INCOME DISTRIBUTION AND THE QUALITY OF LIFE IN LATIN AMERICA: PATTERNS, TRENDS, AND POLICY IMPLICATIONS*

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INTRODUCTION

Latin America, more than other regions of the capitalist world, has been characterized by persistently high concentration of income and wealth and by limited trickling-down of the material gains from output growth. This situation was an enduring characteristic of "modern economic growth" in Latin America during its era of *crecimiento hacia afuera*, from the mid-nineteenth century to the onset of the Great Depression of the 1930s. It has remained so, with some modification, during the subsequent half-century, despite industrialization, rapid urbanization, the spread of education, and other *conquistas sociales* in many of the countries, and despite the faster economic-growth rates since World War II. Indeed, a further rise of income concentration accompanying that postwar growth is statistically detectable in many of the countries. By combining pre-World War II data with plausible inference, one can also deduce a still longer-run rising-concentration trend from the mid-nineteenth century, with oscillations downward in periods of slow growth and upward during fast growth periods. The result in most countries has been a slow improvement at best for the lowest 60 percent of the population in the more measurable and less ethnocentric dimensions of that amorphous concept, the quality of life.

Other capitalist countries, including the majority of the less-developed countries (LDCs) of other regions, have not manifested these Latin American characteristics with the same intensity and perdurance.

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Evidently, special features of Latin American institutions and behavior help account for the differences. This implies that these features will have to be altered substantially if the pattern of inequitable capitalistic economic growth is to be reversed substantially.

Efforts to do so collide, however, with two sets of obstacles. Internally, the obvious ones are resistance of the classes that benefit disproportionately from the inequitable growth pattern, the difficulty of institutionalizing a broader-based distribution of political power to preserve egalitarian socioeconomic initiatives, and fears that such efforts would disrupt and retard economic growth, at least during the traverse to the new institutionalized structures. Less obvious, but also an important internal obstacle, has been the consumer behavior of the affluent, whose preferences more than the requisite purchasing power have been filtering down to the popular classes. Externally, the collision is with the perceptions in the United States of its economic and hegemonic interests in the region that have usually dominated its policies toward Latin America. A plausible case can be made that the enduring interests of the United States would be best served by more politically tranquil and equitable Latin American societies, but not that there would be no transitional losses to some of these interests during the traverse. Because politics are usually dominated by the short run, Latin American reformers attempting to imbue the socioeconomic dynamics of their societies with more social equity and humanity, even within a capitalist framework, had best look to their own power resources. Ex post U.S. acquiescence to faits accomplis is more likely than an enduring ex ante partnership in the reformist efforts. That this generalization holds under the present regime in Washington is patently obvious.

So much by way of an introductory overview. The next two sections summarize the comparative data on patterns and trends of income distribution, and on some of the dimensions of the quality of life. This discussion is followed by a brief exposition of the main underlying causes for the Latin American patterns and trends, and the reasons why they are likely to persist, barring substantial institutional and policy changes. The essay concludes with a few general observations on the obstacles to and prospects for international collaboration to make Latin American economic growth more compatible with distributional equity.

COMPARATIVE PATTERNS AND TRENDS OF INCOME DISTRIBUTION

Let us first compare recent income-distribution data for the Latin American countries with those of other regions. Table 1 summarizes estimates of the income shares of the lowest 40 percent and the top 20 percent of income recipients (usually households) for fifty-seven countries, fourteen from Latin America. Each estimate is for a single year, mainly in the

late 1960s. The fifty-seven countries are grouped in three gross national product (GNP) per capita brackets, the lower two consisting of LDCs. Note that the Latin American contingents in each of these two groups show a quite different dispersion from those of the other LDC regions. With one exception (Uruguay), the Latin American countries are in the low half of the range as regards the income shares of the bottom 40 percent and in the high half of the range as regards the income shares of the top 20 percent. In contrast, the European LDCs, both capitalist and socialist, are distinctly in the egalitarian halves of the two ranges, and the African and Asian LDCs sprawl across both halves of the two ranges. Of the two Latin American countries in the highest income group, one (Argentina) fits in with the affluent capitalist countries' moderate inequality, while the other (Venezuela) has the high income concentration of its poorer Latino neighbors. In sum, the Latin American income concentration is unusually high among the LDCs, and higher GNP per capita levels scarcely reduce it.

