Velasco's dictatorship was characterized by a series of radical reforms that included a structural agrarian reform, the nationalization of companies in the mining and oil sectors, and mandated income redistribution to regulate labor relations in the industrial and commercial sectors. To understand how the economic elite influenced redistributive policies, and how this changed under Velasco, I compare the agrarian reforms approved during Belaúnde's and Velasco governments.

As I will demonstrate in this chapter using a combination of comparative historical analysis and process tracing, the main difference between Colombia and Perú's response was the extent to which the economic elite maintained a politically cohesive front. In Colombia, the response was influenced by a politically cohesive economic elite. In contrast, the military government in Perú was able to implement redistributive reforms, which permanently altered the balance of the forces sustaining economic inequality. I argue that this was possible because the economic elite became politically divided. As a resul, these redistributive policies allowed Perú to begin a path to lower levels of economic inequality.

6.1.1 Summary of the Argument

Before 1970, Colombia and Perú had similar levels of Redistributive State Power (RSP). I define Redistributive State Power (RSP) as the power of the state to redis-

tribute income and wealth from the richer to the poorer segments of the society. I argue that a country's RSP depends on two factors: State Capacity and the Political Cohesiveness of the Economic Elite.[5]

Historically, both countries were characterized by a weak state and a politically cohesive economic elite. However, by the end of the 1960s, these two countries were no longer similar in terms of RSP. Even though both states grew more capable, the countries became different in terms of the cohesiveness of the economic elite. During the 1950s and 1960s, important pressures for redistribution emerged, which caused political elites to respond with a series of institutional responses.

In the midst of these pressures, the economic elite became politically divided in Perú. As a result, in alliance with a segment of the economic elite, the state's policy response was to embark on a series of radical redistributive reforms that allowed the country to escape a high-level economic inequality trap. In Colombia, the economic elite maintained a cohesive front that allowed it to shape a state policy that protected their interest. As a result, the country continued on a path of high levels of economic inequality. Figure 6.1 illustrates the argument.

6.1.2 The Outcome: Economic Inequality in the Long-Run

While the change in the balance of power between the state and the economic elite in Perú enabled the country to embark on a path of lower inequality, Colombia remained in the same, long-term trajectory of high inequality. Figure 6.2 shows the level of economic inequality measured by the share of the income held by the richest

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[5]A cohesive economic elite is one characterized by the fact that all sectors of the economic elite (industrial, commercial, landed, financial) have the same political position. That is, they act as a cohesive unit vis-à-vis a given state policy.

Figure 6.1: *Summary of the Argument*
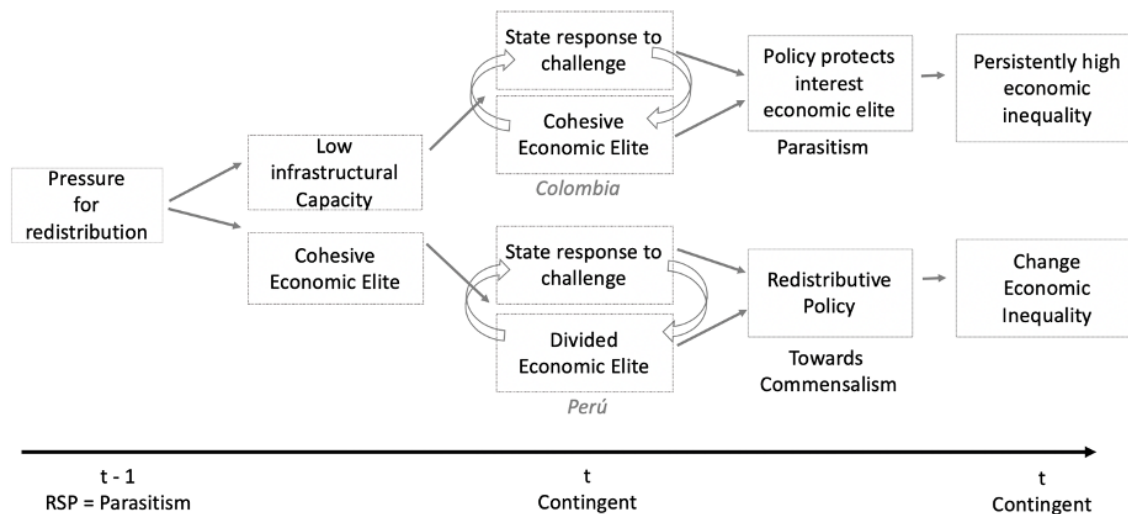
10% of the population (with a fitted line using the lowest error estimate). Figure 6.3 shows the equivalent graph using the Gini Coefficient as the indicator to measure economic inequality.

Figures 6.2 and 6.3 demonstrates that economic inequality decreased significantly in Perú in the 1970s, and despite periods in which short term levels have gone up, the level of inequality has not returned to pre 1970s levels. In contrast, the trajectory of economic inequality in Colombia shows that, despite short term variations, the level of economic inequality has stayed close to the mean throughout the period (Melo, 2016, 17).

6.1.3   Research Design

To test the argument, I compare the causal pathways connecting the redistributive power of the state to economic inequality in each country and for each policy reform.

Figure 6.2: *Income Share Richest 10%*
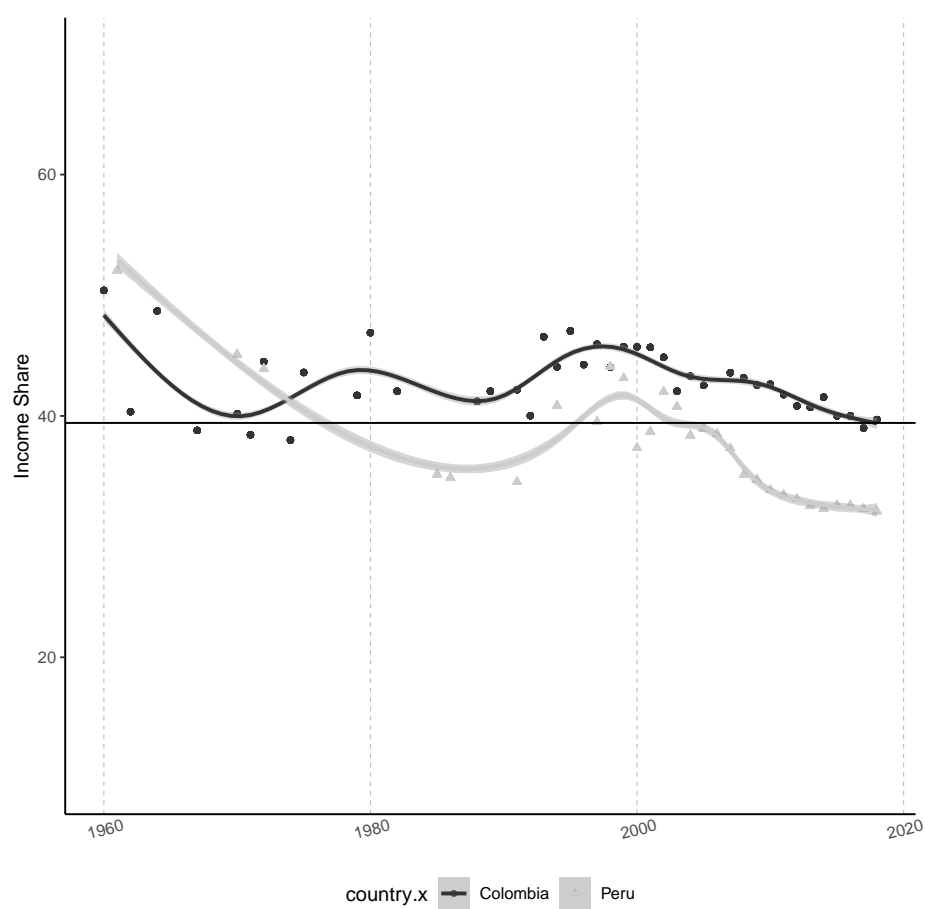
Figure 6.3: *Gini Coefficient*
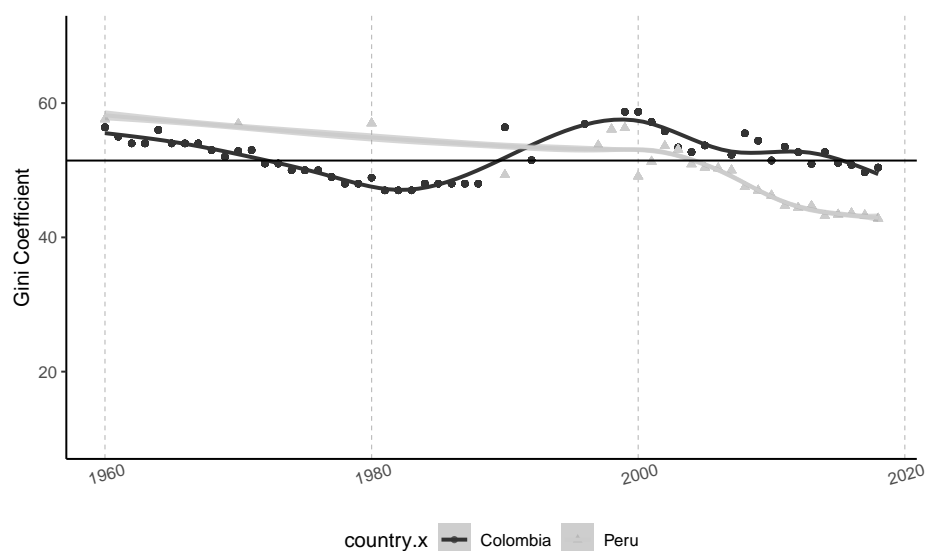
To do so, I combine tools from process tracing with tools from comparative historical analysis. The evidence for this analysis comes from data collected during fieldwork at the congressional archives of both countries, newspapers archives, and interviews with country experts, as well as secondary sources.

I leverage tools from CHA by using a most similar design - Mill's method of agreement. Before the 1960s, Colombia and Perú were very similar in terms of RSP (independent variable) and in terms of economic inequality (dependent variable). However, after 1970 Perú moved into lower levels of economic inequality. By conducting an indepth comparison of both cases, I show that this was the case because it moved into a different type of RSP. I go beyond comparative historical analysis tools and use process tracing in each case to trace the process through which the redistributive power of the state shapes reforms to the main redistributive institutions.

Process tracing allows me to analyze the trajectory of change and causation in each case. The main pieces of evidence for these trajectories and causal pathways are

causal process observations. I structured both the data collection and data analysis around CPOs corresponding to different components of the argument. Table 6.1 summarizes the structure of the evidence sustaining each of the links in the causal process. I used this organization to collect data from secondary sources and archival documents including: congressional debates, newspaper articles, speeches given by political leaders, and interviews with country experts.

The sections for the remaining of this chapter are organized on the basis of the CPO structure. First, I describe the context in which the redistributive pressures emerged and demonstrate that both cases were facing similar challenges. Second, I analyze the institutional reforms and explain how these were conditional on RSP.

Table 6.1: *Structure of CPOs*

Country	Periods	Part of Argument:	Structure of Causal Process Observations		
			Cohesive Economic Elite?	Capacity of Economic Elite to influence State Policy	Redistributive State Power
Colombia	T1: 1950s	Emergence of Redistributive Pressures	Yes. Further confirmed by the cohesive response from different sectors of economic elite opposing progressive tax reform (1953) by Rojas Pinilla.	Changes to original reform reflect power of landed economic elites and interest groups.	Relative capacity of state vis-à-vis economic elite was somewhat heightened because Congress was closed. Tax reform 1953 was far more progressive than previous tax system.
	T2: 1960s - 1970	Institutional Response 1: Tax Reform 1960	Yes. Frente Nacional institutionalized the political cohesion of the economic elite.	New tax reform undid progressive aspects of 1953 reform. Inclusion of multiple exemptions and deductions as part of reform.	Numerous and large exemptions given, eliminated taxes to shareholders and corporations. Resulting reform far less progressive than on the paper and compared to the 1953's reform.
		Institutional Response 2: Agrarian Reform 1960	Frente Nacional institutionalized the political cohesion of the economic elite.	The planned agrarian reform was severely curtailed during the congressional voting by focusing on redistributing wastelands, rather than owned and used agricultural lands.	Multiple Exceptions for the application of the law and INCORA (Instituto Colombiano de Reforma Agraria) became incapable of implementing reform show a very low redistributive capacity. The result was a failed agrarian reform.
Perú	T1: 1950s	Emergence of Redistributive Pressures	Yes. According to Malpica's study of economic power in Perú - strong ties between landed elites and other	Peasant and labor movements were met with repression from government.	No obvious interest to implement redistributive reforms
	T2: 1960s - 1970	Institutional Response 1: Belaúnde Terry Agrarian Reform 1962	Yes. Belaúnde Terry democratic reformism was supported by a coalition of landed elites and industrial elites.	In Congress, reform lost finances and only targeted one region of the country due to pressures.	Government became incapable of implementing the reform showing a very low redistributive capacity. The result was a failed agrarian reform.
		Institutional Response 2: Velasco Agrarian Reform 1968	No. Velasco rose to power in a military coup supported by a the industrial elites. The economic elite was no longer cohesive.	The state inititated a series of radical reforms: including a radical land reform.	The redistributive power of the state increased substantively, the result was a succesful agrarian reform that distributed large extensions of land.

6.2 The context: Similar threats and redistributive pressures

In both Colombia and Perú, the 1950s and 1960s saw the rise of important redistributive pressures. In this section, I describe the nature of the redistributive pressures in each case and demonstrate that, despite differences and nuances, the state and a politically cohesive economic elite faced similar redistributive challenges in both countries.

The context of extreme inequality in which redistributive pressures emerged in both countries heightened their importance and intensity. Structural inequalities legitimized the pressures, facilitated social mobilization, and increased the support for emerging political leaders. As I will show in this section, the extreme concentration of land ownership made the redistributive pressures particularly threatening to the landed economic elites. This sector of the economic elite had been at the center of economic and political power sustaining what scholars have referred to as a system of oligarchic domination (Kalmanovitz, 2003; Cotler, 2005). In both countries, this system was in crisis.

6.2.1 Redistributive Pressures in Colombia in the midst of Violence and Dictatorship

In Colombia in 1954, 0.87% of the owners held 40.4% of the land in properties of over 500 hectares. In contrast, 56% of the properties were smaller than 5 hectares for a total of 4.5% of the area (IGAC, 2012). The staggering levels of land inequality

were accompanied by the fact that by 1949, agriculture accounted for 45% of the GDP Colombia (Safford and Palacios, 2002, 307). The fact that such a large percentage of economic production was land-based, translated into an extreme concentration of power for those controlling land. Together, these numbers explain why landowners were at the center of political and economic life in the country. According to Reyes (1978), writing on the link between political power and latifundio, land ownership was inextricably linked to the political system (Reyes, 1978) and played a fundamental role in shaping politics.

In this context of vast inequality, Jorge Eliécer Gaitán rose to prominence within the Liberal Party as the most likely candidate to win the presidential election of 1948. The beginning of the crisis of oligarchic rule was symbolized by Gaitán – a "dark-skinned populist" who rallied middle and popular sectors with an anti-oligarchic discourse (Brands, 2010)). Galán was characterized as the candidate of the masses, of democratization, and of social justice. On April 9, 1948, he was assassinated, and violence spiraled out of control. Gaitán's assassination was a turning point since it led to a period of bi-partisan violence known as La Violencia (1948-1958) that resulted in the death of around 200,000 people.

Paramilitary forces with ties to the Conservative and Liberal parties battled in the countryside, systematically targeting and killing opponents. La Violencia was a period of "rampant vigilantism, armed self-defense groups, and high levels of violent conflict" (Carroll, 2000, 40). The period was "almost revolutionary" since quasi-independent zones for self-defense and self-administration, known as "peasant republics," started to form in certain regions of the country. These zones later provided the context in which the first insurgent groups appeared in the early 1960s (Wickham Crowley,

1992, 19). "Peasant republics," formed in the zones of higher conflict, challenged both the sovereignty of the state and the power of landowners.

In the midst of the conflict, on June 13 of 1953, Gustavo Rojas Pinilla, an army general, mounted a successful coup against the incumbent Conservative President Laureano Gómez. Initially, Rojas Pinilla's ideas and discourses signaled his concerns with deep inequities. In fact, many of his proposals included reforms towards a more just society and the modernization of the state. During his government (1953-1957), Rojas Pinilla implemented various reforms that have been characterized by scholars as modernizing and progressive. For example, the government started an extensive series of public works projects to construct transportation networks and public hospitals as well as public universities. During his years in power, Rojas enacted legislation to extend voting rights to women.

From a social justice point of view, the most important, and yet overlooked aspect of his government, was the enactment of a progressive tax reform in 1953 (Perry and Cárdenas, 1986).[6] This reform is the first focal point of the process-tracing analysis in this chapter. In what follows, I present a series of Causal Process Observations that demonstrate the importance of the tax reform and the response of a cohesive economic elite. As it will become clear in section 3 of this chapter, the 1953 reform, and the responses of the economic elite, conditioned the response to the redistributive pressures that became extremely salient in the 1960s.

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[6]To be clear, the authoritarian nature of the government soon took over the progressive nature of some of its policies. With the decrease of popular support and fierce opposition by the leaders of traditional parties, the government gradually turned to repression and media censorship.

Tax Reform 1953 and a politically cohesive economic elite:

The tax reform of 1953 (Decreto 5317) fundamentally changed the structure of direct taxation in the country (Perry and Cárdenas, 1986). The government presented the first version of the reform on September 9, 1953. In official communications, the government expressed that the goal of social justice inspired the new income tax. As such, the most important aspects of the tax reform were the restructuring of the income tax with a progressive scheme and the creation of a tax for shareholders and corporations, and a tax on land properties. More specifically, the law expanded the income base and created rates for 39 different income ranges (starting with a rate of 0.5 % for income less than two thousand Colombian pesos and of 58 % for income greater than five million Colombian pesos). In addition, the government introduced a tax on corporations and partners' dividends and participations (Hernandez Rodríguez, 2014).

For the analysis of this reform, I rely on newspapers, specifically El Tiempo, to trace the process through which this reform came to be. Table 6.2 contains the main CPOs used for this analysis. I focus on the process behind the negotiation of the reform and the influence of the economic elite in its design and later implementation. I find that a politically cohesive economic elite was able to shape the law and introduce important modifications, and the approved law was not as progressive as the original reform. On the one hand, the government agreed to completely exclude cattle breeders from their responsibilities as taxpayers. Besides, due to opposition from interest groups representing all economic sectors, the government decreased the tax burden of shareholders and corporations.

As Table 6.2 shows, members of Fenalco, Andi[7], and the National Society of Agriculture were outspoken about their opposition to the reform. During the two weeks following the announcement, interest groups maintained the pressure for the government to modify the decree. The first voices of the opposition resulted in a series of modifications that were incorporated two days after the announcement of the reform. The first one was separate legislation for cattle breeding and the elimination of the tax on land. The second change was a reduction of the income tax for married couples and dependencies. "La más saliente de ellas es que se duplicarán las excenciones personales. También se sabe que el juego de inventarios fue desechado para la ganadería y que, para esta, se estudiará un régimen especial" (El Tiempo, September 9 1953, página 10).

Another aspect of the reform that attracted intense opposition was the introduction of a proportional tax to corporations (Sociedades Anónimas) and their shareholders, both of which had been previously exempted. Interest groups were vocal about their opposition to this aspect, arguing that this would mean that shareholders would face double taxation. Due to these pressures, a new decree published on October 21, replaced the proportional structure of this tax for a flat 5% tax (See Article 1 – Decree 2315, 1953). These changes were seen as concessions made by the government to the initial opposition raised by interest groups. In particular, the rapid response of the government to exclude agricultural production and cattle-breeders demonstrates their capacity to influence state policies.

In the official communications sent to the government by interest groups, the mention of the words; "united," "unanimous," are particularly important since they

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[7]Fenalco and Andi are still today the biggest interest groups of the industrial and commercial sectors

constitute important evidence of a politically cohesive economic elite. In an official communication, the President of ANDI (- an interest group representing industries) and on behalf of other groups (SAC and Fenalco -) said: "In our capacity as Colombian citizens, without distinction of political parties, dedicated to different economic activities, placed by reason of our income in the most varied categories, and convinced that the country does not need a hasty tax reform, nor is it in favorable economic circumstances to withstand new taxes, we respectfully address your excellence to ask you to insist on a calm analysis of the measures suggested and mainly, in the study of the economic and social effects that will inevitably occur, which will give more strength and prestige to the government than an increase in tax revenues decreed against the unanimous clamor of public opinion." (See Table 6.2, CPO 1). The use of the words unanimous can be interpreted as strong evidence of a cohesive economic elite that was making its cohesion explicit to the government. In this quote, they were explicit about the fact that both members of both parties and from different sectors of economic sectors, and even from different income groups. In addition, they raised concerns about the risk of the tax reform threatening economic growth and stability.

The opposition faced by the government with this reform and the success of economic elites in pushing for changes constitutes a clear example of the influence of a cohesive economic elite. However, and despite the opposition from a cohesive economic elite, the government was able to implement a reform that was more progressive than existing legislation. I attribute Rojas Pinilla's relative success with this reform, to the fact that Congress was closed. Historically, senators had represented the interests of the economic elites and were the result of strong clientelist networks with landowners (Hernandez Rodríguez, 2014)). Overall, the authoritarian character of

the government made this reform possible.

Besides, as Table 6.2 shows, societal voices coming from outside of the economic elite expressed support for the reforms – mainly working classes and small business owners. In fact, a representative of ACOPI (association of small and medium companies), supported the government and their intentions (See CPO 2). Similarly, in a letter written by a worker in a factory to the newspaper (See CPO 4), he explained that the reform was beneficial to most workers in that firm and that it was only harmful to a small minority – the managers in the factory that constituted the 1%.

Table 6.2: *Progressive Tax Reform and Economic Elite's Response*

		Structure of Causal Process Observations		
Event	Part of Argument	Cohesive Economic Elite?	Capacity of Economic Elite to influence State Policy	Redistributive State Power
Tax Reform 1953	Emergence of Redistributive Pressures	Yes. Further confirmed by the cohesive response from different sectors of economic elite opposing progressive tax reform (1953) by Rojas Pinilla.	Changes to original reform reflect power of landed economic elites and interest groups.	Relative capacity of state vis-à-vis economic elite was somewhat heightened because Congress was closed. Tax reform 1953 was far more progressive than previous tax system.

CPO #	Date	EVIDENCE/ Quote [My own translation – Spanish in Appendix]	Document	Significance
1	9-Sep-53	"Last night a group of citizens, linked to the different economic sectors, sent a message from Medellín [...]. "In our capacity as Colombian citizens, without distinction of political parties, dedicated to different economic activities, placed by reason of our income in the most varied categories, and convinced that the country does not need a hasty tax reform, nor is it in favorable economic circumstances to withstand new taxes, we respectfully address your excellence to ask you to insist on a calm analysis of the measures suggested and mainly, in the study of the economic and social effects that will inevitably occur, which will give more strength and prestige to the government than an increase in tax revenues decreed against the unanimous clamor of public opinion."" [1]	Communication by President of ANDI after first announcement of reform. On behalf of ANDI, FENALCO, ASOCIACION AGRICULTORES	Evidence of Cohesive Economic Elite
2	10-Sep-53	"We disagree [with the statement]- the president of Acopi continued - that too many taxes have been established in the country. If Colombia is compared with other countries with similar economies and development, it is concluded that the measures adopted will surely correspond to unavoidable national needs, from which, as a logical consequence, good results will be derived for all social and economic classes. of the nation that you will be represented in schools, aqueduct hospitals, etc."[2]	Declaration of President of ACOPI (association of small and medium companies)	Reform was viewed positively by the middle and working sectors.
3	11-Sep-53	"Regarding cattle-breeding, the way in which it was treated in the new decree shows that on the part of the government there is a perfectly articulated and consequent intention to help promote national cattle-breeding. It is evident that now the phenomenon that we have predicted on previous occasions and that we have wished as a solution, in part, of the credit problem for the industry: the emigration of capital from other activities or investments towards cattle-breeding farming will operate."[3]	Declaration of the President of Fedegan (Federacion Nacional de Ganaderos) after the changes exempting cattle-breeders.	Policy was adjusted to respond to Landed Elites Interest
6	11-Sep-53	"ANDI's President says there will be an economic recession."[4]	Declaration of ANDI President	Power Economic Elite Shape State Policy
4	7-Oct-53	"Until today, I resisted the temptation to intervene in the debate on the Tax Reform and I do so, above all, driven by the article published yesterday by Alberto Galindo in that newspaper [El Tiempo]. [...] I want to argue, citing a specific case. I work in a company that, although it remunerates its 3,000 employees well, only has 30 among them who meet the economic conditions noted, or better, far-fetched, by Mr. Galindo, which are the to earn 1,200 pesos meansuales, own shares for eighty thousand pesos and own house. In such a way that it would be extravagant to invoke the name of those three thousand employees, to favor the interests of 1% who are if they are able to cover the amount assigned by the new rate. Regarding the affirmation of Mr. Ramirez Johns, that the patrimony rose by reason of the devaluation of the currency, it should be noted that the tax is paid with the same devalued currency"[5]	Letter sent by reader to Newspaper as a response to opinion column critizing reform.	Reform was viewed positively by the middle and working sectors.
5	7-Oct-53	"Once again, these days, it has been revealed how much the Colombian middle class needs to have some representative organization. Something like ANDI, or Fenalco, of ordinary people, of working men who do not make millions, of small independent entrepreneurs [...]. In effect, the tax decree was issued and immediately The directors of the great industries, of commerce, of agriculture, of the unions mobilized."[6]	Opinion column by Antonio Galindo publish in El Tiempo	Evidence of a Cohesive Economic Elite
7	13-Sep-53	"For these reasons, I am convinced that this new twist on the same sources that were already paying heavy taxes, instead of bringing prosperity, well-being and justice, brings with it a recess in national development and a decrease in employment opportunities." [7]	Opinion column by Antonio Galindo publish in El Tiempo	Evidence of high capacity of economic elite to influence state policy

By the end of the Rojas Pinilla government, "peasant republics" started to emerge in the regions most affected by La Violencia. The formation of these autonomous regions was perceived by the landed elites and by the government as extremely threatening. In fact, due to these shared perceptions of threats, the period of La Violencia is seen as one in which the ties between the landed elites and the political system became even stronger (Reyes, 1978; Buitrago et al., 1990). These liberated zones later became the scene of the initial activities of armed insurgencies, including FARC (Fuerzas Armadas Revolucionarias de Colombia) and ELN (Ejército de Liberación Nacional) (Carroll, 2000).

After four years in power, the regime faced increasing opposition from the leaders of the main political parties, interest groups representing different sectors of the economic elites, and from citizens claiming the restoration of democracy. The authoritarian character of Rojas Pinilla and his inability to defend the country from violence and emerging peasant republics legitimized the instauration of the National Front and, thus, the political institutionalization of a deal among economic elites. Instead of a full return to democracy and as a solution to the armed conflict, in 1958, the leaders of both traditional parties signed an agreement known as Frente Nacional that consisted of the alternation of power for four presidential cycles. Leaders justified the system as necessary to return to democracy and as the route towards pacifying the country.[8]

Overall, I argue that opposition to the progressive reforms in terms of taxation implemented by Rojas Pinilla, not only demonstrated the cohesiveness of the economic elite but also contributed to its consolidation. In fact, as we will see in the

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[8]EL TIEMPO, Nov 30, 1961. See opinion piece available here:Link Here

next section, one of the first policies of Frente Nacional was the approval of a tax reform that completely nullified Rojas Pinilla's tax reform.

6.2.2 Redistributive Pressures in Perú: Peasant mobilization and military regimes

In Perú, estimations suggest that by 1963, 0.1% of the population controlled the 60% of the land under cultivation (Campbell, 1973). In part, these vast levels of inequality in land distribution were a consequence of the prevalence of the Hacienda system, an institutional legacy of colonialism that governed economic and labor relations in both countries. Furthermore, the majority of the 1950s economic production was land-based in the mining (20%) and agriculture sectors (11%) (de Estadística e Informática, 2019).

The extreme levels of land concentration and the lack of secure property rights for the majority of the rural population fueled peasant mobilizations in the Sierra region in the late 1950s. While initially these movements were decentralized and scarce, peasant mobilizations soon gained momentum and spread throughout the territory near the city of Cusco. The most important of these mobilizations occurred between 1959 and 1963 in the Valley of La Convención. By 1960, the movement of La Convención had gained steam, and in June and July, rural workers initiated a "solidarity strike" (huelga de simpatía) and stopped working in the haciendas. Overall, around 300,000 peasants mobilized. Furthermore, about 300 haciendas were distributed as a consequence (Campbell, 1973).

In the meantime, and perhaps inspired by the success of the Cuban Revolution,

students and workers in the urban centers grew empathetic of the peasant mobilizations in the valley of La Convención and mobilized too. Hugo Blanco, a university student in Lima, arrived at the valley and became the leader of a radical segment of the peasant movement operating under the "land or death" slogan (Wesley W. Craig, 1968, 18). After internal tensions within the movement, in 1962, the majority of the factions agreed on an absolute boycott.

Landowners solicited support from their congressional representatives in Lima and demanded the government to repress the mobilizations. The initial response from the government was the repression of the mobilizations. After a few months, the commission of the Labor Minister investigating the events recommended a change to the labor conditions. Not surprisingly, this recommendation was quickly silenced in Lima.

The intensity of the mobilizations continued, and in 1962, the military mounted a successful coup against Manuel Prado Ugarteche. Led by Ricardo Perez Godoy, the military decided to initiate a series of reforms to prevent "a social explosion." The government attempted, unsuccessfully, to initiate an agrarian reform program. Instead, it ended up recognizing the de-facto ownership of the lands in Valle de la Convención.

As a response to these mobilizations, different sectors of the economic elite came together as a cohesive front and were able to shape state policies. Two actors played an important role in representing the interests of the economic elite: The National Agrarian Society (SNA -) and the Perúvian Association of Cattle Breeders (ACLP). In Table 6.3, I present important CPOs that demonstrate the cohesiveness of the economic elite and the sense of threat associated with peasant mobilizations and the

announced reforms (See CPO 1). These observations come from Carlos Malpica's book entitled "Los Dueños del Perú." A truly important referent to understand the links connecting the main productive sectors in the country, the goal of the book was to present a radiography of economic power in Perú.

Malpica provides compelling evidence of the important links that existed between landed elites and other economic sectors. In fact, the most powerful families of landowners were also shareholders in other economic activities, including the banking, commercial, and industrial sectors (See CPOS 3, 4). This suggests that as of 1960, it hard to think about different sectors of the economic elite as separate actors.

In addition to peasant mobilizations, Perú also saw increasing strikes in other sectors. For example, in the textile industry, unionization efforts led to a record-high number of strikes (Bamat, 1983) and strikes in the mining sector in the 1960s became more frequent (Dewind, 1975). These mobilizations went in tandem with the emergence of new political actors that challenged the traditional models of doing politics. New actors included political parties like the Revolutionary Vanguard[9] (1965) and APRA RebeldeAPRA Rebelde was a splinter group of APRA (1959) and guerrilla groups like the Revolutionary Left Movement(MIR) (1962) and the National Liberation Army[10] (1962).

The increase in the number and magnitude of social mobilizations in Perú threatened to destabilize the existing order and the distribution of political and economic power as a consequence. Together, these new actors and social mobilizations amounted to what Pease Garcia (1977) called the crisis of the oligarchic structure of domination.

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[9]Vanguardia Revolucionaria
[10]ELN Ejército de Liberación Nacional

According to Cotler, the oligarchic domination, which in the 1930s had to impose itself by resorting to the dictatorship and the exclusion of APRA, faced in the 1950s and 1960s attacks that question not only its legitimacy but its stability as a system expressed in the state (Cotler, 2005, 17).

Table 6.3: *Peasant Mobilizations, Agrarian Reform and a Cohesive Economic Elite*

Event	Part of Argument:	Structure of Causal Process Observations		
		Cohesive Economic Elite?	Capacity of Economic Elite to influence State Policy	Redistributive State Power
T1: 1950s	Emergence of Redistributive Pressures	Yes. According to Malpica's study of economic power in Perú - strong ties between landed elites and other sectors. In fact, the largest land-owners were also shareholders in companies on industry, mining, banking	Peasant and labor movements were met with repression from government.	No obvious interest to implement redistributive reforms

CPO #	Date	EVIDENCE/ Quote [My own translation – Spanish in Appendix]	Document	Significance
1	1964	"A few years ago, on the occasion of the "invasions" of land by some peasant communities [referring to La Convención] and the presentation of a project of Agrarian Reform by the Executive [Agrarian reform project by military government 1962], two entities began a millionaire advertising campaign in defense of "private property". In which they maintained In a full-page newspaper ad, the National Agrarian Society [Sociedad Nacional Agraria] and the Association of Wool Breeders of Peru attacked the government for its passivity and even for stimulating institutional madness." [1]	Malpica "Los Dueños del Perú" (page 76)	Evidence of sense of threat from La Convención and power of landed elites.
2	1964	"They [campaign adds] assured that besides, some things would necessarily happen: the paralysis of all investment, the fall in the production of food and articles that Peru exports. The rise in cost of living (scarcity, shortage, queues, and stamps). The decrease of income in dollars and the consequent danger to the stability of our currency. Who ran these entities? What interests did they represent? **Advertisements and radio and television campaigns were made on behalf of the country's farmers and ranchers, and the directors of the two institutions claimed to have representation of all farmers and ranchers in Peru: large, medium, and small. We have found out who was running these entities, and then investigated, non-stop, the interests they represented in all sectors of the country's economy. [emphasis my own]**"[2]	Malpica "Los Dueños del Perú" (pag 76)	Not only landed elite, members of all economic sectors were behind this.
3	1964	Malpica lists all of the members of SNA and investigates the economic sectors in which they have shareholders. In most cases land owners were also shareholders in multiple companies in banking, finances, industry. Example of Hermanos - - Aspillaga Anderson: In total they possess 7,585 hectares in sugar crops. Besides they are shareholders in the following companies: Diario la Prensa (newspaper), Banks and Insurance(Banco Continental, Cia de Seguros La Fenix Peruana, Banco Popularm Cia Internacional de Seguros), Commerce (Sud América Agencia Marítima y Comercial, Cia Comercial Peruana) Industries (Backus y Jhonston Brewery, Compañia manufacturera de vidrio, vidrios planos del peru, industrias reunidas Hidroeléctrica, Cementos Chiclayo,) Aviation (Lima light and power). Their halfbrothers are also shareholders in multiple sectors aswell (See page 79 - 80) [3]	Malpica "Los Dueños del Perú" (pag 76)	Strong ties due to the fact that largest land oweres were also shareholders in banking, insurance companies, industries.
4	1964	In a similar analysis - Familia Gildemesiter who were the largest landowners in the country with around 500,000 total hectares. Most of their fortune came from dugar plantations ~ they did not only owned the land, but also the processing plants, and the commercialization. In addition, they had investments in Oil, Navieras, Insurance and Diario la prensa. [4]	Malpica "Los Dueños del Perú" (pag 99)	Strong ties between different sectors of the economic elite - Land ownership and SNA provided powerful links between economic elites across sectors.
5	1977	"The best known case is that of the Gildemeister company, owner of the Casa Grande hacienda, founded by German immigrants. Casa Grande was the largest sugar plantation in South America. Provided the 25% or of the national sugar production, and was fourth among the country's taxpayers. In addition to owning more than half a million hectares of land in Costa y Sierra, the Gildemeister company, which even had its own port for its import and export operations, had capital invested in other branches, such as oil, navigation, press, insurance, fishing, etc. Outside of this, it had real estate, commercial and industrial properties in Chile, Brazil and Germany. Thus the economic importance of the complexes and the political power of their owners had ensured that they were not eligible for land reform purposes. Until 1969, the sugar oligarchy, supported by its Aprista allies, had been able to use all its organized power in pressure groups such as the Sugar Producers CoTnite and the National Agrarian Society to preserve the status quo." [5]	Schirmer (1977)	Configuration of Economic Elite and the links with political power.

6.2.3   Comparing Redistributive Pressures in Colombia and Perú

Until the 1960s, Colombia and Perú were characterized by similar structures of economic and political power. At the center of this equilibrium was the extreme concentration of material and political power in the hands of the landed elites. The model that characterized land ownership, which based on a combination of latifundia and minifundia, became the focal point of intense conflict and social mobilization.

In the 1960s, these conflicts intensified and translated into strong redistributive pressures that were seen as extremely threatening by the state and the economic elites. The nature of the threats made the landed sectors of the economic elite particularly vulnerable. As such, states faced the dilemma of protecting the interests of the landed elites or to respond to the pressures with redistribution schemes that undermined the resources of the landed elites. In the next section, I present the set of policy responses in each country.

6.3   Policy Responses:

In this section, I trace the policy responses to the redistributive pressures in each country. In particular, I focus on important reforms to the main redistributive institutions: tax reform in 1960 and agrarian reform in Colombia in 1961, and two agrarian reforms in 1964 and in 1969 in Perú.

In Colombia, both institutional reforms occurred during the presidency of Alberto Lleras Camargo (1958 −−1962), the first president of Frente Nacional. I chose to focus

on these two reforms since they were the most consequential, and as such, they reveal the role of the economic elite and how it constraints the redistributive power of the state. In Perú, I focus on two agrarian reforms enacted by different presidents and models: The first one in 1964 was passed during Belaúnde Terry's government and was part of his "democratic reformism." The second one (1969) was approved during Juan Velasco's dictatorship.

6.3.1 Two Institutional Reforms during Frente Nacional in Colombia: Tracing the Endurance of Parasitism

Before delving into the most important reforms to the redistribute institutions in Colombia, I will briefly go back to explain the political context in which they happened. After years of violent confrontation, the leaders of both parties came together and made a pact to alternate executive power between 1958 and 1974 with the goal of pacifying the country. As I explained earlier, the system of Frente Nacional was legitimized by Rojas Pinilla's inability to defend the country from violence and the increasingly authoritarian character of his government. Additionally, the progressive nature of some of his reforms and his populist agenda contributed to the strengthening of the cohesiveness of the economic elite. As a result, during Frente Nacional, an extremely cohesive economic elite was able to protect its interests and shape the main redistributive institutions.

The first President of this arrangement was Alberto Lleras Camargo, a member of the Liberal party that was seen at the time as the most progressive among the party leaders. In his speeches, Lleras often referenced the importance of confronting the deep social inequalities in the country and was vocal about the dangers brought

to the country by the success of the Cuban Revolution. In this context, the two most important institutional reforms were enacted: a tax reform approved in 1960 (Ley 81) and the Agrarian Reform of 1961 (Ley 135). These two reforms represent two different faces of Lleras' presidency. On the one hand, he was aware of the threats posed by the combination of an extremely unequal distribution of land, the legacies of La Violencia, and the spread of revolutionary ideas. As such, he saw in the Agrarian Reform an opportunity to alleviate some of the redistributive pressures. On the other hand, his government was heavily influenced by the interests of an extremely cohesive economic elite which is evidenced in the design of the tax reform. In what follows, I analyze these two reforms (Tax reform of 1960 (Ley 81) and the Agrarian Reform of 1961 (Ley 135) to show how the economic elite was able to shape state policies and the redistributive power of the state as a result.

Law 81, 1960 - Tax Reform:

In Colombia, the process towards having a tax system that fulfilled its progressive redistributive potential initiated by Rojas in 1953, took a sharp turn during Frente Nacional.

During the first presidential cycle of Frente Nacional, President Lleras Camargo approved a tax reform (Law 81 1960) that constituted a break from the process initiated by Rojas Pinilla towards a progressive tax system. Since this moment, and for decades to come, tax reforms have been characterized by the inclusion of multiple fiscal incentives in the name of economic growth. These incentives favor economic elites and are against the interests of the majority of the population by limiting the redistributive function of the tax system (Hernandez Rodríguez, 2014).

Rather than redistribution, the new law aimed at strengthening tax collection to finance public investments. Even though the reform included some progressive elements, like the creation of taxes to capital gains as well as taxes to land ownership and land tenants, the proposal also included a myriad of exceptions and deductions to stimulate the economy. Incentives included deductions for: salaries paid, interests, payments for taxes, "reasonable" losses from debts, "reasonable" depreciation of capital, "reasonable" "reasonable" amortization, charity contributions and donations, and gifts to workers. One of the problems with these "reasonable" deductions is that the word reasonable was never defined in the law and what constituted reasonable was left open to interpretation (Hernandez Rodríguez, 2014).

During congressional debates, the "incentives" grew larger, and the taxes to capital gains disappeared from the law. In fact, the presence and influence of interest groups in the legislative process resulted in around 25 exemptions. All of the different sectors and representatives of interest groups argued that more progressive tax reform was against the goal of "maintaining peace" (Hernandez Rodríguez, 2014) and would be detrimental to the financing of state coercive activities. In the legislative process, the law lost all of its progressive components (Perry and Cárdenas, 1986).

Figure 6.4 Compares the Tax Rates of the 1960 law with the 1953 law. The y axis has the rate, and the x shows the log of the center of each of the income ranges. As the graph shows, the 1953 law was more progressive than the 1960 law.

Figure 6.4: *Comparing Progressiveness of Income Tax*
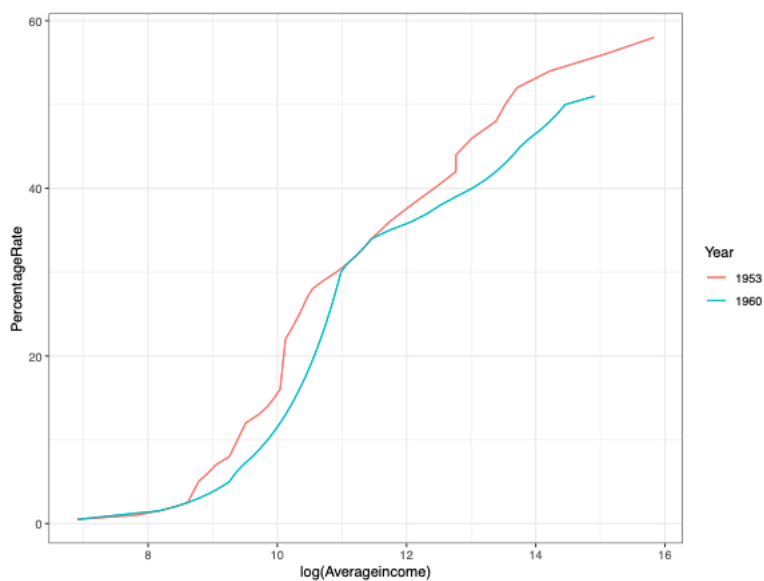
Source: Own calculations based on final laws approved

The changes to the tax system did not stop there. In 1963, amid a fiscal crisis, the redistributive function of taxes was again compromised with the inclusion of an indirect and regressive tax to consumption. The deterioration of the progressive character of the fiscal system in Colombia following the 1960 reform has been documented by economic historians and fiscal experts (Perry and Cárdenas, 1986). Figure 6.5 below shows a sharp decrease in the taxable base that occurred after the 1960 reform.