Limited formal estimates of trends in income distribution are available, thus far, for only five Latin American countries. All these estimates show rising concentration after World War II, slight in Argentina but more vigorous in Brazil, Puerto Rico, Colombia, and Mexico. For the first three countries, the estimates are based on only two or three observations from the 1950s and 1960s, a fragile basis for longer-run generalizing. It is plausible to infer, however, that the observed decline of real wages since the imposition of "Authoritarian Capitalism" in the 1970s has further elevated income concentration in Argentina, as well as in Chile and Uruguay. For Colombia and Mexico, on the other hand, rising concentration has been tracked more firmly with observations extending from the late 1930s to the mid-1970s.[1]

A secular rise of income concentration also ran through the era of crecimiento hacia afuera, from the latter half of the nineteenth century to the Great Depression. In this period, economic statistics thin out, and for broad generalizations about trends in national output and its distribution in the various Latin American countries, conjecture is still the better part of valuation. The inferences derived from three fairly general features of the economic history of that era are, however, persuasive. They merit brief mention because they are relevant for contrasting the details of contemporary income concentration with those of the earlier era.

One feature was the further intensification of concentrated land ownership, partly through private market exchange, but mostly through class-biased legislation, legal chicanery, and armed seizure. The result was the carving-up of public lands with their squatter settlements into new latifundia and the expansion of pre-existing large estates by encroaching on communal holdings that colonial decrees had reserved for

TABLE 1 *Income Inequality of Countries Grouped by Region and Income Level, circa 1960**

	Number of Countries Whose Income Share of the Poorest 40 Percent Was:			
	Below 10%	*10–13%*	*13–17%*	*over 17%*
GNP per capita in 1971 U.S. $				
Below $300				
1. Latin America	2	1	0	0
2. Africa	2	4	4	3
3. Asia	2	2	3	4
From $300 to $750				
1. Latin America	4	4	1	0
2. Africa	2	0	0	0
3. Asia	0	3	0	0
4. Caribbean	1	0	1	1
5. Capitalist Europe	0	0	0	2
6. Socialist Europe	0	0	0	2
Over $750				
1. Latin America	1	0	1	0
2. Asia	0	0	0	1
3. Capitalist Europe	1	1	5	1
4. Socialist Europe	0	0	0	3
5. Australasia North America	0	0	2	3

Source: Montek S. Ahluwalia, "Income Distribution: Some Dimensions of the Problem," in Hollis Chenery et al., *Redistribution with Growth* (Oxford University Press, 1974), table 1.1, pp. 8–9.

*Dates of observations range from 1956 to 1971, with most observations in the 1960s.

Indian village agriculture. A second feature was the intensification of labor exploitation to work the estates for agricultural and mineral exporting, that is, the spread in most countries of debt peonage, supplemented in some countries (like Mexico and Guatemala) by direct impressment of free rural labor, and by the perpetuation of slavery until late in the nineteenth century in Cuba and Brazil. The third feature, the stagnation and decay of artisan manufacturing (cottage and workshop), derived through a sort of double "whammy," from the first two. The first

Number of Countries Whose Income Share of the Richest 20 Percent Was:			
Below 40%	*40–50%*	*50–60%*	*over 60%*
0	0	1	2
0	4	3	6
0	6	4	1
0	1	4	4
0	0	1	1
0	0	2	1
0	2	0	1
0	2	0	0
1	1	0	0
0	1	0	1
0	1	0	0
1	5	2	0
3	0	0	0
2	2	1	0

whammy was that during periods of export growth and ample foreign exchange, the household demand of the prospering classes shifted strongly from local artisan to imported consumer goods. The "international demonstration effect" is not a recent creation of Hollywood and Madison Avenue, but has been a behavioral trait of the Latin American affluent classes since the Conquest that, as I have suggested elsewhere, has probably been unmatched in its intensity by the behavior of the affluent of other LDC regions.[2] The second whammy was the falling real

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incomes of many of the rural poor because of the intensification of land squeeze and labor exploitation during the export growth periods, which depressed their purchasing power over artisan textiles and houseware.

With a few partial qualifications (for example, Argentine Pampa agriculture did not use debt peonage, and Antioquian coffee expansion followed a small-holder pattern), all three features were common to most of the countries. These features underpin the wage statistics that indicate a downward tilt in the real income of rural and urban unskilled labor in Brazil, Colombia, Chile, Mexico, and Peru, and its apparent constancy in rapidly growing Argentina during most of the era of crecimiento hacia afuera.[3] These features allow us to infer that most of the other countries, for which real wage and GDP growth statistics are as yet unavailable, also had increasing income inequality and immiserating economic growth during that era.[4]

The secular rise of income inequality, however, has probably not been monotonic but oscillating, with the reversals usually associated with periods of retardation of economic growth. Shorter-term oscillations have been consequences of the cyclical economic instability that has characterized economic growth both in the export-led growth era and in the more recent era of import-substituting industrialization (ISI). In the earlier era, periods of stagnating export earnings depressed the incomes of the landed and mercantile classes proportionately more than the mainly in-kind earnings of estate workers and tenant farmers. In the later period, the cyclical variability of industrial profits relative to industrial wages has become perhaps the more important factor in the ISI countries.