Figure 6.5: *Tax base*
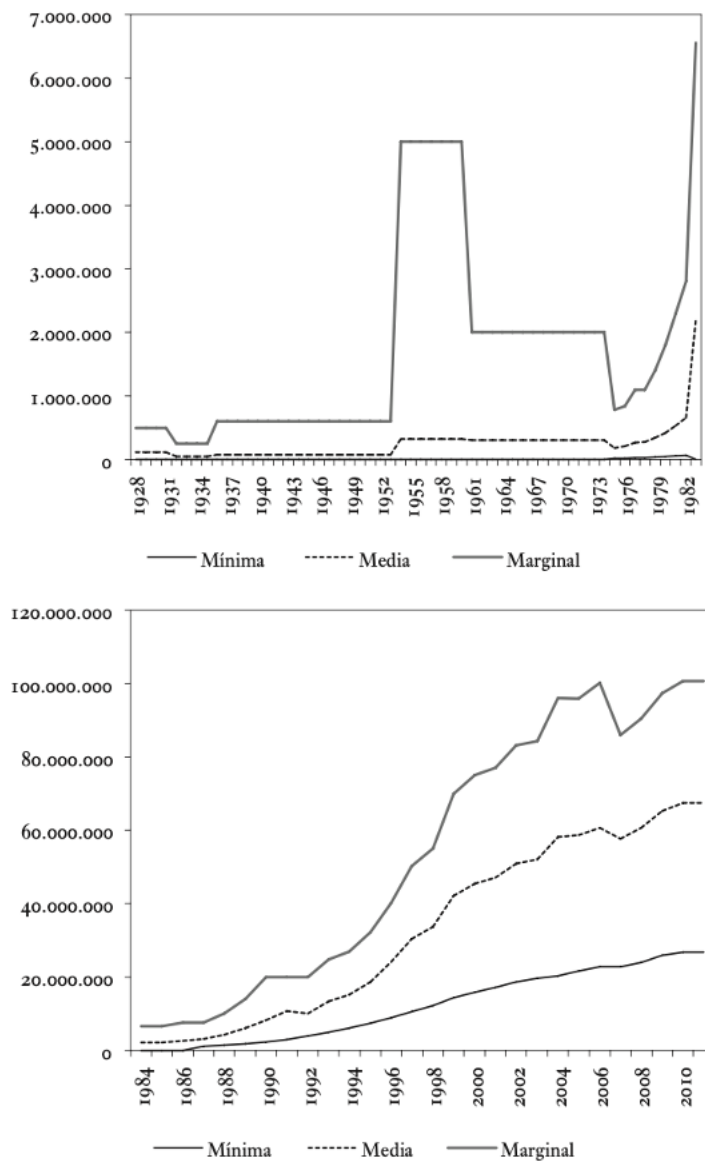
Source:
(Hernandez Rodríguez, 2014), page 299

Table 6.5 contains the most important CPOs in the analysis of the tax reform and how it compared to the existing tax legislation since Rojas Pinilla.

Table 6.4: *CPOs Tax Reform 1960*

Event	Part of Argument	Structure of Causal Process Observations		
		Cohesive Economic Elite?	Capacity of Economic Elite to influence State Policy	Redistributive State Power
T2: 1960s - 1970	Institutional Response 1: Tax Reform 1960	Yes. Frente Nacional institutionalized the political cohesion of the economic elite.	New tax reform undid progressive aspects of 1953 reform. Inclusion of multiple exemptions and deductions as part of reform.	Numerous and large exemptions given, eliminated taxes to shareholders and corporations. Resulting reform far less progressive than on the paper and compared to the 1953's reform.

CPO #	Date	EVIDENCE/ Quote [My own translation – Spanish in Appendix]	Document	Significance
1	12/24/60	Link to complete text of reform: http://www.suin-juriscol.gov.co/viewDocument.asp?id=1806474#ver_1806630%20	Published Law	Multiple incentives and deductions were included and made this reform less progressive.
2	12/7/60	"The reform is considered the statute of the middle class that will benefit employees and people with earned incomes, such as small industrialists and artisans. The new tax statute has **important incentives for economic development in both the industrial and housing fields**, and it is practically a code that includes substantive tax legislation and discourages investments in urban lands, while curbing speculation in real property when establishing the lien on occasional earnings. The reform brings great advantages without a doubt for the whole community. With it, a chaotic legislation disappears, because as it was noted, it codifies and perfects it, exempts from taxation the economically less skilled on whom the direct and personal tax has been weighing more heavily, technifies the system and is renewed in accordance with the modern and scientific conception. **Strong incentives are given to industrial development, to create jobs and end tax insecurity**"[2]	Newspaper article on the approval of the reform published in El Tiempo	The main character of the law was not redistribution. Instead, the center was in creating incentives for economic growth. These incentives took the form of exemptions and deductions.
3	12/7/60	On the historical aspect of the statute, the speaker in the chamber Dr. Aurelio Camacho Rueda, made the following account:"The military government junta, established as a result of the memorable May 10, 1957, chief priest consisted In leading the country again, towards democracy overshadowed by the then-disappeared dictatorship, it established a commission of tax experts so that by unifying the dispersed legislation related to income tax, it entered with reforms, many of them improvised, contained in legislative decrees based on the use and abuse of article 121 of the Charter, propose to the nation's legislative chambers, soon to restart their work interrupted for 10 years, a coordinated statute that would make it easier to understand the transcendental issue of the issue that weighs most heavily on national economic activity , and that it allowed as one of its indispensable pillars, to put into practice the new economic policy based it gives a fairer and more adequate distribution of national income, reducing the income of those with little economic capacity, increasing participation in the formation of public income for the most capable, and directing taxation in a way that serves as an incentive for national production, especially in lines that decreased imports or increased exports, to strengthen the declining national balance of payments."[3]	Newspaper article on the approval of the reform published in El Tiempo.	Summarizes the goal of this reform - to achieve harmonization of tax system make direct taxation serve as an incentive for national production
4		Figure 5.2 Comparing income tax rates between 1953 and 1960 law.	Own Calculation based on approved texts of both reforms	The income tax in 1960 was on paper less progressive than the one in 1953 law. Once one considers the deductions and exemptions in the name of economic production, the reform lost all of its progressive components.
5		Figure 5.3 Shows the historical evolution of the taxable base in Colombia.	Hernandez Rodriguez (2014)	The sharp decline after 1960, shows how this reform can be seen as a departure from 1953 progressive reform.

Land Reform (Law 35, 1961):

Also, during the Presidency of Alberto Lleras Camargo, in 1960, a decree was promulgated (Decree 2061) through which the National Agrarian Committee (Comité Nacional Agrario) was created with the assigned responsibility of drafting a new Agrarian Reform Law (de Colombia-Ministerio de Agriculture y Ganadería, 1960)). This law was seen by the government as a necessary reform to consolidate peace and to "integrate" peasants into the national economy. On December 23, 1961, the law 1935 "On Social Agrarian Reform" was passed . The stated goal of the reform was to change land tenure relationships in the Andean region, where minifundia and latifundia coexisted side by side (de Colombia-Gobierno Nacional, 1961), Article 2). Despite the progressive nature of the initial project, two factors hinder the redistributive potential of the agrarian reform.

First, when the bill was subjected to congressional debates, a change in the wording completely transformed the purpose of the law. The new focus of the reform was no longer to redistribute the land that was concentrated in vast properties throughout the most productive areas of the country. Instead, the focus of the law was to distribute lands that were not being used (baldíos[11]) and were not considered private property. This was further achieved through the inclusion of a clear protocol to avoid the expropriation of private lands (See Chapter XI of the Law, Article 58) (See 6.5 CPO 1).

The reform faced intense opposition from many sectors of the economic elite, which succeeded in changing the focus of the reform towards mainly distributing tierras baldías.In Table 6.5 I summarize the main pieces of evidence sustaining the process

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[11]Translation in English is a wasteland, but I'm not 100% sure that this is a good translation

tracing analysis. The Society of Colombian Agriculturists (Sociedad de Agricultores Colombianos), the interests group representing the landed elites, led constant attacks to the reform. One of the central points of their opposition, was the argument that the reform was moving too fast and in the wrong direction (Duff, 1966). Members of the banking sector were also vocal opponents of the reform. For example, Jorge Mejia Salazar, President of Bank of Bogotá (the largest bank at the time), voiced opposition to the reform. In his view, cultivated lands should not be ever expropriated, and in extreme cases, expropriations should be done only when paying the commercial value to the owners in full. The focus of the distribution, for these two sectors of the economic elite, ought to be in the peripheral areas of the country.

The second factor hindering the redistributive capacity of the law had to do with its implementation and with INCORA (Instituto Colombiano de Reforma Agrario), the organization created to implement the law. On the one hand, INCORA was designed in such a way that all bureaucratic links of the implementation chain (judges, mayors, notaries, police) were tied to the interests of landed economic elites and responded to bipartisan and localist political logics (Gutierrez Sanín, 2013)). On the other hand, after the congressional debates, the proposed budget allocated to financing INCORA was severely decreased, meaning that the institute faced strong financial constraints, which made it even less autonomous vis-à-vis local powers.

Table 6.5: *CPOs Agrarian Reform*

Event	Part of Argument:	Structure of Causal Process Observations		
		Cohesive Economic Elite?	Capacity of Economic Elite to influence State Policy	Redistributive State Power
	Institutional Response 2: Agrarian Reform 1960	Frente Nacional institutionalized the political cohesion of the economic elite.	The planned agrarian reform was severely curtailed during the congressional voting by focusing on redistributing wastelands, rather than owned and used agricultural lands.	Multiple Exceptions for the application of the law and INCORA (Instituto Colombiano de Reforma Agraria) became incapable of implementing reform show a very low redistributive capacity. The result was a failed agrarian reform.

CPO #	Date	EVIDENCE/ Quote [My own translation – Spanish in Appendix]	Document	Significance
1		Link to Law	This was achieved through the inclusion of clear protocols to avoid the expropriation of private lands (See Chapter XI of the Law, Article 58)	The focus of the reform changed. Instead of redistribution of latifundia, the reform focus on redistributing lands that were not considered private properties, often in the peripheries. This
2		INCORA faced financial constraints and was	\cite{}	The economic and infrastructural power of
3		Table 5.5 Shows comparison between Land ownership before and after the reform.	Atlas de la Distribución de la Tierra - Institutio Nacional Agustín Codazzi	The table shows that the structure of land ownership did not change.

Together, these two factors severely hindered the redistributive potential of the agrarian reform. As Table 6.6 shows, the agrarian reform did not change the extreme levels of inequality characteristic of land ownership. Large properties (more than 500 hectares) maintained the amount of land. Furthermore, the number of small properties (less than 5 hectares) did not change, and the percentage of land under their control became even smaller. As it will be clear in the next section, there are important similarities between this reform and the agrarian reform in Perú during Belaunde's government. In both cases, a moderate reform was significantly diluted in its passage through Congress and lost its progressive components.

Table 6.6: *Distribution of Land Ownership before and after the Agrarian Reform*

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

Source: (IGAC, 2012) based on Muestra Nacional Agropecuaria 1956, Censos agropecuarios 1960 and 1970.

Cohesive Economic Elite and the Redistributive Power of the State

What explains the change in the Tax structure after 1960? What explains the failure of Agrarian Reform? The common element behind the failure of the Agrarian Reform, as well as the attacks on the progressive character of taxation, is that a politically cohesive economic elite acted to influence state policy. The analysis of these two reforms suggests that the redistributive power of the state was limited as a result of the capacity of a politically cohesive economic elite to influence state policies.

Existing explanations to the failure of the agrarian reform and, more generally, about the redistributive capacity of the state, point to an infrastructurally weak state as the cause. However, parallel to the reforms to the main redistributive institutions, the Colombian state grew in infrastructural capacity in the decade of the 1960 (Gutiérrez Sanín, 2016, 38)). The capacity of the state was being strengthened

at the same time that new bureaucratic organizations with resources were being created. Perhaps like never before, the Colombian state had the resources to implement the redistributive forces. Besides, this was a period in which "technocracy was born" with the creation of Departamento Nacional de Planeación (Gutiérrez Sanín, 2016)).

Figure 6.6: *State Capacity*
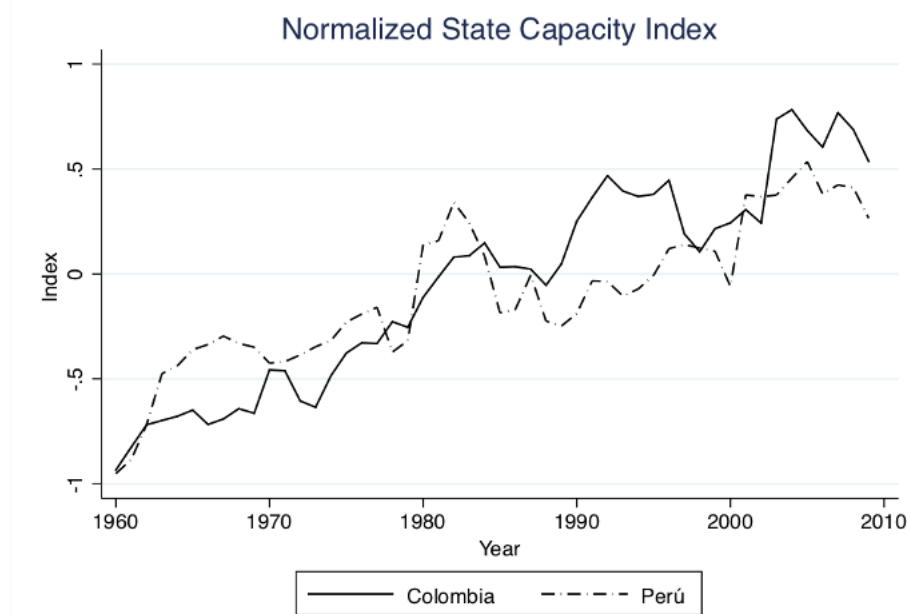
Source: Own
calculations based on Hanson and Sigman (forthcoming)

The lack of implementation of these reforms is then not a result of a lack of infrastructural capacity of the Colombian state. Instead, I argue that this reflects that the state lacked the capacity to implement redistributive reforms because it faced a politically cohesiveness economic elite. One that was able to influence state policies and put limits on the redistributive potential of the state.[12]

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[12]Is it important to clarify that here I don't mean that the economic elites cohesively in every single aspect of the political life. In fact, important disagreements were present along partisan lines. Gutierrez Sanín (2013) identifies at least four areas for which there has been disagreement. However, when it comes to redistributive issues, I find that the economic elite acted as an extremely cohesive actor.

Overall, the period of Frente Nacional was critical for the long-term trajectories of economic inequality since it resulted in the further strengthening of parasitism. The analysis of the processes through which these two sets of reforms came to be in Colombia during Frente Nacional shows how a cohesive economic elite was able to influence state policy to protect its interests. The common element behind the failure of the Agrarian Reform, as well as the attacks on the progressive character of taxation, is that a politically cohesive economic elite acted to influence state policy.

6.3.2 Perú: from parasitism in democratic reformism to commensalism in dictatorship: a comparison of two agrarian reforms

During the early 1960s, the failure of the Military Junta to alleviate the mounting redistributive pressures led to an alliance between the main political forces (APRA and Odriísmo) that led to the electoral victory of Presiden Belaúnde Terry in Perú in 1963. Once in power, Belaunde Terry's government initiated a series of moderate reforms aimed at alleviating redistributive pressures while simultaneously protecting private property and economic elites. However, the first response was insufficient, and the demands for redistribution intensified. The failure of Belaúnde's democratic reformism made viable Velasco's alternative: a set of more radical and progressive reforms under a military regime. Velasco gained support from a sector of the economic elite and rose to power in 1968. In this section, I analyze the Agrarian Reform attempted by Belaúnde's government and contrast it with Velasco's Agrarian Reform. I draw on primary and secondary sources to show that Perú experienced a break in terms of RSP.

Belaunde's Agrarian Reform under Democratic Reformism:

Belaúnde was elected after an extremely tied election in 1963, supported by a coalition of the two parties representing traditional oligarchic structures of power: Odriísmo and Aprismo. "Haya, once considered one of the region's most populist leaders, shocked his supporters when he moderated APRA's demands for labor and agrarian reforms and supported Belaunde's government" (Brands, 2010), page 20). The victory of Belaunde was seen as a victory of "democratic reformism" and was partially the result of antagonism towards another military government.

In 1964, Belaúnde attempted to implement an agrarian reform. The first project failed due to a lack of support in Congress. A reformed version of the bill was approved later in Congress because, on the second attempt, it excluded the sugar haciendas of the north and focused mainly on the haciendas in the Sierra region. In addition to the exclusion of the entire agro-export segments of the north, the approved law (Ley 15037) included a series of articles that allowed easy evasion of the law (Pease and Romero, 2014).

A second factor that contributed to the failure of this program was that the National Agrarian Council (Consejo Nacional Agrario), the organism created for the implementation of the reform, ended up being controlled by members of the APRA party and landowners (Pease and Romero, 2014). Finally, an additional challenge resulted from the opposition's constant denials to release the financial means to compensate for the expropriations. In sum, these factors amounted to a minimal impact on the reform. Ultimately the reform failed in achieving its goals of redistribution and in appeasing the redistributive pressures. As (García, 1977) shows, only 11,000

families benefited from the program in the four years in which the law was valid.

Table 6.7: *CPOs Belaúnde's Agrarian Reform*

		Structure of Causal Process Observations		
Event	Part of Argument:	Cohesive Economic Elite?	Capacity of Economic Elite to influence State Policy	Redistributive State Power
T2: 1960s - 1970	Institutional Response 1: Belaúnde Terry Agrarian Reform 1962	Yes. Belaúnde Terry democratic reformism was supported by a coalition of landed elites and industrial elites.	In Congress, reform lost finances and only targeted one region of the country due to pressures.	Government became incapable of implementing the reform showing a very low redistributive capacity. The result was a failed agrarian reform.
CPO #	**Date**	**EVIDENCE/ Quote** [My own translation – Spanish in Appendix]	**Document**	**Significance**
1	1964	See Capítulo IV - excluded agro-industrial sectors.	LINK TO FULL TEXT: http://extwprlegs1.fao.org/docs/pdf/per124294.pdf	Multiple exceptions and different legislation for different regions.
2		The initial project failed due to a lack of support in Congress . The reform was only possible because in the second attempt, it excluded the sugar haciendas of the north and focused mainly on the haciendas in the Sierra region.	Cite Pease Romero	The changes to the reform suggest that the traditional landed elite was able to influence this policy.
2		In addition to the exclusion of the entire agro-export segments of the north, the approved law (Ley 15037) included a series of articles that allowed easy evasion of the law (\cite{Pease_Romero}).	Cite Pease Romero	

Velasco's Agrarian Reform

On October 3 of 1968, President Belaúnde Terry was overthrown by a military coup led by Juan Velasco. In part, this was a response to the spread of left-wing guerrilla groups and the threats they imposed and the limitations of "democratic reformism" to appease the intense social mobilizations and face economic crisis. Velasco's nationalistic project and his message were clear: solve the deep structural inequalities. He wanted to change Perúvian society by implementing a redistributive project and wanted to break with the cycle of imperial domination, which led him to nationalize mineral resources in Perú (Aguirre and Drinot, 2017)).

The magnitude and progressiveness of Velasco's regime, as well as its corporatist traits, have been at the center of scholarly research (Cotler, 2005; Vergara, 2018; Stepan, 1978; Malloy, 1974)). Scholars have noted the similarities between corporatism and features of Velasco's government in that it avoided the elaboration of systematic ideology. Official communications show that the regime did not want to be perceived as either communist or capitalist. Instead, descriptions of the regime included the words revolutionary, nationalist, and popular (Malloy, 1974)).

A recurrent goal of the administration was to "break the power of the so-called oligarchy." Agrarian reform was the most significant step to weakening traditional landowner sectors by expropriating large portions of land. More land was redistributed in Perú than in similar reforms in Mexico and Bolivia(Vergara, 2018)).

Table 6.8 shows the scale of the redistribution accomplished by the reform. More than 334,000 families benefitted from the program. This number contrasts sharply with the 11,000 families who benefited from Belaunde's reform.

Table 6.8: *Adjudicated Lands and Benefitted Families (1969 to 1978)*

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

Source: (Ministerio de la Economía Nacional, 1939) based on General Direction of Agrarian Reform, "Reforma Agraria en Cifras"

Table 6.9: *Achievements of Agrarian Reform*

	Cultivated Area (Thousands of Hectares)	Labor Force (Thousands of People)	
Census 1961	17,722	1700	
Census 1972	23,000	2000	
Volume of Agrarian Reform			
Expropriated	11,864		Source:
Adjudications	9678	684 *	
Progress on 31/12/1973			
Expropriated	5677	354 *	
Adjudications	4375	(177)	

"Programa y logros de la reforma Agraria" (Figueroa and Webb, 1975), page 119)

As I mentioned earlier in this chapter, in 1964 Carlos Malpica published a book titled "The Owners of Perú," in which he presents the radiography of economic power in Perú. During my interviews in the field with historians and political scientists, the name of this book came up over and over again as powerful evidence of the deep changes caused by Velasco's Agrarian reform to the structures of power. Malpica wrote the fourth edition of the book in 1970, after the agrarian reform. The book allows one to see how economic power changed in the country; the most shocking

change between 1964 and 1970 is the disappearance of the landed elites due to the Agrarian reform. This is confirmed by Vergara (2016) on his study of center-periphery relations and how they changed after Velasco (Vergara, 2018)).

Velasco's revolutionary experiment failed if one looks at one of his main goals of liberating the country from foreign powers. The country soon became dependent again on foreign investments and found itself deeply in-debt with the IMF. In addition, "[b]y 1973, however, the most dynamic sectors of Perú's dominant class had regrouped; they began to challenge the government. The regime's autonomy was gradually reduced as these sectors took advantage of the military's inherent anti-communism and the increasing heterogeneity of political positions within the armed forces" (McClintock and Lowenthal, 2016)). However, two things changed forever: the power of the landed elites and the role of the state. Even though other sectors of the economic elite maintained a certain level of political cohesion, Velasco took advantage of a temporary division and implemented an extremely redistributive reform against the landed elites.

In sum, during Velasco's dictatorship, the economic elite stopped being cohesive, and in turn, the state's redistributive power became significantly higher. This is confirmed by Pease García's view on how the fight between the oligarchic factions and the industrial elites went from being "accommodating" before Velasco to the later questioning the foundation of the agro-export economy entirely (García, 1977)). The division of the economic elite and the support from the industrial elites allowed Velasco to implement structural reforms that allowed the country to move into commensalism and lower levels of economic inequality.

Table 6.10: *CPOs Velasco's Agrarian Reform*

Event	Part of Argument :	Structure of Causal Process Observations		
		Cohesive Economic Elite?	Capacity of Economic Elite to influence State Policy	Redistributive State Power
T2: 1960s - 1970	Institutional Response 2: Velasco Agrarian Reform 1968	No. Velasco rose to power in a military coup supported by a the industrial elites. The economic elite was no longer cohesive.	The state inititated a series of radical reforms: including a radical land reform.	The redistributive power of the state increased substantively, the result was a succesful agrarian reform that distributed large extensions of land.
CPO #	**Date**	**EVIDENCE/ Quote** [My own translation – Spanish in Appendix]	**Document**	**Significance**
1	25373	"June and July of 1969 brought the first shock waves to the dominant classes. On June 19, the president of the organization of agro exporters, the Sociedad Nacional Agraria (SNA), went before television cameras to denounce the government for preparing an agrarian reform without consulting landowners themselves. By June 24, the Agrarian Reform Law had been promulgated, and many lands were occupied by June 25. This was not state policymaking as usual!" (\cite{Bamat_1983}, page 136.)	President SNA about the reform	The state was able to implement reform and ignored landed elites.
2		"The official reaction of the Sociedad Nacional Industrial (SNI) to the agrarian reform -its ties to the agro exporters notwithstanding- was almost positive. After praising government measures to favor the export of manufactured goods, the editorial in the June issue of \textit{Industria Peruana} stated that Velasco's speech in promulgating the agrarian reform is proof that ``there is full awareness in the revolutionary government that Peru will be able to achieve development through industrialization" (Industria Peruana, June 1969).	Statement from SNI cited in magazine on Peruvian Indsutry	Evidence that Velasco had the support of insutrial elites. Allowed the government to implement redistributive policy.
3		"The majority of the urban-industrial bourgeoisie including larger capitalists, exporters, the commercial sector, and the modern executives who participated in the Conferencia Anual de Ejecutivos – a yearly meeting bringing together public- and private sector leaders – were much more circumspect in their approach to the Velasco government. [...] These social groups now find themselves in the pace of a strong and substantial state, which can guarantee them the development of modern capitalism at the same that it controls all assaults of the popular movement. In pragmatic terms, for these more enlightened sectors, it is important to surround the government and not to confront it, to obtain concrete concessions, and to let outmoded sectors [...] wear themselves out in an unequal struggle."	Secondary Lit. \cite{Pease} p. 127).	Stronger state capable of directing modern capitalism
4		New edition of Los Dueños del Perú after the land reform. Shows that the most important change was to the Landed Elites.ADD NOTES FROM THIS BOOK TO TABLE	Malpica in Los Dueños del Perú	Malpica clearly states that the largest haciendas were subjected to land reform and economic power in the hands of the landed economic elites was permanently altered
5		Cleaves and Pease García believe that, due to the disarray of the Peruvian elite and the cohesion of the military in 1968, the Velasco government enjoyed relative autonomy from social forces between 1968 and 1972. Thus, the government was able to implement significant reforms sounding the death toll to "oligarchical" social groups – agricultural exporters, traditional highlands landowners, and traditional bankers.		

6.4   Conclusion

The comparison of these two countries during this period allows me to identify the conditions sustaining an equilibrium characterized by a relatively weak state and a cohesive economic elite, and the conditions under which that equilibrium breaks and economic inequality changes in the long-run. I conduct an in-depth study of both cases to identify whether Velasco's regime in Perú and Frente Nacional in Colombia were critical events for long-term trajectories of economic inequality in both countries. In doing so, I provide answers to the following questions: Under what conditions a country is capable of escaping an inequality trap? Why was Perú able to escape the economic inequality trap while Colombia was not despite similar redistributive pressures?

By analyzing the processes through which institutions were transformed to appease redistributive pressures, I am able to explain variation in long-term trajectories of economic inequality in these two countries. In Colombia, the tax system became more regressive, and the agrarian reform failed to deliver actual change to the structure of land property in rural Colombia. In fact, by some estimates, the concentration of large extensions of lands (latifundios) increased after the reform. In contrast, Velasco's agrarian reform fundamentally changed the structure of land ownership in Perú. Furthermore, income inequality also decreased in the years following the reform.

In Colombia, the sequence of events leading to Frente Nacional is important to understand the cohesiveness of the economic elite. In particular, I claim that the fact that Rojas Pinilla's preceded the institutional reforms had two consequences: First,

its progressiveness further united the economic elites and interest groups became significant players with the capacity to represent a united front vis-à-vis the government. Second, the break with democracy justified a quasi-democratic transition and legitimized Frente Nacional and, with it, the political institutionalization of a cohesive economic elite.

Scholars studying the success of Velasco's Agrarian Reform have focused on the authoritarian nature of the regime and the autonomy associated with the military as the enabler of success (Albertus, 2015; Vergara, 2018; Trimberger, 1978). However, the comparison with Colombia suggests the timing of Velasco's reform and the division of the economic elite were crucial for its success. Velasco rose to power due to the failure of Belaunde's initial attempts to respond to the redistributive pressures. Following the growth and success of a massive peasant movement in 1962, a cohesive economic elite surrounded Belaunde's democratic reformism. However, the failure of this initial response in releasing some of the pressures created tensions within the economic elite. In particular, members of the industrial elite abandoned the coalition that sustained Belaunde's government, giving rise to Velasco's leadership and his "revolutionary government."

This analysis allows me to discuss additional rival explanations on the factors explaining economic inequality. The first finding is that the explanatory power of state capacity for inequality needs to be questions. During the 1960s, both countries saw the increase in the overall levels of state capacity. Yet, only in Perú we see a change towards lower levels of economic inequality. This suggests that absolute levels of state capacity hide the extent to which the state is able to oppose the interests of particular societal groups.

The second implication is for our understanding of the relationship between modernization and economic inequality. The redistributive pressures emerging in both countries in the middle of the century were partially a consequence of the processes of modernization and the changes in the structure of the economy. As such, this chapter also speaks to economic elites's adaptation to modernization and how despite changing levels of economic developments, economic inequality can persist.

Chapter 7

Testing the Generalizability of the Argument

Introduction

In Chapters 5 and 6, I combine comparative historical analysis and process tracing to understand the mechanisms connecting the Redistributive State Power (RSP) with economic inequality. An in-depth analysis of the processes surrounding reforms to redistributive institutions in Colombia shows the importance of a politically cohesive economic elite for maintaining economic inequality traps. In contrast, the case of Perú underscores how the political division of the economic elites led to higher redistributive capacity of the state, which allowed the country to escape an economic inequality trap and embark on a path towards lower economic inequality. Together, a comparison of these cases proved powerful to understand *how* the state and the economic elite interact to shape economic inequality trajectories in the long run.

However, we have yet to explore whether this pattern can be generalized to other countries in the world and Latin America.

The theory presented in Chapter 3 has implications that can be generalized more broadly to other countries and regions in the world. I depart from the assumption that the level of economic inequality is the result of a dynamic equilibrium in which a series of opposing forces are permanently interacting. In this sense, stability is not a synonym of the absence of change; stability is the result of a balance of the competing forces. On the contrary, change results from a shock to the balance of relevant forces, one that the system cannot compensate. In this dissertation, I focus on three central forces in that produce and reproduce economic inequality trajectories. The first force takes the form of redistributive pressures - i.e. forces threatening the concentrated possession of in-come and wealth of the economic elite.

The other two forces constitute RSP: state capacity, and the political cohesiveness of the economic elite. I define RSP as the power of the state to redistribute income and wealth from the richer to the poorer segments of the society. I argue that RSP can help us understand the circumstances under which redistributive pressures result in an actual change towards more economic equality. On the one hand, pressures can pose challenges to the state's central goal of order through the monopoly of coercion. On the other, these forces challenge the economic elites' ownership of valuable resources, which means that they will seek to maintain or increase cohesion to protect their interests. In the midst of redistributive pressures, states have two options. They can use their coercive apparatus to repress the threats, or they can use their administrative and bureaucratic apparatus to redistribute wealth. I hypothesize that state's decision will depend on its relative autonomy from the economic elite. In countries where the

economic elite has the capacity to influence state policies, redistributive pressures would not translate into redistributive efforts. In countries where the economic elite is week, or divided, the state will seek to redistribute and benefit the majority of the population. This implies that the relationship between state capacity and economic inequality will depend on the strength of the economic elite to influence state policies.

In turn, in this chapter, I aim to answer: What is the effect of State Capacity on the level of economic inequality? Is this effect conditional on the strength of the economic elite? I use panel data techniques to evaluate a series of observable implications of my theory. I use a data-set that contains yearly observations for 194 countries between 1960 and 2018. More precisely, I estimate the effect of state capacity on economic inequality and how it varies with the cohesiveness and the strength of the economic elite. To measure economic inequality, I rely on two different approximations. For the first one, and similar to what most studies do, I use two continuous indicators that measure economic inequality: the Gini Coefficient and the Income Share held by the wealthiest 10%. For the second approach, I use a typology of economic inequality levels to identify when the type of inequality changes. To operationalize state strength, I rely on an indicator constructed by Hanson and Sigman (2019) that combines 22 indicators traditionally used to capture different aspects of state capacity. To operationalize the strength of the economic elite, I use two different strategies. First, I use Forbes lists to identify the presence and power of billionaires in each country as proxies of the power and cohesiveness of the economic elite. Second, I use the share of the revenue of states that comes from income taxes as a proxy of the state's redistributive capacity.

I find that higher levels of state capacity are associated with lower levels of eco-

nomic inequality. However, the effect of state capacity on inequality is not constant when considering the strength of the economic elite. Whether or not a strong economic elite is present, changes the effect of state capacity on economic inequality. The findings of this chapter support the main argument of this project: that the state and its interaction with the economic elites are important determinants of economic inequality trajectories.

7.1   Rival Explanations

In the introduction, I discussed existing frameworks proposed to explain the levels of economic inequality in Latin America. In this section, I revisit some of these arguments and demonstrate that while important, they fail to account for the role of economic elites and their capacity to influence the redistributive capacity of the states. The combination of existing explanations with my theoretical framework inform important modeling decisions.

The first group of theories identifies initial conditions faced by colonial settlers as a critical determinant of the type of institutions and how they set the stage for unusually high levels of inequality in Latin America (Engerman and Sokoloff, 1997; Acemoglu et al., 2001). Departing from these findings, rational choice institutionalists like Acemoglu et al. (2001) have identified extractive institutions (characterized by a lack of secure property rights), and its reproduction over time as the leading cause behind the high levels of economic inequality in Latin America. This framework is valuable for understanding differences between Latin American former colonies and those in other regions of the world. However, it has little leverage for understanding the variation across countries with similar colonial pasts. In the models, I use country

fixed effects to be able to account for colonial legacies.

An important limitation of these works is that they leave little room for trajectory changes. The implicit assumption behind these theories is that Latin America has always been unequal. However, this ignores periods of time in which inequality was on average low and early periods of time (first half of the nineteenth century) in which economic inequality trends were characterized by instability (Williamson, 2015; Abad, 2013; Bertola et al., 2009; Serna and Aguirre, 2010; Milanovic, Lindert, and Williamson, Milanovic et al.). Besides, they cannot explain why some counties (e.g., Perú and Paraguay) see important changes.

The third group of researchers points to LA's position in the global economy as the primary driver of high inequality (Hoffman and Centeno, 2003). Predominant economic activities in the region tend to be sustained by models of production that reproduce the unequal distribution of material resources. Frankema provides the most comprehensive study of economic inequality in the region. He points to the structural transformation circa 1870 in the region towards "modern economic growth" as critical for inequality's subsequent trajectories (Frankema, 2009). By stressing the importance of this structural shift, Frankema challenges the idea that Latin American inequality has been persistent throughout the post-independence era. His argument is sensitive to specific *Latin* inequality characteristics rooted in a shared colonial history and the legacies of colonial institutions *hacienda* and *encomienda* on the distribution of land. However, he proposes that modernization forces changed the context in which colonial legacies operate, and this period is crucial if one aims to understand inequality in the region. His study enlightens the debate of the forces behind trajectories of economic inequality in the region. Nonetheless, it remains

mainly a comparison between Latin America and the rest of the world.

In a recent study, Sáchez-Ancochea uses qualitative comparative analysis to explain differences within Latin America and to test some of the explanatory power of existing explanations. He finds that a low-indigenous/afro-descendant population is a necessary condition for low levels of economic inequality (Sánchez-Ancoechea, 2020). Besides, he identifies two sufficient paths that lead countries to low levels of economic inequality. Both include a low indigenous/afro-descendent population and democracy. The first path results from the combination of these two factors with favorable export specialization while the second one combines the three factors with the presence of leftist presidents. This finding aligns with Huber and Stephen's findings on the success of left and center-left governments that have succeeded in decreasing economic inequality in the twenty-first century (Huber and Stephens, 2012).

The literature on democratization and economic development has emphasized on the importance of regime transitions on economic inequality (Boix, 2003). According to social conflict theory, democracies should be more likely than autocracies to adopt policies that will benefit the majority of the population since "[they] empower otherwise excluded members of the population and contribute to more open political institutions" (Sánchez-Ancoechea, 2020). With the extension of the right to vote, the median voter becomes relatively poorer and, in turn, "prefers greater tax rates and more redistribution" (Acemoglu and Robinson, 2006, 109). In the models, I control for regime types.

Despite what these theories predict, economic and social inequality seem to be extremely compatible with democracies. In fact, market democracies have achieved the highest degree of wealth inequality in history (Winters, 2011) and redistribution

from the rich to the poor is not higher in democracies than in autocracies (Ross, 2006; Scheve and Stasavage, 2012; Albertus, 2015; Slater et al., 2014). As a result, theories responding to the puzzling relationship between democracy and inequality have emerged. The first group, suggests that even after democratic transitions, elites might circumvent democratic institutions to capture policy-making and block redistribution efforts (Acemoglu and Robinson, 2006). Second, scholars point to state weakness as a critical determinant of persistent inequality (De Ferranti and Perry, 2003) and as a mediator between democracy and redistribution (Soifer, 2013). Soifer argues that state capacity is necessary for redistribution and shows that the failure to account for the extractive capacity of states explains why there is a tenuous relationship between democracy and inequality.

To complement this finding on the importance of state capacity, my analysis shows that state capacity is not sufficient for lower levels of economic inequality even after democratization. As I will explain in the next section, state capacity is only one of the constitutive elements of RSP. The second element is the capacity of society's wealthiest sectors to influence policy-making decisions and shape economic inequality trajectories. Existing theories overlook the structure of power sustaining inequality and fail to account for the role that agents play in the production and reproduction of economic inequality. In particular, I claim that the role of empowered minorities and their wealth-defense strategies is crucial to understanding economic inequality changes. In this sense, my work aligns with the turn in economics literature away from purely economic factors (a la Kuznets (1955a)) and into considering the political dimensions behind economic inequality (a la Piketty (2014)).

7.2 The Argument, Observable Implications, and Hypotheses

In this section, I summarize the argument presented in chapter 3 on the relationship between RSP and economic inequality, and state the observable implications of my argument in hypothesis form. As I explained earlier, I define Redistributive State Power (RSP) as the state's power to redistribute income and wealth from the richer to the poorer segments of the society. I argue that a country's RSP depends on two factors: State Capacity and the strength and political cohesiveness of the economic elite - capacity. RSP is at the center of the production and reproduction of economic inequality.

The first component of my conceptualization of RSP is state capacity. The state's capacity is conceptualized as infrastructural power, as "the capacity of the state to penetrate civil society and to implement logistically, political decisions through its territory. [...] that determines how far its bureaucratic apparatus can reach to exert control and regulate social relations" (Mann, 1984). A state with high capacity, or a strong state, is one that can maintain political order, protect citizens, guarantee property rights, tax, and redistribute resources (Soifer, 2015; Mann, 1984). Other things being equal, as a state becomes more capable, it is plausible to expect that it acquires a higher capacity to collect taxes, to enforce property rights, to repress threats to the status quo, and to put in place redistribution schemes. All of these functions, traditionally associated with a modern state, are important determinants of economic inequality and economic development. Thus, I expect countries with higher levels of state capacity will have, on average, lower economic inequality (H1).

Besides, they will be more likely to see changes towards lesser levels of economic inequality (H2).

H1: Higher levels of state capacity are associated with lower levels of economic inequality.

H2: Higher levels of state capacity are positively associated with a higher probability of a country escaping a high economic inequality trap.

However, while necessary, state capacity is insufficient to explain the direction and the success of state policies' implementation to redistribute wealth. Existing works on the states' capacity to shape development outcomes emphasize the importance of the autonomy of the state from economic elites (Evans, 1995). I extend this idea to the capacity of the state to shape economic inequality. In particular, I argue that a strong and cohesive economic elite can influence state policies to block attempts to redistribute wealth and protect their interests.

In its quest to design and implement policies that align with the maintenance of the monopoly of force and public goods provision, the state faces important challenges (Eaton, 2012). In particular, economic elites and business groups that aim at defending their interests can constitute a force that undermines the state's capacity to design and implement policies aiming to redistribute. As Fairfield (2015) shows, business elites have a series of tools and power resources to create a credible threat of capital flight that makes them important veto players. The concept of RSP is therefore related to the concept of state autonomy (Skocpol, 1979; Evans, 1995) and the relational strength of the state (Eaton, 2012; Dargent et al., 2017). RSP captures the idea that state capacity is insufficient to understand how and when economic

inequality changes. Mainly because it denies that state autonomy and state capacity are two dimensions through which states vary and that both determine the redistributive capacity of the state. Considering these two actors, and how they interact to shape economic inequality, results in two additional hypotheses (H3 and H4).

H3: The effect of state capacity on economic inequality is conditional on the capacity of the economic elite.

H4: The relationship between State Capacity and the probability of a country escaping an inequality trap depends on the cohesiveness of the economic elite.

7.3   Operationalization and Descriptive Statistics

7.3.1   Economic Inequality and Inequality Traps

Identifying whether a country changed the trajectory of inequality in the long-run proved to be extremely challenging due to the multiplicity of indicators and missing data problems. Using the measurement framework developed in Chapter 2, I choose the Share from Total Income of Highest Income Decile to measure economic inequality in the estimation of the models. Figure 7.1 shows the yearly average of this variable across all countries in the data-set. For the sample, the indicator varies between 4.10 and 75.51, with a mean of 33.88 and a standard deviation of 6.97. For robustness, I also use the Gini coefficient to perform the same analysis since it is the most commonly used measure of economic inequality (see Figure 7.3). In theory, the Gini coefficient varies between 0 and 100. The mean value for the entire sample equals 42.29, with a standard deviation of 8.77. For the estimation, I use the standardized version of these

variables. As Figures 7.1 and 7.3 demonstrate, countries have become, on average, less unequal since 1960 per both of these indicators.

Figure 7.1: *Share from Total Income of Highest Income Decile*
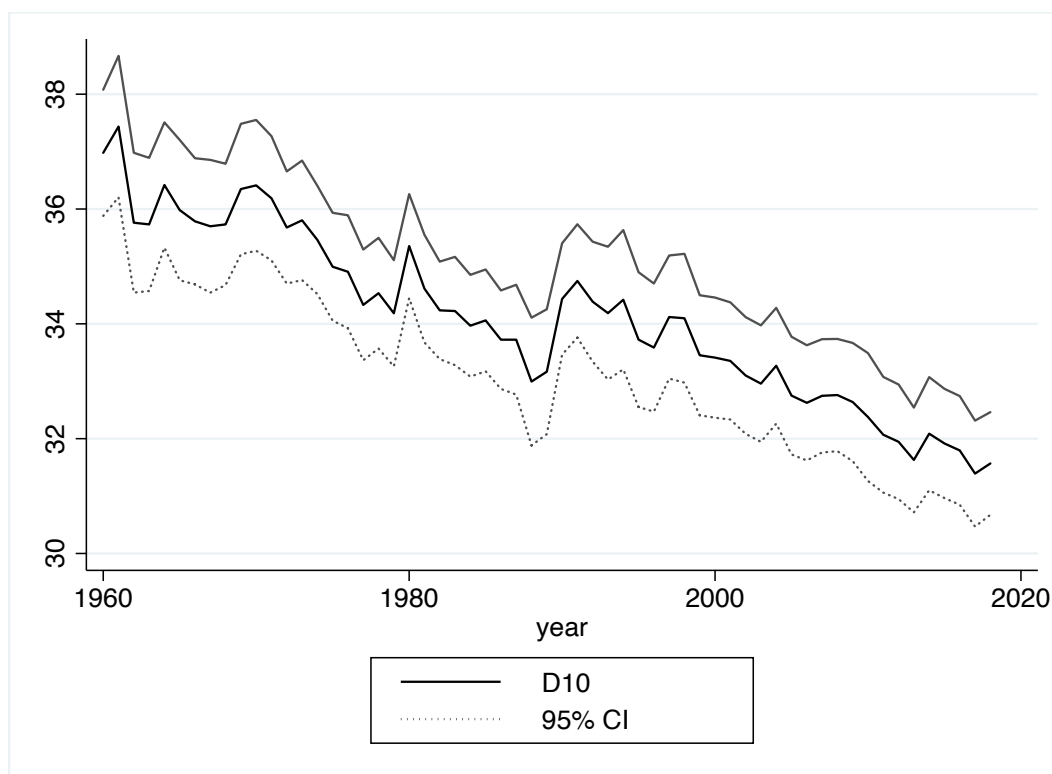
Figure 7.2: *Source: Own calculations based on World Bank, LIS, WID.*

Figure 7.3: *Gini Coefficient*
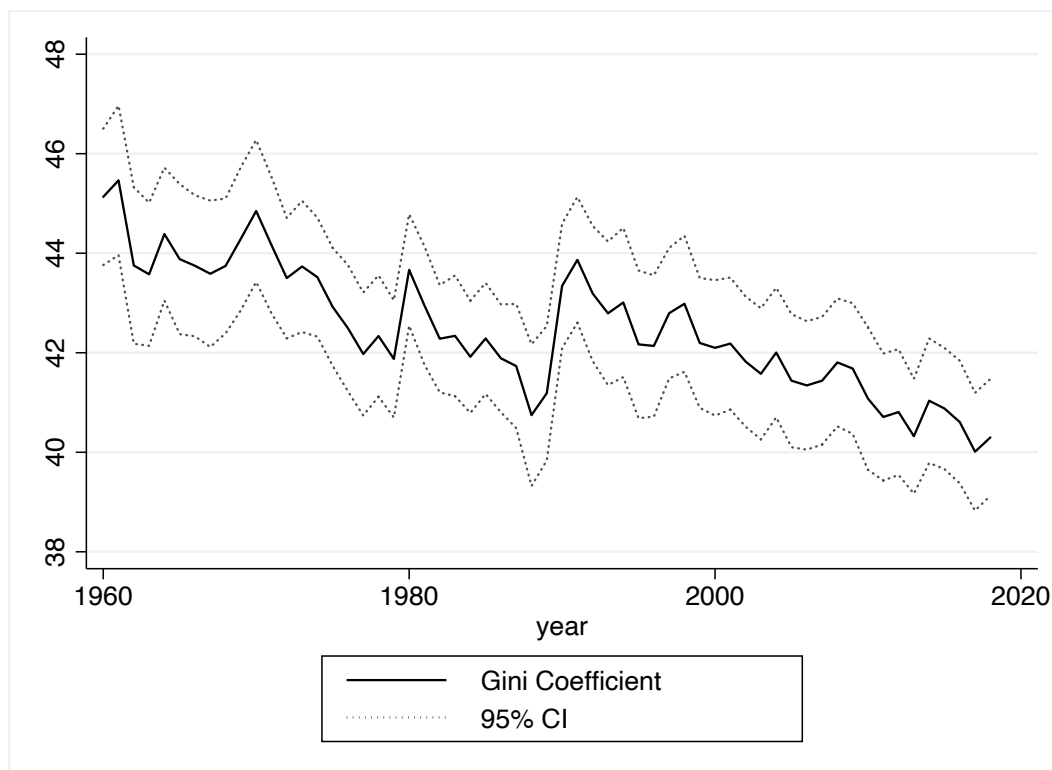
Figure 7.4: *Source: Own calculations based on World Bank, LIS, WID.*

It is important to note that the trajectories of inequality in Latin America differ from the rest of the world. This is important because, as I showed in the introductory chapter, inequality is much higher in Latin America compared to the rest of the world. Besides, the downward trend that we can be observed for the world is less steep for countries in Latin America.
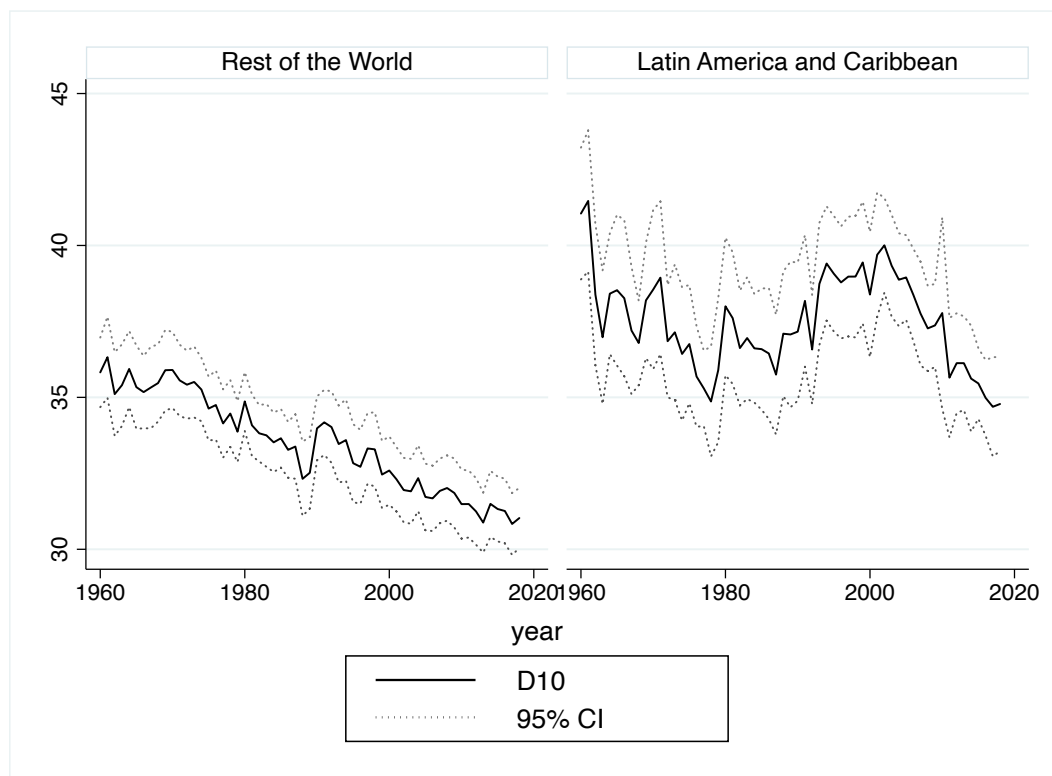
Figure 7.5: *D10 Latin America vs. the World*
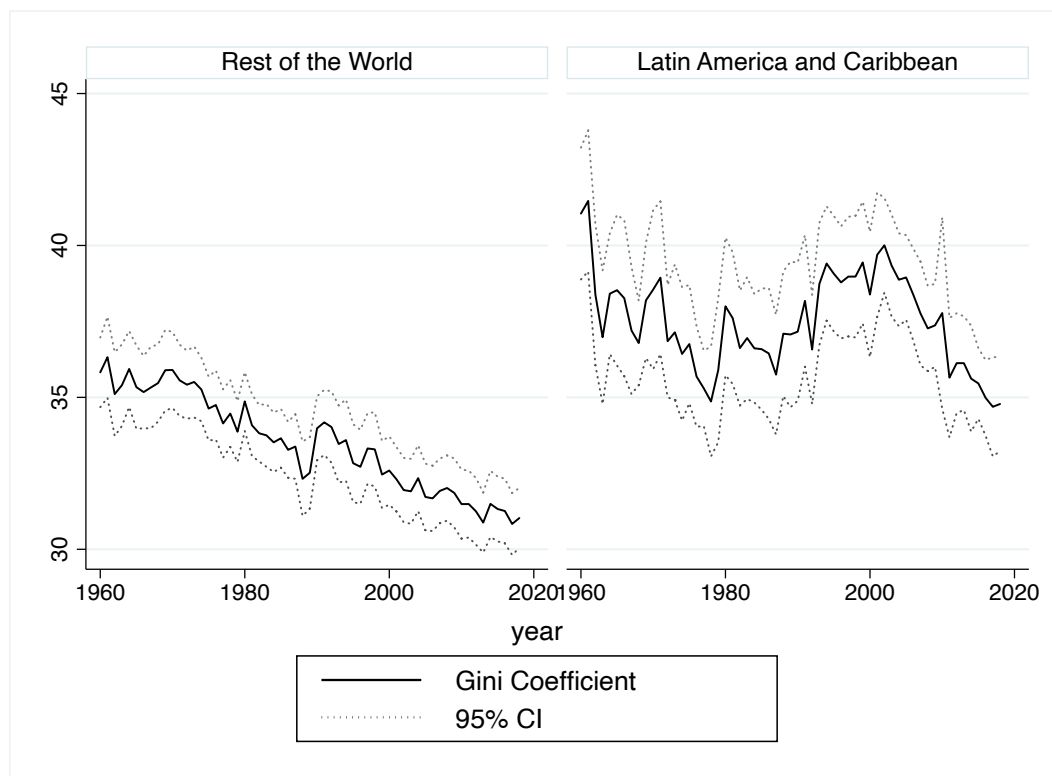
Figure 7.6: *Gini Cofficient Latin America vs. the World*

To identify whether countries escape inequality traps, I use the 25th and 75th per-centiles of the Income Share held by the richest 10% as cutoffs to classify country-years into three categories: high (3), medium (2), and low (1) inequality. By classifying all observations into three broad categories, I can better capture inequality changes to long-term trajectories. I then use the first difference of that variable as the dependent variable. In turn, the variable Δ Inequality Level takes integer values between -2 and 2. A value of -1 results from a decrease of one level in the level of inequality, while a value of 1 results from an increase of one level. A value of 0 indicates stability in the level of inequality. The mean value of this variable equals -0.0096, which sug-gests that this variable is mostly capturing larger variations in the level of economic inequality measured by the Income Share held by the richest 10%. Figure 7.7 shows

the distribution of the variable for the whole sample.

Figure 7.7: *Distribution of Change in Inequality Levels*
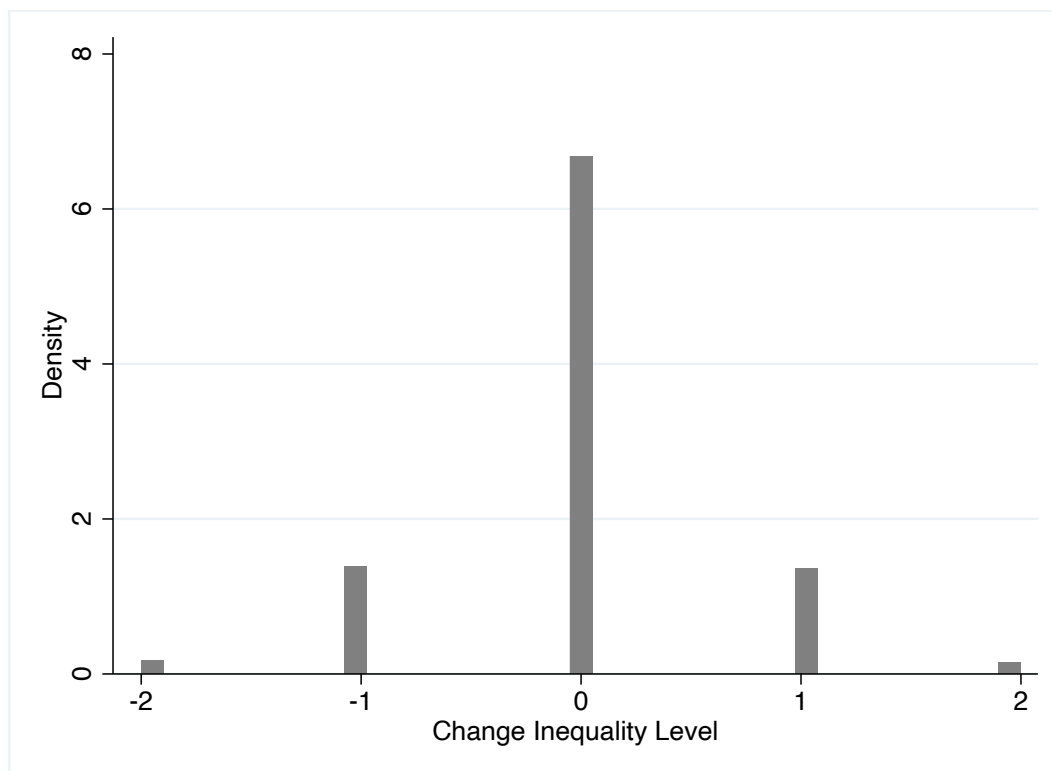
7.3.2 State Capacity:

I use the indicator constructed by Hanson and Sigman (2019) that combines three core dimensions of state capacity: extractive capacity, coercive capacity, and administrative capacity. Hanson and Sigman focus on the core functions considered necessary for modern states. These include protection from external threats, maintenance of internal order, administration and provision of public goods necessary to sustain economic activity, and the extraction of revenues. The authors depart from 22 indicators of state capacity and use Bayesian latent variable analysis to construct a single indicator with annual estimates of the state capacity levels for all countries starting in

1960. The indicator varies between -3.43 and 2.9 for the entire period with a mean equal to 0.09 and a standard deviation of 0.95. Figure 7.8 shows the yearly average of the indicator for all countries in the sample. It shows that states have become more capable per this indicator. For the estimation, I use the standardized version of this variable.
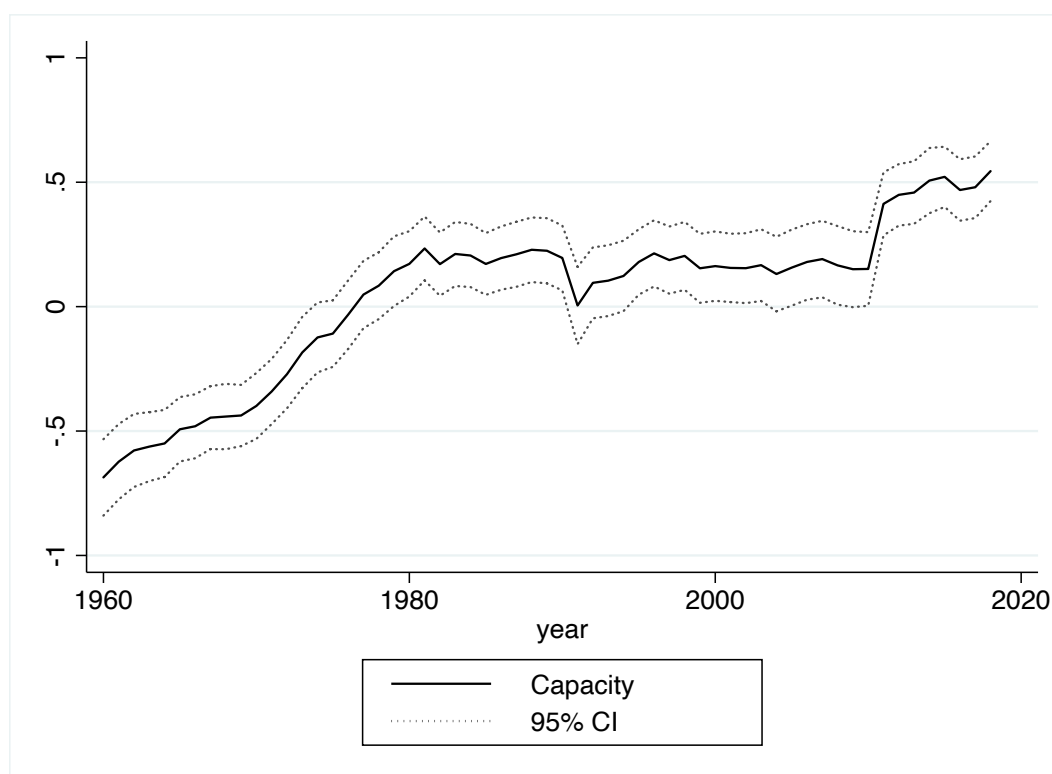
Figure 7.8: *Yearly Average of State Capacity*

7.3.3 Economic Elite Strength:

In the qualitative case studies, I was able to measure the political cohesion of economic elites and how this changes over time in Colombia and in Perú. For this chapter, I can't measure the political cohesiveness of economic elites for all countries in the world. In turn, I use three alternative approaches to measure this variable.

For the sample that includes all countries in the world, I mostly on the strength of the economic elite and leave the cohesiveness aside. I implemented two different strategies using existing data from the Billionaires list put together by Forbes. The list identifies Billionaires in each country, their net worth, and the industries in which they operate. This information is valuable since we can think of billionaires as extremely powerful actors within the economic elite. Furthermore, we can assume that given the amount of wealth that they accumulate, they have a disproportionate power to shape state policies and a shared interest in protecting their wealth. I use this data set to construct two indicators of elite strength: first, a categorical variable that takes the value 0 if there are not reported Billionaires, and 1 if there are (see 7.9) . The second variable takes the total net worth of billionaires as the share of the GDP (in 2016). As this number increases, one can assume that billionaires have a higher capacity to influence state policies and to exert veto powers. For countries that have at least one billionaire, the average share of the total net worth relative to GDP is around 0.08% with a minimum of 0.005% and a maximum of 2.62%.

It is important to note that this variable does not change over time and it is only used to evaluate whether the effect of state capacity on economic inequality is conditional on economic elite strength. [1].

Elite Splits: For countries in South and Central America; I use Albertus (2015) operationalization of elite splits as a proxy for the concept of political cohesiveness of the economic elite. Albertus codes country-years as having an elite split when there

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[1]For a future version of this part of my research and to be able to better account for political cohesiveness, I will expand on this idea and collect data on the ten richest people in a given country in Latin America and look at their business activities. The more diverse the portfolio is in terms of the economic sectors' span, the more cohesive the economic elite is. In particular, I will look into whether there are still ties with land-based economic activities

Figure 7.9: *Number of Billionaires by Country in 2016*
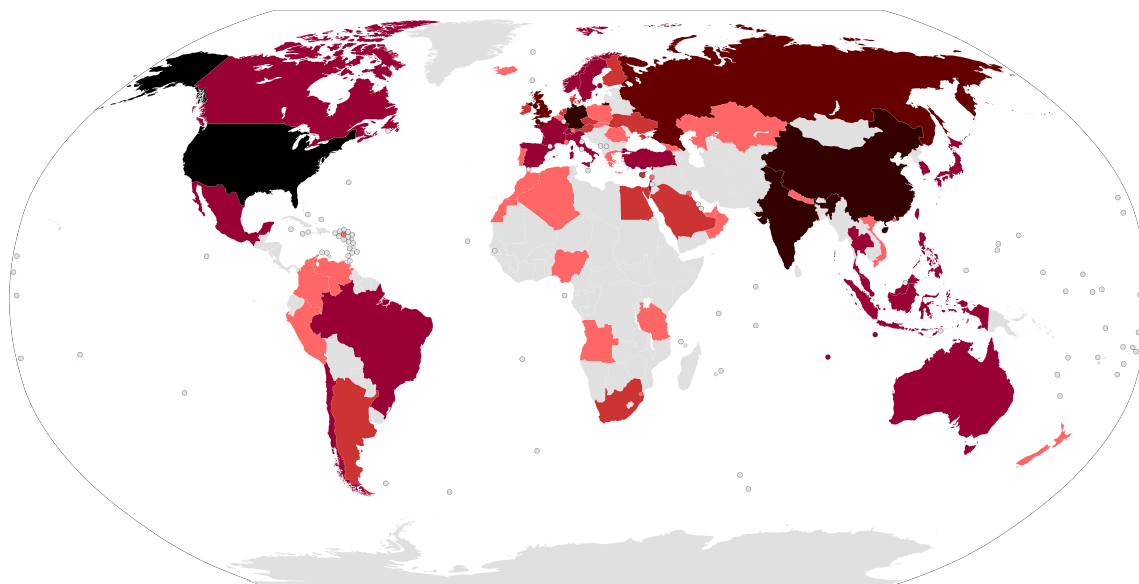
Source: Forbes

is a split between the ruling elites and the landed elites. This concept is close to my own conceptualization of the political division of the economic elite. I will use this variable to account for the political cohesiveness of the economic elite in Latin America.

7.3.4   Controls

To account for the existing explanations of economic inequality summarized above and to avoid potential sources of omitted variable bias, I estimate the models with a series of controls. First, I use Polity's democracy score to account for regime type. This variable is categorical, ranging from 1 to 11, with a mean of 5.57. Figure 7.10 shows the distribution.
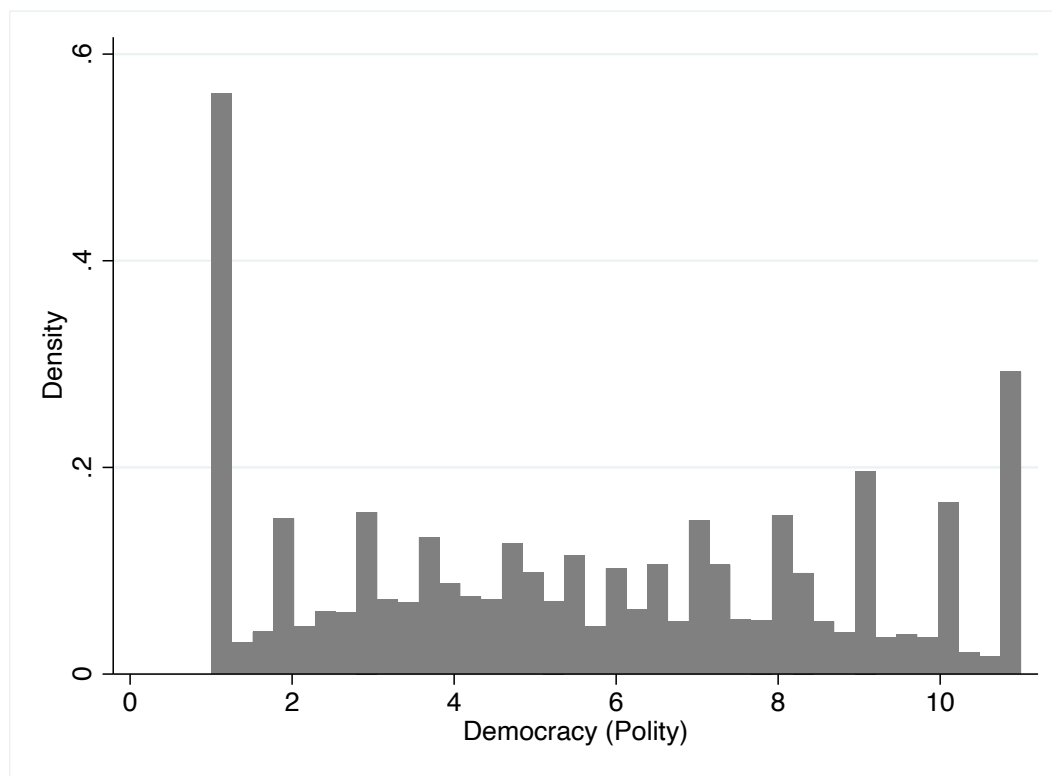
Figure 7.10: *Distribution of Democracy scores*

I use the logarithm of GDP per capita using Maddison's estimates (Bolt and van Zanden, 2018) to account for the level of economic growth and the size of the economy. This is important because this variable is strongly correlated with both state capacity and economic inequality and excluding it will result in omitted variable bias. In addition to GDP per capita, I use the logarithm of Child Mortality rates as an additional indicator of economic development. This variable comes closer to measuring economic welfare and poverty levels (see Figure 7.12 as discussed by (Sen, 2001)).
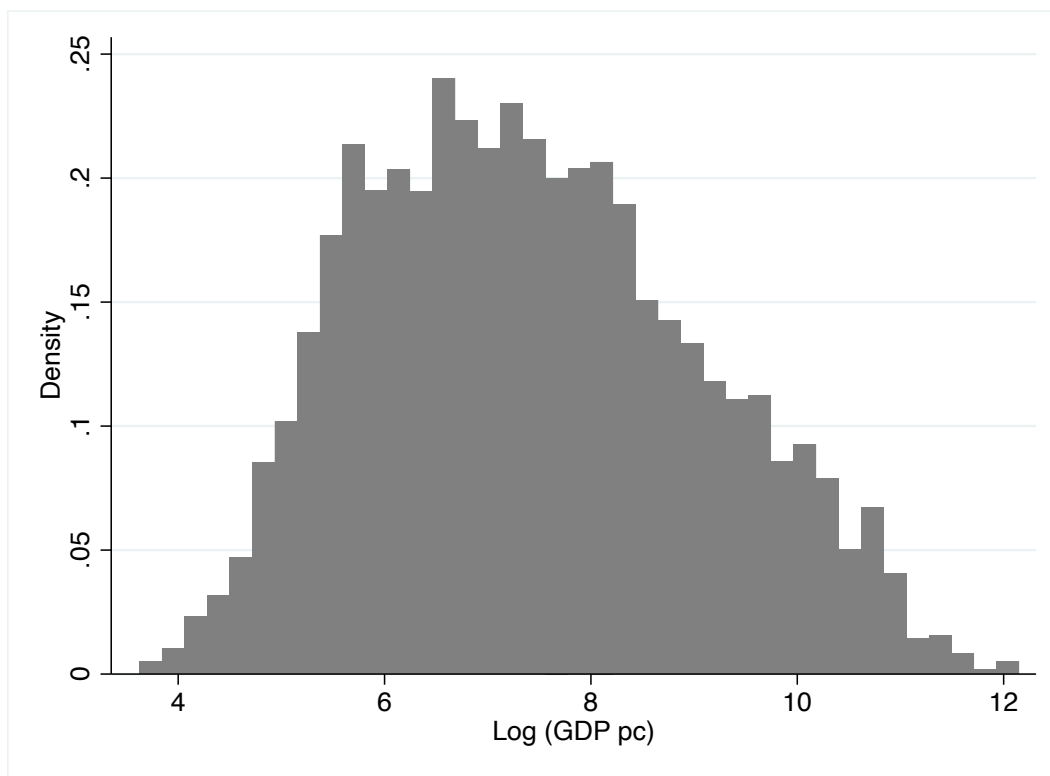
Figure 7.11: *Distribution of log GDP pc*
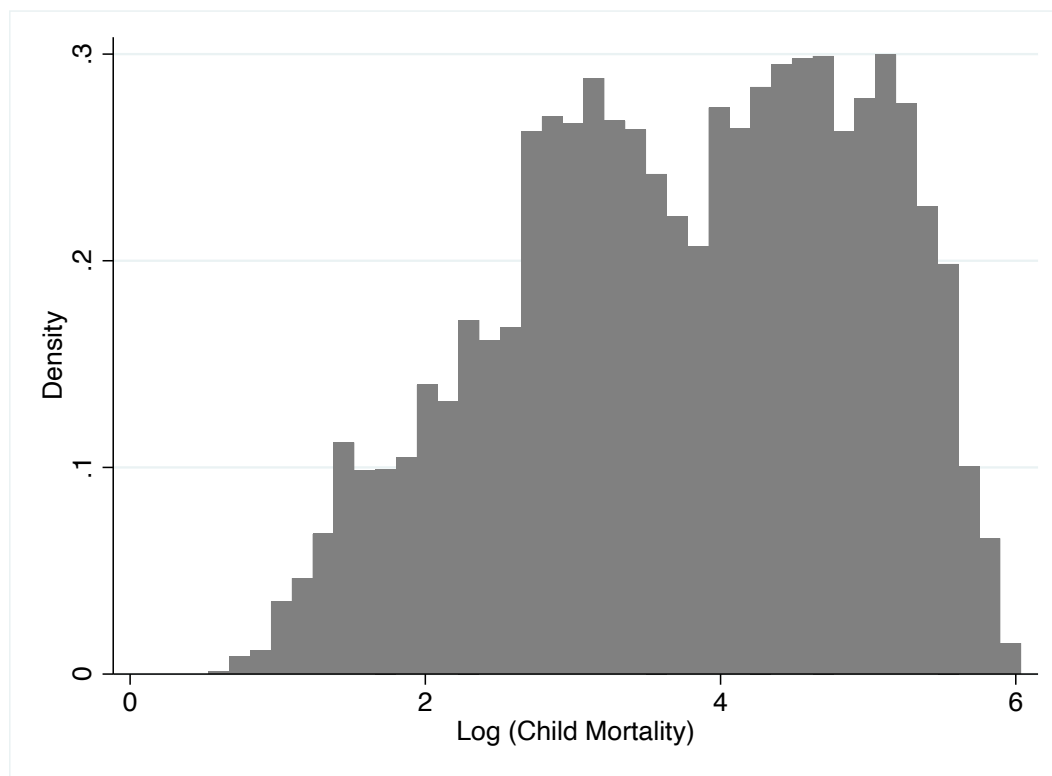
Figure 7.12: *Distribution of log GDP pc*

I use the GDP percentage based on agricultural activities as well as the share dedicated to mining and industrial activities. Together, these variables allow accounting for the importance of primary goods and the industrialization of the economies since they have an important role in economic inequality theories.

Figure 7.13: *Descriptive Statistics*

	Concept	Operationalization	Name in Dataset	Obs	Mean	Std. Dev	Min	Max
DV:								
	Economic Inequality	Gini Coefficient	Gini_means	9,923	42.30	8.77	-0.23	96.70
	Economic Inequality	Income Share Richest 10%	D10_means	9,923	33.88	6.97	4.10	75.51
	Economic Inequality Traps	Change Inequality Level	change_type_ine	9,729	-0.01	0.64	-2.00	2.00
IV:	State Capacity - Overall	Capacity Index Hanson and Sigman (2019)	Capacity	9,923	0.10	0.96	-3.43	2.94
	Strenght of the Economic Elite	Veto Power Billionaires	veto_power	9,923	0.17	0.38	0.00	1.00
		Dummy Billionaires	billonaire_dummy	9,923	0.36	0.48	0.00	1.00
Controls	Size Population	Population Size	log_population	9,923	15.33	2.04	8.94	21.00
	Size of Economy	GDP_pc	GDP_pc	9,923	6301.77	13647.85	37.49	189170.90
	Agriculture	Agriculture, value added (% of GDP)	agric	9,923	17.39	13.95	-19.66	89.41
	Mining	Mining, value added (% of GDP)	mining	9,923	0.94	3.13	-6.01	46.62
	Indsutry	Industry, value added (% of GDP)	industry	9,923	27.06	11.41	-14.59	87.80
	Poverty	Child Mortality rate, under-5 (per 1,000 live	log_mortality_child	9,923	3.75	1.19	0.53	6.04
	Democracy	Democ Index	democ	9,923	5.57	3.21	1.00	11.00

7.4   Analysis

The analysis is structured around four hypotheses. For each hypothesis, I use Ordinary Least Squares as well as fixed and time effects. Every analysis is done for the full sample of countries and then for a restricted sample that only includes countries in Latin America and the Caribbean. Before estimating the models, I conducted multiple imputations to handle missing values. I decided to use the Amelia II package in R since it allows one to account for the panel structure of the data and incorporate time trends as well as country effects. See the appendix of this chapter for a few examples on the resulting imputed variables.

7.4.1 State Capacity and Economic Inequality (Hypothesis 1)

To test Hypothesis 1, I estimate the following equation.

$$Inequality_{i,t} = \beta_0 + \beta_1 * StateCapacity_{i,t} + \beta_m Controls_{i,j} + \epsilon$$

Table 7.1 presents the estimated coefficients using as measures of economic inequality both the Income Share of the Richest 10% (D10) and the Gini Coefficient. For each inequality variable, Model 1 is a simple bi-variate regression between the variable that measures state capacity and the inequality indicator. Model 2 adds a time trend to account for time trends and potential temporal co-variance. Model 3 adds controls, and Models 4 adds country fixed effects. The four models present a robust negative relationship between state capacity and economic inequality. That is, higher levels of state capacity are associated with lower levels of economic inequality. The variables are standardized, meaning that each coefficient can be interpreted as the average change of y (in standard deviations) resulting from an increase in State Capacity of one standard deviation.

I estimated the same models but using a subset of the data that contains countries in Latin America and the Caribbean. Even though the coefficients' sign suggests a similar pattern for Latin America than for the full sample, the estimated effect of State Capacity on economic inequality is not statistically different from 0 in any of the models presented in Table 7.2. The smaller sample used for this models explains the larger standard errors.

$$Inequality_{i,t} = \beta_0 + \beta_1 * StateCapacity{i,t} + \beta_m Controls_{i,j} + \epsilon | Latin America and Caribbean$$

Table 7.1: *Inequality and State Capacity*

Variables	Income Share Highest 10 %				Gini Coefficient			
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
State Capacity	-0.274***	-0.128***	-0.152***	-0.076*	-0.225***	-0.157***	-0.216***	-0.112**
	(0.034)	(0.039)	(0.032)	(0.043)	(0.036)	(0.040)	(0.035)	(0.045)
Democracy (Polity)			0.061***				0.070***	
			(0.007)				(0.007)	
Gdp_pc			0.000***				0.000***	
			(0.000)				(0.000)	
Log (Population)			-0.066***				-0.067***	
			(0.014)				(0.015)	
Log (Child Mortality)			0.681***				0.622***	
			(0.050)				(0.052)	
% Agriculture			-0.031***				-0.032***	
			(0.003)				(0.003)	
% Mining			0.005				0.004	
			(0.005)				(0.005)	
% Industry			0.000				0.004*	
			(0.002)				(0.002)	
Observations	9,923	9,923	9,923	9,923	9,923	9,923	9,923	9,923
R-squared				0.087				0.043
Number of isocode_n	194	194	194	194	194	194	194	194
r2_w	0.0378	0.0865	0.195	0.0874	0.0235	0.0428	0.161	0.0433
r2_b	0.406	0.375	0.765	0.290	0.364	0.363	0.723	0.354
r2_o	0.242	0.170	0.501	0.120	0.205	0.174	0.457	0.144
Time Effects	No	Yes	Yes	Yes	No	Yes	Yes	Yes
Controls	No	No	Yes	No	No	No	Yes	No
Fixed Effects	No	No	No	Yes	No	No	No	Yes

Robust and Clustered standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 7.2: *Inequality and State Capacity in Latin America*

VARIABLES	Income Share Highest 10 %				Gini Coefficient			
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
State Capacity	-0.078	0.017	0.014	0.035	0.047	-0.024	-0.058	-0.008
	(0.062)	(0.104)	(0.071)	(0.107)	(0.056)	(0.113)	(0.082)	(0.120)
Democracy (Polity)			0.035**				0.044***	
			(0.014)				(0.015)	
$Gdp_p c$			0.000				0.000	
			(0.000)				(0.000)	
Log (Population)			0.026				0.019	
			(0.054)				(0.051)	
Log (Child Mortality)			0.552***				0.526***	
			(0.210)				(0.191)	
% Agriculture			-0.023**				-0.028***	
			(0.009)				(0.009)	
% Mining			0.021***				0.017***	
			(0.007)				(0.006)	
% Industry			-0.000				0.001	
			(0.004)				(0.005)	
Observations	1,530	1,530	1,530	1,530	1,530	1,530	1,530	1,530
R-squared				0.127				0.149
Number of isocode_n	27	27	27	27	27	27	27	27
r2_w	0.00342	0.127	0.189	0.127	0.00191	0.149	0.225	0.149
r2_b	0.0765	0.0119	0.448	0.00295	0.0611	0.00713	0.427	2.51e-07
r2_o	0.0211	0.0806	0.283	0.0774	0.00441	0.103	0.290	0.101
Time Effects	No	Yes	Yes	Yes	No	Yes	Yes	Yes
Controls	No	No	Yes	No	No	No	Yes	No
Fixed Effects	No	No	No	Yes	No	No	No	Yes

Robust and Clustered standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

7.4.2 Change in State Capacity and Economic inequality Traps (Hypothesis 2)

To test hypothesis 2, I estimated variations of the following model:

$$\Delta Inequality_{i,t} = \beta_0 + \beta_1 * \Delta StateCapacity{i,t} + \beta_m Controls_{i,j} + \epsilon$$

Where $\Delta Inequality_{i,t}$ measures changes to the level of economic inequality, and $\Delta StateCapacity$ measures changes to the indicator of State Capacity. The structure of the models is the same as the previous set of models. However, the interpretation is slightly different because here we have the first differences of the dependent variable and of the main independent variable. The four models in Table 7.3 present a robust negative relationship between changes to state capacity and changes to the type of economic inequality. That is, positive changes to the level of state capacity are associated with negative changes in the level of economic inequality.

Furthermore, the magnitude of the coefficient seems to be relatively constant across specifications. I repeated this exercise for countries in Latin America and the Caribbean. Similar to what happened with H1, the coefficients are in the same direction, but the effects are not statistically different from 0 (see Table 7.4).

Table 7.3: *Inequality and State Capacity*

VARIABLES	Δ Inequality Level			
	(1)	(2)	(3)	(4)
(1)	(2)	(3)	(4)	
Δ Capacity	-0.185***	-0.135***	-0.151***	-0.132***
	(0.032)	(0.033)	(0.032)	(0.034)
Democracy (Polity)			0.022***	
			(0.006)	
GDP$_p c$			0.000**	
			(0.000)	
Log (Population)			0.005	
			(0.004)	
Log (Child Mortality)			0.176***	
			(0.023)	
% Agriculture			-0.012***	
			(0.002)	
% Mining			0.003	
			(0.004)	
% Industry			-0.001	
			(0.001)	
Observations	9,733	9,733	9,733	9,733
R-squared				0.032
Number of isocode_n	194	194	194	194
Time Effects	No	Yes	Yes	Yes
Controls	No	No	Yes	No
Fixed Effects	No	No	No	Yes

Robust and Clustered standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 7.4: *Inequality and State Capacity in Latin America*

VARIABLES	Δ Inequality Level			
	(1)	(2)	(3)	(4)
(1)	(2)	(3)	(4)	
Δ Capacity	-0.058	-0.004	-0.012	-0.005
	(0.088)	(0.090)	(0.088)	(0.091)
Democracy			0.009	
			(0.012)	
GDP_pc			-0.000	
			(0.000)	
Log Population			-0.015	
			(0.017)	
Log (Child Mortality)			0.175*	
			(0.094)	
% Agriculture			-0.016*	
			(0.009)	
% Mining			0.017**	
			(0.008)	
% Industry			-0.003	
			(0.005)	
Observations	1,503	1,503	1,503	1,503
R-squared				0.076
Number of isocode_n	27	27	27	27
Time Effects	No	Yes	Yes	Yes
Controls	No	No	Yes	No
Fixed Effects	No	No	No	Yes

Robust and Clustered standard errors in parentheses
*** $p<0.01$, ** $p<0.05$, * $p<0.1$

7.4.3   Conditional Effect of State Capacity by Elite Strength on Economic Inequality (Hypothesis 3)

I hypothesize that the effect of state capacity on economic inequality is not constant. Instead, it is conditional on the strength of the economic elite and their capacity to influence state policies. To test these hypotheses, I estimate variations of the following model:

$$\Delta Inequality_{i,t} = \beta_0 + \beta_1 StateCapacityi, t + \beta_2 StateCapacityi, t * EliteStrength_i$$

$$+\beta_3 * EliteStrength_i \beta_m Controls_{i,j} + \epsilon$$

As I explained earlier, I use two variables through which I attempt to capture the strength of the economic elite. The first one is a dummy variable that takes the value of 1 for countries where there are at least one billionaire and 0 otherwise. For the second approach, I created two categories based on the total net worth of billionaires as a percentage of the GDP. I use the median of this value (0.083) to classify countries into high and low according to the relative power of billionaires and refer to this variable as the veto power of billionaires. Even though this classification is arbitrary, I am attempting to capture a more nuanced variation of billionaires and their strength in comparison to the dummy variable.

Similar to the analysis presented for H1 and H2, here too, I repeat the analysis by restricting the data for countries in Latin America and the Caribbean.

Presence of Billionaires

Table 7.5 presents the estimated coefficients of the model presented in Equation 7.4.3 in which elite strength is operationalized with the presence of billionaires. As expected, the results suggest that the effect of state capacity on economic inequality varies depending on billionaires' presence. Unlike what we saw when testing H1, the negative effect of state capacity is no longer clear. These findings support the main argument of the dissertation: state capacity is only one of the relevant forces shaping economic inequality in the long-run. The strength of the economic elite is another

important force to consider when thinking about redistribution politics. These results are similar, regardless of the indicator used to measure economic inequality. Table 7.6 summarizes the estimated coefficients for the sample including only Latin America and the Caribbean. These models do not show a significant relationship between economic inequality and state capacity.

Table 7.5: *Estimating the Differential Effect of State Capacity by Presence of Billionaires on Economic Inequality*

VARIABLES	Income Share Richest 10 %				Gini Coefficient			
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
Capacity | No Bill	-0.194***	-0.058	-0.147***	-0.025	-0.155***	-0.087	-0.205***	-0.060
	(0.048)	(0.052)	(0.037)	(0.054)	(0.052)	(0.056)	(0.041)	(0.059)
Capacity | Bill	-0.157**	-0.123*	0.006	-0.122*	-0.134**	-0.129*	-0.005	-0.124*
	(0.064)	(0.068)	(0.049)	(0.071)	(0.067)	(0.070)	(0.049)	(0.074)
Billionaires = 1	-0.313***	-0.505***	-0.291***		-0.372***	-0.457***	-0.336***	
	(0.099)	(0.108)	(0.086)		(0.101)	(0.107)	(0.092)	
Democracy (Polity)			0.062***				0.071***	
			(0.006)				(0.007)	
Gdp pc			0.000***				0.000***	
			(0.000)				(0.000)	
Log (population)			-0.039**				-0.036**	
			(0.016)				(0.018)	
Log (Child Mortality)			0.662***				0.598***	
			(0.049)				(0.052)	
% Agriculture			-0.031***				-0.033***	
			(0.003)				(0.003)	
% Mining			0.004				0.003	
			(0.005)				(0.005)	
% Insdustry			0.000				0.004*	
			(0.002)				(0.002)	
Observations	9,923	9,923	9,923	9,923	9,923	9,923	9,923	9,923
Number of isocode_n	194	194	194	194	194	194	194	194
r2_w	0.0416	0.0891	0.197	0.0895	0.0260	0.0452	0.163	0.0455
r2_b	0.362	0.279	0.735	0.324	0.326	0.289	0.692	0.371
r2_o	0.238	0.209	0.492	0.140	0.205	0.193	0.449	0.165
Time Effects	No	Yes	Yes	Yes	No	Yes	Yes	Yes
Controls	No	No	Yes	No	No	No	Yes	No
Fixed Effects	No	No	No	Yes	No	No	No	Yes

Clustered and Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 7.6: *Estimating the Differential Effect of State Capacity by by Presence of Billionaires on Economic Inequality in Latin America*

VARIABLES	Income Share Richest 10 %				Gini Coefficient			
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
Capacity | No Bill	-0.082	-0.003	-0.046	0.047	0.071	-0.019	-0.097	0.034
	(0.063)	(0.118)	(0.080)	(0.124)	(0.069)	(0.125)	(0.093)	(0.135)
Capacity | Bill	-0.000	-0.001	0.170	-0.031	-0.083	-0.077	0.111	-0.111
	(0.144)	(0.133)	(0.119)	(0.134)	(0.112)	(0.109)	(0.101)	(0.114)
Billionaires = 1	0.364*	0.344	0.177		0.315*	0.343*	0.136	
	(0.215)	(0.228)	(0.358)		(0.176)	(0.187)	(0.365)	
Democracy (Polity)			0.036***				0.045***	
			(0.014)				(0.015)	
Gdp pc			0.000				0.000	
			(0.000)				(0.000)	
Log (Population)			-0.007				-0.006	
			(0.080)				(0.087)	
Log (Child Mortality)			0.587***				0.549***	
			(0.192)				(0.185)	
% Agriculture			-0.026***				-0.030***	
			(0.009)				(0.009)	
% Mining			0.017***				0.014**	
			(0.006)				(0.006)	
% Industry			-0.001				0.001	
			(0.004)				(0.004)	
Observations	1,530	1,530	1,530	1,530	1,530	1,530	1,530	1,530
R-squared				0.127				0.151
Number of isocode_n	27	27	27	27	27	27	27	27
r2_w	0.00342	0.126	0.192	0.127	0.00350	0.151	0.227	0.151
r2_b	0.162	0.121	0.469	0.0255	0.0639	0.120	0.444	0.0631
r2_o	0.0674	0.128	0.295	0.0738	0.0247	0.144	0.297	0.0908
Time Effects	No	Yes	Yes	Yes	No	Yes	Yes	Yes
Controls	No	No	Yes	No	No	No	Yes	No
Fixed Effects	No	No	No	Yes	No	No	No	Yes

Clustered and Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Veto Power of Billionaires

As expected, the results presented in Table 7.7 suggest that the effect of state capacity on economic inequality varies depending on the power of billionaires. In countries, where billionaires hold a larger share of the GDP (see coefficients: Capac-

ity | Veto Power =1), the effect of state capacity on inequality is not significantly different from zero. In contrast, in countries where billionaires do not hold such disproportionate power (see coefficients: Capacity | Veto Power =0), state capacity is negatively associated with economic inequality. This result holds for both inequality indicators. These findings further support the main argument of the dissertation on considering the redistributive capacity of the state as separate from absolute state capacity.

I estimated the same models for countries in Latin America and the Caribbean. Table 7.8 presents these estimations. It is important to note that for the Income Share of the Richest 10%, some positive results suggest that in Latin America, the effect of state capacity on inequality is conditional on the power of economic elites measured with a proxy of their veto power.

Table 7.7: *Estimating the Differential Effect of State Capacity by Veto Power of Billionaires on Economic Inequality*

VARIABLES	Income Share Richest 10 %				Gini Coefficient			
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
Capacity | Veto Power=0	-0.241***	-0.098**	-0.153***	-0.055	-0.191***	-0.122***	-0.212***	-0.085*
	(0.037)	(0.040)	(0.033)	(0.043)	(0.040)	(0.043)	(0.037)	(0.047)
Capacity | Veto Power=1	-0.124	-0.092	0.018	-0.099	-0.128*	-0.121	-0.005	-0.125
	(0.076)	(0.083)	(0.067)	(0.090)	(0.073)	(0.077)	(0.060)	(0.084)
Veto Power	-0.251**	-0.437***	-0.163*		-0.280**	-0.362***	-0.175*	
	(0.112)	(0.126)	(0.092)		(0.113)	(0.122)	(0.098)	
Democracy			0.061***				0.070***	
			(0.006)				(0.007)	
Gdp pc			0.000***				0.000***	
			(0.000)				(0.000)	
Log (Population)			-0.059***				-0.059***	
			(0.015)				(0.016)	
Log (Child Mortality)			0.678***				0.615***	
			(0.049)				(0.052)	
% Agriculture			-0.031***				-0.032***	
			(0.003)				(0.003)	
% Mining			0.005				0.004	
			(0.005)				(0.005)	
% Industry			0.000				0.003	
			(0.002)				(0.002)	
Observations	9,923	9,923	9,923	9,923	9,923	9,923	9,923	9,923
R-squared				0.088				0.045
Number of isocode_n	194	194	194	194	194	194	194	194
r2_w	0.0395	0.0878	0.196	0.0884	0.0252	0.0445	0.162	0.0449
r2_b	0.360	0.241	0.749	0.295	0.309	0.255	0.705	0.339
r2_o	0.228	0.173	0.495	0.131	0.187	0.162	0.450	0.155
Time Effects	No	Yes	Yes	Yes	No	Yes	Yes	Yes
Controls	No	No	Yes	No	No	No	Yes	No
Fixed Effects	No	No	No	Yes	No	No	No	Yes

Clustered and Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 7.8: *Estimating the Differential Effect of State Capacity by Veto Power of Billionaires on Economic Inequality in Latin America*

VARIABLES	Income Share Richest 10 %				Gini Coefficient			
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
Capacity | Veto Power=0	-0.130**	-0.048	-0.059	0.004	0.036	-0.039	-0.094	0.006
	(0.064)	(0.110)	(0.077)	(0.117)	(0.065)	(0.119)	(0.088)	(0.126)
Capacity | Veto Power=1	0.215*	0.155	0.355***	0.127	0.023	-0.029	0.170	-0.056
	(0.118)	(0.111)	(0.128)	(0.116)	(0.121)	(0.123)	(0.124)	(0.130)
Veto Power	0.702***	0.687***	0.534**		0.533***	0.578***	0.378	
	(0.125)	(0.138)	(0.271)		(0.140)	(0.158)	(0.279)	
Democracy (Polity)			0.034***				0.044***	
			(0.013)				(0.015)	
Gdp pc			0.000				0.000	
			(0.000)				(0.000)	
Log (Population)			-0.026				-0.014	
			(0.061)				(0.063)	
Log (Child Mortality)			0.612***				0.557***	
			(0.175)				(0.177)	
%Agriculture			-0.027***				-0.030***	
			(0.009)				(0.009)	
% Mining			0.012				0.012	
			(0.008)				(0.008)	
% Industry			-0.000				0.001	
			(0.004)				(0.004)	
Observations	1,530	1,530	1,530	1,530	1,530	1,530	1,530	1,530
Number of isocode_n	27	27	27	27	27	27	27	27
r2_w	0.00781	0.128	0.200	0.129	0.00184	0.149	0.227	0.150
r2_b	0.328	0.284	0.587	0.162	0.144	0.195	0.509	0.0277
r2_o	0.128	0.186	0.344	0.0929	0.0484	0.165	0.319	0.0959
Time Effects	No	Yes	Yes	Yes	No	Yes	Yes	Yes
Controls	No	No	Yes	No	No	No	Yes	No
Fixed Effects	No	No	No	Yes	No	No	No	Yes

Clustered and Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Elite Splits and Inequality in Latin America (H3)

As I explained in the previous section, for Latin American countries, I use a variable coded by Albertus (2015) that measures elite splits. This concept captures splits between ruling elites and landed elites in Latin America. The models summarized in

7.9 do not show a clear relationship between state capacity and economic inequality. They do, however, show a statistically significant relationship between elite splits and economic inequality. In particular, elite splits are associated with an average reduction of both the Gini Coefficient and the Income Share of the richest 10%.

Table 7.9: *Estimating the Differential Effect of State Capacity by Elite Splits on Economic Inequality in Latin America*

VARIABLES	Income Share Richest 10 %				Gini Coefficient			
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
Capacity | Elite split=0	-0.050	-0.105	-0.116	-0.092	0.153	-0.126	-0.151	-0.149
	(0.115)	(0.165)	(0.156)	(0.191)	(0.119)	(0.167)	(0.167)	(0.190)
Capacity | Elite split=1	0.159	0.187*	0.191	0.210*	0.008	0.069	0.084	0.121
	(0.125)	(0.104)	(0.120)	(0.117)	(0.130)	(0.129)	(0.128)	(0.151)
Elite Split	-0.183**	-0.055	-0.037		-0.302***	-0.134	-0.116	
	(0.086)	(0.080)	(0.078)		(0.070)	(0.091)	(0.086)	
Democracy (Polity)			0.022				0.028	
			(0.016)				(0.017)	
Gdp pc			-0.000				-0.000	
			(0.000)				(0.000)	
Log (population)			0.075				0.023	
			(0.090)				(0.081)	
Log (Child Mortality)			0.420				0.521*	
			(0.342)				(0.279)	
% Agriculture			-0.014				-0.021***	
			(0.009)				(0.007)	
% Mining			0.029**				0.029***	
			(0.014)				(0.011)	
% Industry			-0.006				-0.003	
			(0.007)				(0.007)	
Observations	866	866	866	866	866	866	866	866
R-squared				0.172				0.243
Number of isocode_n	17	17	17	17	17	17	17	17
r2_w	0.0279	0.173	0.189	0.172	0.0599	0.250	0.288	0.243
r2_b	0.000543	0.0130	0.619	0.00262	0.00540	0.0249	0.566	0.0219
r2_o	0.00821	0.0967	0.351	0.0923	0.0156	0.157	0.385	0.151
Time Effects	No	Yes	Yes	Yes	No	Yes	Yes	Yes
Controls	No	No	Yes	No	No	No	Yes	No
Fixed Effects	No	No	No	Yes	No	No	No	Yes

Clustered and Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

7.4.4 Conditional Effect of Changes of State Capacity by Elite Strength on Economic Inequality Changes (Hypothesis 4)

In this section, I present the findings when testing hypothesis 4. Whether changes on inequality respond to changes in state capacity and whether this effect is conditional on the strength of the economic elite. Like what I did for hypothesis 3, I use the presence of billionaires and a measure of their relative power (which I label veto power) as proxies for the strength of the economic elite. I repeat the analysis for countries in Latin America.

$$\Delta Inequality_{i,t} = \beta_0 + \beta_1 * \Delta StateCapacity_{i,t} + \beta_1 * \Delta StateCapacity_{i,t} * EliteStrenght_i$$

$$+\beta_m Controls_{i,j} + \epsilon$$

Where $\Delta Inequality_{i,t}$ measures changes to the level of economic inequality, and Δ State Capacity measures changes to the indicator of State Capacity. The structure of the models remains the same. However, the interpretation is slightly different because, again, here we have the first differences in the dependent variable and the main independent variable. The four models in Table 7.3 present a robust negative relationship between changes to state capacity and changes to the type of economic inequality.

Presence of Billionaires

In Table 7.10, I show the effect of state capacity changes on economic inequality changes conditional on the presence of Billionaires. In all four models, changes to state capacity are associated with changes towards lower levels of economic inequality only for countries in which there are no billionaires. In contrast, changes in state capacity are not associated with changes to economic inequality in countries with billionaires. The coefficients are not significantly different from 0 in the case of Latin America.

Table 7.10: *Estimating the Differential Effect of State Capacity by Presence Billionaires on Economic Inequality (Δ Type*)*

VARIABLES	(1)	(2)	(3)	(4)
	Δ Inequality Level			
Δ Capacity | Billionaires	-0.007	0.003	0.013	0.004
	(0.057)	(0.059)	(0.056)	(0.059)
Δ Capacity | No Billionaires	-0.183***	-0.127***	-0.145***	-0.122***
	(0.044)	(0.045)	(0.042)	(0.045)
Billionaires = 1	0.001	-0.012**	-0.062**	
	(0.003)	(0.005)	(0.025)	
Democracy (Polity)			0.026***	
			(0.006)	
Gdp pc			0.000***	
			(0.000)	
Log (Population)			0.009*	
			(0.005)	
Log (Child Mortality)			0.157***	
			(0.023)	
/% Agriculture			-0.010***	
			(0.002)	
/% Mining			0.003	
			(0.004)	
/% Industry			-0.001	
			(0.001)	
Observations	9,733	9,733	9,733	9,733
R-squared				0.036
Number of isocode_n	194	194	194	194
r2_w	0.0171	0.0362	0.0603	0.0363
r2_b	0.0367	0.0228	0.0118	0.0219
r2_o	0.0171	0.0356	0.0492	0.0355
Time Effects	No	Yes	Yes	Yes
Controls	No	No	Yes	No
Fixed Effects	No	No	No	Yes

Clustered and Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 7.11: *Estimating the Differential Effect of State Capacity by Presence Billionaires on Economic Inequality in Latin America (Δ Type*)*

VARIABLES	(1)	(2)	(3)	(4)
	\(\Delta\) Inequality Level			
Δ Capacity | Billionaires=1	0.078	0.050	0.088	0.051
	(0.182)	(0.186)	(0.187)	(0.186)
ΔCapacity | Billionaires=0	-0.042	0.028	-0.004	0.027
	(0.081)	(0.093)	(0.089)	(0.093)
Billionaires = 1	-0.003	-0.000	-0.128	
	(0.009)	(0.008)	(0.129)	
Democracy (Polity)			0.032**	
			(0.015)	
Gdp pc			-0.000	
			(0.000)	
Log (Population)			0.007	
			(0.027)	
Log (Child Mortality)			0.124	
			(0.083)	
/% Agriculture			-0.012	
			(0.008)	
/% Mining			0.012	
			(0.008)	
/% Industry			0.001	
			(0.005)	
Observations	1,503	1,503	1,503	1,503
R-squared				0.080
Number of isocode_n	27	27	27	27
r2_w	0.000561	0.0799	0.0968	0.0799
r2_b	0.00659	0.377	0.000529	0.372
r2_o	0.000551	0.0800	0.0911	0.0800
Time Effects	No	Yes	Yes	Yes
Controls	No	No	Yes	No
Fixed Effects	No	No	No	Yes

Clustered and Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Veto Power of Billionaires

In Table 7.12, I show the effect of state capacity changes on economic inequality changes conditional on the veto power of billionaires. In all four models, changes to state capacity are associated with changes towards lower levels of economic inequality

only for countries in which billionaires have high relative power. More interestingly, for Latin America, changes in state capacity are associated with increases in economic inequality in countries where billionaires have high relative power.

Table 7.12: *Estimating the Differential Effect of State Capacity by Veto Power of Billionaires on Economic Inequality (ΔType)*

VARIABLES	(1)	(2)	(3)	(4)
	Δ Inequality Level			
Δ Capacity | Veto power=1	0.043	0.050	0.061	0.051
	(0.065)	(0.069)	(0.065)	(0.069)
Δ Capacity | Veto power=0	-0.196***	-0.136***	-0.152***	-0.132***
	(0.034)	(0.035)	(0.033)	(0.035)
Veto Power	0.000	-0.006	-0.033	
	(0.003)	(0.006)	(0.022)	
Democracy (Polity)			0.025***	
			(0.006)	
Gdp pc			0.000***	
			(0.000)	
Log (Population)			0.004	
			(0.004)	
Log (Child Mortality)			0.161***	
			(0.024)	
/% Agriculture			-0.010***	
			(0.002)	
/% Mining			0.003	
			(0.004)	
/% Industry			-0.002	
			(0.001)	
Observations	9,733	9,733	9,733	9,733
R-squared				0.037
Number of isocode_n	194	194	194	194
r2_w	0.0173	0.0365	0.0601	0.0365
r2_b	0.0337	0.0218	0.0123	0.0205
r2_o	0.0173	0.0358	0.0491	0.0357
Time Effects	No	Yes	Yes	Yes
Controls	No	No	Yes	No
Fixed Effects	No	No	No	Yes

Clustered and Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 7.13: *Estimating the Differential Effect of State Capacity by Veto Power of Billionaires on Economic Inequality in Latin America($\Delta Type$)*

VARIABLES	(1)	(2)	(3)	(4)
		Δ Inequality Level		
Δ Capacity | Veto power=1	0.376***	0.355***	0.396***	0.356**
	(0.134)	(0.135)	(0.146)	(0.136)
Δ Capacity | Veto power=0	-0.088	-0.024	-0.047	-0.024
	(0.079)	(0.088)	(0.086)	(0.088)
Veto Power	0.010	0.012*	-0.049	
	(0.008)	(0.007)	(0.091)	
Democracy (Polity)			0.028*	
			(0.015)	
Gdp pc			-0.000	
			(0.000)	
Log (Population)			-0.011	
			(0.020)	
Log (Child Mortality)			0.147*	
			(0.080)	
/% Agriculture			-0.013*	
			(0.007)	
/% Mining			0.009	
			(0.009)	
/% Industry			-0.000	
			(0.005)	
Observations	1,503	1,503	1,503	1,503
R-squared				0.086
Number of isocode_n	27	27	27	27
r2_w	0.00749	0.0862	0.103	0.0862
r2_b	0.0142	0.327	0.00764	0.293
r2_o	0.00746	0.0863	0.0975	0.0863
Time Effects	No	Yes	Yes	Yes
Controls	No	No	Yes	No
Fixed Effects	No	No	No	Yes

Clustered and Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

7.5   Discussion and Conclusions

The analyses conducted in this chapter provide support for the main implications of the theory presented in this dissertation. That is, the relationship between state capacity and economic inequality is not constant. Instead, it is conditional on the

strength of the economic elite. The robustness of the estimated effects across different model specifications and the different ways I measured the key variables amounts to important evidence for the hypotheses presented in this chapter.

The main finding is that higher levels of state capacity are associated with lower levels of economic inequality. Besides, changes towards higher state capacity are associated with changes in the level of economic inequality towards lower levels of economic inequality. These findings are aligned with hypothesis 1 and suggests that on average, countries which higher levels of state capacity have higher levels of redistributive capacity. However, I find that this effect of state capacity on inequality is not constant. Instead, the effect of state capacity varies with the different variables that capture the strength of the economic elite. When considering the presence of billionaries, as well as the magnitude of their wealth relative to the GDP, the effect of higher state capacity on economic inequality is no longer negative.

These estimated effects cannot be interpreted as causal since the research design implemented in this chapter cannot prevent multiple sources of endogeneity. However, given that this exercise is part of a larger research design that has case-studies at the center of the analysis, it does provide additional evidence on the importance of RSP on economic inequality.

Further research is required to improve some of the key variables' operationalization and perhaps improve the identification strategy behind this analysis. In particular, in future iterations of this chapter, I will improve the operationalization of the economic elite to include information on the ten most wealthy people in each country in Latin America and I will code their estimate net worth as well as the economic sectors in which they operate. In addition, I will code and operationalize redistributive

pressures.

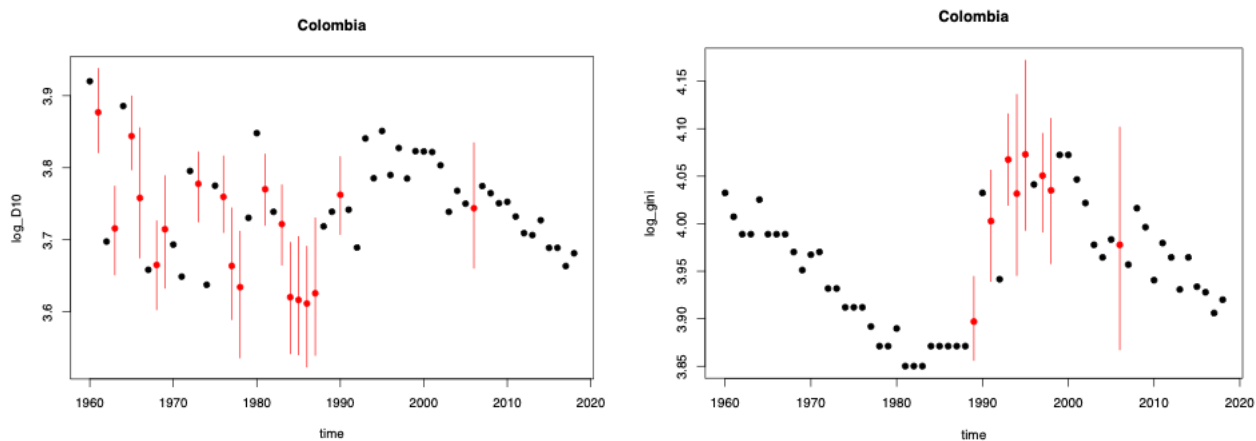# 7.6 Appendix

7.6.1 Density Plots after Imputation

Figure 7.14: *Example of Density Plots after Multiple Imputation*
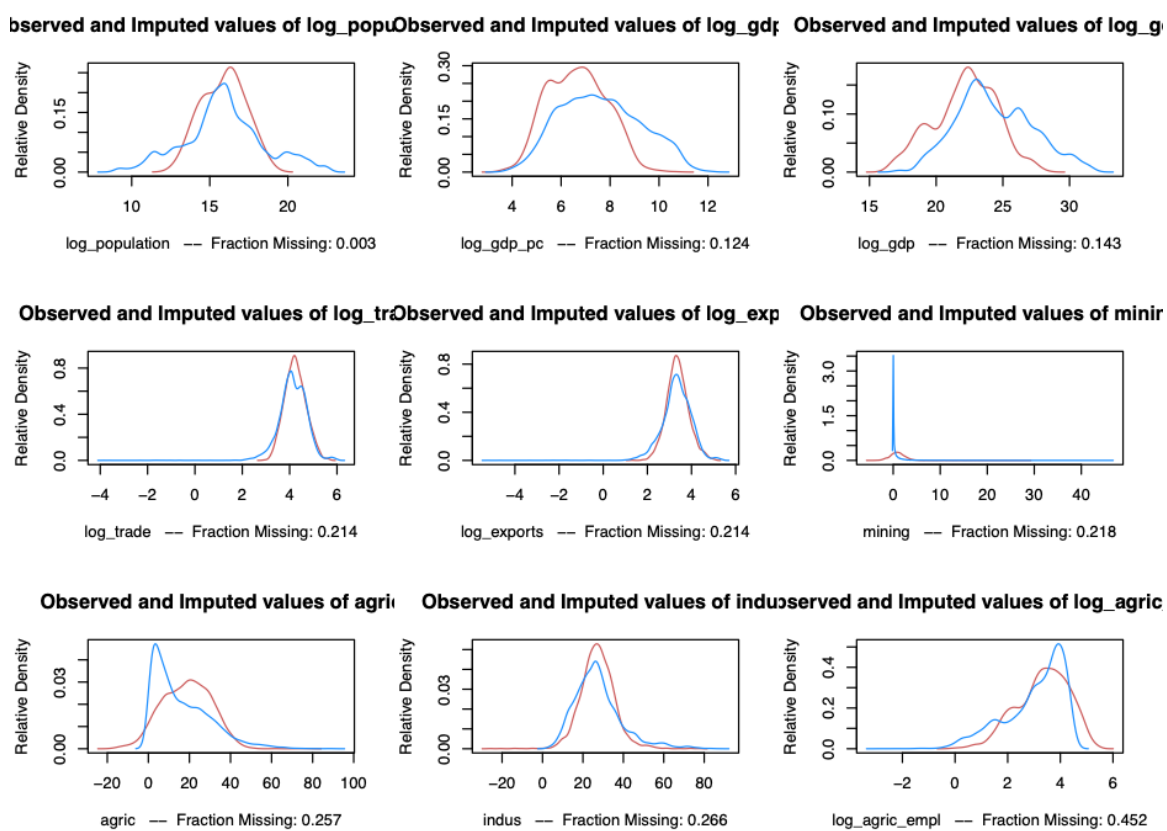
7.6.2 A few examples of variables after Imputations
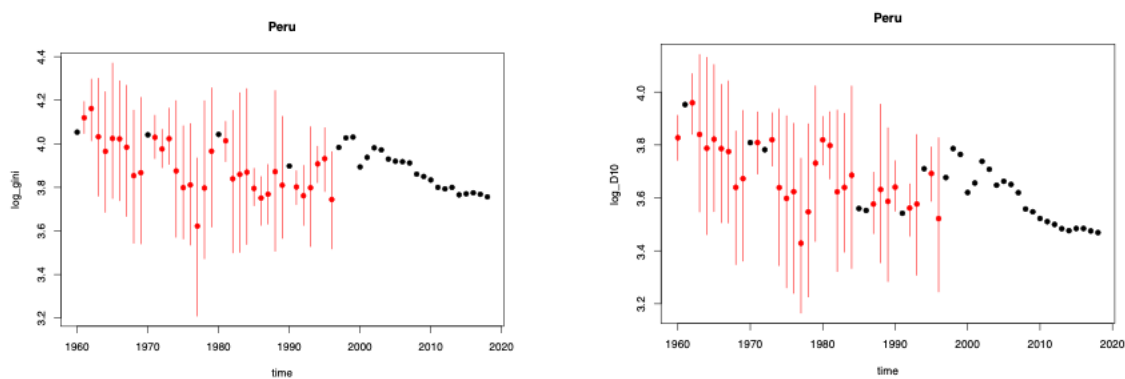
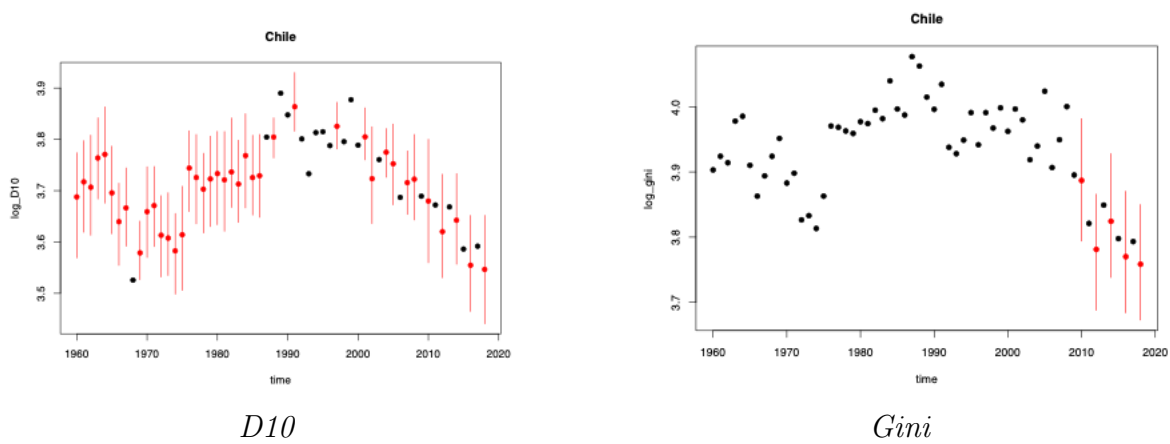**Figure 7.15:** *Examples of Imputed Series*

Colombia

D10

Gini

Perú

Gini

D1O

Figure 7.16: *Examples of Imputed Series*

Chile

D10

Gini

Chapter 8

Conclusion

In this dissertation, I explain the differing levels of economic inequality in Latin America and the inability of some countries to escape economic inequality traps. In my attempt to find such an explanation, I have sought to put people and politics front and center. Putting people at the center means recognizing that, by definition, inequality produces winners and losers, which means that conflict is inherent to inequality. To truly understand the production and reproduction of inequality, we need to recognize its conflictual nature and understand the actors participating. In this concluding chapter, I first summarize the argument and the main contributions of my dissertation. In the second part, I discuss the normative and policy implications of my research.

My project demonstrates the benefits of using a multi-method research design encompassing all of its components. In the initial stages of this project, I developed a framework to measure essentially contested concepts, mainly due to my frustration with existing approaches to measuring economic inequality. In particular, I discov-

ered that the focus on axiomatic and mathematical properties of the measures came to dominate the debate around inequality and replaced interesting normative and conceptual debates about inequality. As a result, I realized that existing inequality measures are designed to think about short-term variations of inequality but are not ideal if the goal is to understand changes in the long-run. Additionally, I also found that the focus on mathematical and axiomatic properties, as opposed to normative and conceptual debates around inequality, has widened the existing gap between academic debates around economic inequality and the people that benefit and suffer from inequality. My measurement framework allowed me to think in a new way about inequality in the long run and conceptualize economic inequality traps. This approach allowed me to select a set of countries for both the theory building and theory testing components of the project.

To build and test the theory, I also integrate tools from different methodological traditions. Selecting a small sample of cases with different economic inequality trajectories allowed me to analyze and contrast the period of state formation. In doing so, I was able to identify an important source of variation in terms of the capacity of states to redistribute. My approach centers on an in-depth analysis of a small sample of to understand the within-regional variation and theorize on the factors perpetuating such high levels and the conditions leading some countries to escape inequality traps. This approach contrasts with much of the literature, aiming to explain high levels of economic inequality in Latin America as a whole that fail to account for country-level characteristics.

The in-depth comparison across institutional reforms in both Colombia and Perú allowed me to get at the mechanisms connecting RSP with long-term trajectories of

economic inequality. This approach contrasts with existing approaches that mostly look at short term variations of inequality. To do so, they rely on statistical analysis to identify the weight of different variables on short-term variations. By shifting the focus from short-run co-variations to long-term variations and inequality traps, my work allows me to study the relationship between economic inequality and politics.

The theory of economic inequality I propose in Chapter 3 can be applied to understand differences in the initial levels of economic inequality in the region and the forces behind stability and change over the long run. I argue that long-term inequality trajectories are the result of the different paths of redistributive state power (RSP). RSP captures the interaction between redistributive pressures, economic elites' strategies to defend their wealth and income sources, and the state's interventions in mediating these two. As such, it shapes *politics of redistribution* and explains patterns of stability and change.

In Chapter 4, I show how RSP was sorted initially in the period of state formation. I argue that in countries where a politically cohesive economic elite was present during state formation, high economic inequality became prevalent. There is an important difference in terms of absolute state capacity among countries with a cohesive economic elite. In countries like Chile, where the economic elite decided to build a strong central state, the interests of the state coincided with those of the economic elite. The result was a type of elite-state relationship I have label *mutualism*. Under mutualism, countries experience high levels of economic inequality, and these trajectories tend to be stable. This is the case because, given the congruence of the interests of the state and the economic elite, redistributive pressures challenge the economic elite's wealth and directly challenge state interests. As such, the state

can use its coercive and bureaucratic apparatus to defend the status-quo distribution from redistributive pressures.

In contrast, in some cases, a cohesive economic elite did not succeed in strengthening the central state. For example, in Colombia, economic elites viewed the central state as an obstacle to preserving their interests. I characterize this equilibrium as *parasitism*. Under this equilibrium, the economic elite is politically cohesive and, as such, can influence state policies. However, because the state has low infrastructural capacity, it's coercive power to repress emerging threats is limited. The weakness of the state under Parasitism makes this equilibrium less stable than the equilibrium described under mutualism. As a result, inequality trajectories are less stable, and under certain conditions, countries can escape inequality traps. The case of Perú, a country that escaped a high inequality trap, confirms that in the presence of elite division, redistributive policies are likely to be put in place as a response to redistributive threats. The result is decreasing levels of economic inequality.

In some countries, the elite was internally divided along economic activities during the period of state formation. In these cases, this period was characterized by intense intra-elite conflicts. Countries like Uruguay, Argentina, and Honduras represent this type. I claim that this equilibrium is unstable, and in turn, most countries moved quickly onto other types of RSP. For example, Uruguay saw the creation of a strong central state, which, combined with a divided economic elite, resulted in persistently low levels of economic inequality. I label the equilibrium characterized by a strong state and a divided economic elite as *commensalism*.

I show how RSP shapes inequality trajectories with a comparison of Perú and Colombia. For the first half of the twentieth century, RSP in both countries was

Parasitism. However, during the late 1960s and early 1970s, Perú was no longer in the same RSP category. I combine comparative historical analysis tools with process tracing to analyze a series of important institutional changes (tax and agrarian legislation) proposed amid intense redistributive pressures. I center on the actors and their interests. In particular, I focus on the responses and strategies used by economic elites to defend their privilege.

In Chapter 5, I show that, amid similar redistributive pressures and proposals for redistributive reforms during the 1920s and 1930s, a politically cohesive economic elite maintained a relative strength vis-à-vis the state in both countries. That is, countries remained under Parasitism. In fact, the economic elites' narratives to legitimize their opposition to institutional reforms were similar in both cases: the reforms threatened economic progress and order, and their approval would mean falling into extreme socialist ideologies. For them, the defense of private property was central to guarantee economic development. Overall, a careful analysis of the redistributive reforms in both countries allows us to see how a cohesive economic elite managed to shape state policy and ultimately protect their interests. Despite these policies' potential to alleviate the deep economic inequality in both countries, the results were disappointing - reforms found enemies in a politically cohesive economic elite, and a weak state.

Chapter 6 analyzes institutional reforms made in both countries during the second period of intense redistributive pressures: the 1960s. This analysis allows me to identify the conditions sustaining an equilibrium characterized by a relatively weak state and a cohesive economic elite (Colombia), and the conditions under which that equilibrium breaks and economic inequality changes in the long run (Perú). I conduct an in-depth study of both cases to identify whether Velasco's regime in Perú

and Frente Nacional in Colombia were critical events for long-term trajectories of economic inequality. I find that redistributive pressures are necessary but insufficient for redistributive changes to occur. In the presence of redistributive pressures, elite divisions are sufficient for the state to initiate redistributive reforms.

By analyzing the processes through which redistribution institutions were transformed to appease redistributive pressures, I can explain variations in long-term economic inequality trajectories in these two countries. In Colombia, the tax system became more regressive, and the agrarian reform failed to deliver actual change to the structure of land property in rural areas. In fact, by some estimates, the concentration of large extensions of lands (latifundia) increased after the reform. In contrast, Velasco's agrarian reform fundamentally changed the structure of land ownership in Perú. Furthermore, income inequality also decreased in the years following the reform.

Scholars have emphasized the authoritarian/corporatist character of Velasco's regime as a fundamental piece to its successful "revolution from above." However, the comparison with Colombia suggests that the timing of Velasco's reform and the division of the economic elite were crucial for its success. Velasco rose to power due to the failure of Belaunde's initial attempts to respond to the redistributive pressures. Following the growth and success of a massive peasant movement in 1962, a cohesive economic elite surrounded Belaunde's democratic reformism. However, the failure of this initial response in releasing some of the pressures created tensions within the economic elite. In particular, members of the industrial elite abandoned the coalition that sustained Belaunde's government, giving rise to Velasco's leadership and his "revolutionary government." I argue that without the division of the elite, the suc-

cess of Velasco's redistributive approach would have been much more limited. The support of the industrial elite was key to guarantee the successful implementation of the policy.

In Colombia, Rojas Pinilla attempted a radical tax reform. Like Velasco, he was a military general that undermined democracy and closed congress. However, unlike Velasco, he faced a politically cohesive economic elite that rapidly came together, opposed the regime, and once represented in government through Frente Nacional, reversed redistributive policy attempts. The failure of Rojas Pinilla's redistributive attempts, offers a good counterfactual to rival explanations putting the authoritarian nature of Velasco's regime as the key to its successful reform.

A comparison of these two cases proved powerful to understand how the state and the economic elite interact to shape economic inequality trajectories in the long run. To complement this analysis, I explore whether this pattern can be observed more broadly in other countries in the world and Latin America. The quantitative analyses conducted in Chapter 7 provides support for the main implications of the theory presented in this dissertation. The relationship between state capacity and economic inequality is conditional on the economic elite's strength. The robustness of the estimated effects across different model specifications and measurement variations of key variables amounts to important evidence for the hypotheses derived from the theory. The findings demonstrate the importance of thinking about the state's capacity to redistribute as a separate dimension from what we usually think of "absolute" state capacity. I show that the effect of state capacity on inequality depends on the strength of the economic elite.

8.1 Academics, Economic Growth, and Policy Implications:

Multiple factors explain the failure of policies attempting to alleviate economic inequality in the long run. I want to offer some reflections on these factors and propose future directions. First, in Latin America, the intersection between public policy and academia centers around the discipline of economics (Babb and McDannell, 2001; Silva, 1991). The importance of international financial institutions and their capacity to influence policy agendas in Latin America reinforced this pattern (Chorev and Babb, 2009). I see two main problems that stem from the disproportionate influence of economics.

First, discussions around inequality are rarely separate from concerns of economic growth. Economic growth is seen in the literature as necessary to decrease inequality and alleviate poverty levels. I argue that even if economic growth is necessary, it is far from being sufficient. As such, I question its potential to alleviate inequality and poverty. In fact, economic elites have utilized a discourse that prioritizes economic growth above economic equality in Colombia and Perú as a justification to oppose redistributive reforms. In turn, this dissertation shows the importance of elevating the goal of achieving equality to similar levels of relevance placed by policy experts and policy-makers to economic growth. To do so, we need to foster an inter-disciplinary approach to the study of inequality. I see my responsibility as a scholar of inequality, as a latinoamericanista, and as a Colombian, to contribute others' efforts to bring these ideas to the center of policy debates.

The second problem stems from the approach to the measurement of inequality a

la economist. The emphasis on mathematical and statistical properties, as opposed to normative and conceptual debates, has resulted in measures that are extremely hard to interpret and understand. In particular, the Gini Coefficient is extremely hard to understand and interpret, unlike what happens to measures of economic growth and unemployment. In response, one of the goals of this dissertation was to advance towards a more intuitive measurement approach to inequality in the long run. One of the advantages of centering the dissertation around the concept of economic inequality traps is that it allows people outside academia to grasp with long-term trajectories of inequality and its importance.

The focus of policy-makers has been on short-term variations of inequality, and this hinders the potential of these policies to lead countries out of inequality traps. The focus on short-term variations explains the scholarship's optimism on the recent decline in inequality levels for many countries in the region. My findings suggest that we need to be more cautious since the downward trend could be explained by short term shocks, which means that the trend might revert to the mean. We have seen countries experience decreases in inequality (e.g., Chile in the 1960s), and then returning to previous levels.

The recent decline in inequality is not the result of a deep transformation of RSP. Instead, most of the decrease in inequality can be attributed to targeted policies (conditional cash transfers) that are transitory. For the most part, they were impulsed by left-wing governments (Huber and Stephens, 2012). As such, they are not designed to get at the root of inequality and do not threaten the power and cohesion of economic elites. Additionally, the fact that these policies are associated with populist and left-wing agendas has created the potential for backlash. This is already what we see in

countries like Chile, Bolivia, and Brazil.

In addition to being cautious about promoting economic growth as the way out of inequality traps, my work suggests that we also need to be cautious of catch-all policies that recommend strengthening states as a way out of inequality traps. As I have shown, the state is an important actor in shaping inequality trajectories, but its strengthening does not necessarily translate into lower economic inequality levels. Policies need to be designed considering the role of empowered minorities and how their economic power translates into political influence. If not, they are likely to fail.

8.2   Limitations and Future Directions

Even though in Chapter 7, I attempted to get at the question of the generalizability of the argument, future iterations of this project will benefit from including in-depth analysis of additional cases in Latin America beyond Parasitism. For example, I would like to understand whether countries with lower and medium levels of inequality face political and economic pressures that could result in changes towards higher levels of inequality.

An important limitation of my research is that it does not account for inter-group inequality and how it correlates with economic inequality. I decided to bracket economic inequality from other forms of power inequality, knowing that, in reality, economic inequality is one lens to look at deeper inequalities, including racial, ethnic, and territorial inequality. In future research, I would like to extend the framework proposed here to study the politics sustaining these other forms of inequality. Even though my dissertation did not explore these other forms, I believe that similar mech-

anisms sustain them and are deeply rooted in the state apparatus and how privileged sectors of the society interact with the state. In future research, I would like to further explore these links and attempt to apply my theory to a more broad understanding of inequality beyond economic inequality.

I believe that my framework can be applied more broadly to understand institutional reforms to a wider range of redistributive policies. For example, down the line, I would like to contribute to the literature aiming to understand the politics behind decentralization reforms, welfare state policies, and regulatory frameworks on financial assets.

Finally, I want to clarify that by no means, I want to argue that Perú showcases a successful story of "defeating inequality." By multiple indicators, Perú is still an unequal country. In particular, and despite the historical land reform of 1968, the distribution of land in Perú is still very unequal, and poverty levels are still very high. Furthermore, economic inequality has been shown to intersect with dimensions of race, gender, and regions. However, I believe it offers a story of success in the sense that it broke with history.

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