Longer term reversals have also occurred in a few of the countries partially as a result of socioeconomic policy shifts. The clearest case is Mexico, whose rapid growth of GNP per capita (during 1885–1975, the average annual growth rate was 1.8 percent) was broken by one prolonged interlude of inequality reversal and retarded growth during the years 1911–39. The period includes the Great Depression as well as the revolutionary decade and its reformist aftermath, but the latter was probably the more important equalizing force. Similarly, the mildly egalitarian interlude of 1930–50 in the Southern Cone countries was linked to the conquistas sociales of urban workers as well as to the abrupt drop of capital-goods imports during this period, which forced the use of labor-intensive industrial techniques. The 1970s in the same countries provide an obverse illustration of the importance of policy shifts, in which the normally equalizing effects of growth retardation were overridden by vigorous imposition (with the aid of machine guns) of supply-side economic policies.

In contrast to the immiserating, export-led growth of the pre-1930s era, income gains in the majority of the countires have trickled

down more deeply during the recent half-century. Thus, in Mexico the income shares of the lowest 60 percent of households fell during 1950–75, but only the real income of the lowest quintile also fell, while it rose moderately for the other two quintiles. Colombian data for 1935–74 shows some real income gain in all deciles. Varying Brazilian estimates for 1960–70 disagree on what happened to the real income of the lowest 20 percent in that short period, but agree that it rose for the other four quintiles.

In all three countries during the indicated time-spans, however, the upper income brackets received the lion's share of the income gains. In Brazil only the top decile increased its share, the ninth decile's share held constant, while those for the remaining eight deciles fell. In Colombia the top decile was also the sole relative gainer, but only the lowest seven deciles had falling shares of income. In Mexico, on the other hand, the chief relative gainers were the households in the 80th to 95th percentiles; the share of the next-lower quintile rose slightly, that of the top 5 percent fell slightly, and the shares of the lowest six deciles fell substantially. Evidently the populist rhetoric of Mexico's ruling party has had some real, if limited, basis in fact. In each of these countries, overall income concentration was increasing, and their rising Gini coefficients of inequality by the end of the 1960s probably exceeded pre-World War I levels. The post-World War II Lorenz curves from which the coefficients are computed, however, probably intersect the conjectural pre-World War I curves, reflecting large real-income gains for the urban middle classes and skilled segments of the urban working classes during the later period, and meager ones for the lowest 60 percent.[5]

TRENDS AND PATTERNS IN THE QUALITY OF LIFE

The past decade has seen a surge of interest in assessing the quality of life directly, rather than assuming that its levels and trends are adequately captured by income per capita. Unfortunately, although it is widely recognized that per capita income is a defective index of social welfare, no alternative comprehensive welfare measure has gained general acceptance. Indeed, it is unlikely that full consensus ever can be reached on how to measure that amorphous, multi-dimensional concept, the quality of life, by a single weighted index that is also free of ethnocentric biases and ideological disagreements.

In this section, comparative data on a few of the dimensions are summarized to illustrate two main points. The first is that in Latin America, the postwar relationship between income growth and some basic dimensions of the quality of life has been positive, but not overwhelmingly so. The second point is that the patterns of consumption expenditures among urban households in the postwar era have been

governed not merely by income concentration, but also in a disturbingly perverse way by persisting biases of Latin American consumer preferences.

To illustrate the first point, let us begin with the Physical Quality of Life Index (PQLI) recently constructed by Morris D. Morris.[6] The PQLI is a simple average of indices of infant mortality, life expectancy at age one, and adult literacy, normalized to a range of 1 to 100. The components were chosen because they are fundamental "output" dimensions of the quality of life and are also relatively insensitive to income-distribution differences (only one life for the Tzar and for Ivan the mouzhik). In contrast, other frequent candidates for inclusion in a quality-of-life index, such as physicians or hospital beds per one thousand or telephones and motor cars per capita, are input measures with highly variable impact on welfare "output" because, among other reasons, they are strongly affected by income-distribution differences, (multiple car ownership, concentration of *clínicas* for the urban wealthy, and so on).[7]

How do the various Latin American countries rate according to the limited, but relatively distribution-neutral, PQLI? In 1950 the PQLI ranged from 36 for Guatemala to 77 for Argentina, while in the mid-1970s, it ranged from 43 for Bolivia to 90 for Puerto Rico. All seventeen Latin American countries for which the index has been computed raised their PQLI between the two dates, although in varying degree.

The contribution of per capita income differences to the PQLI standing of the countries has been important, but underwhelmingly so. Thus the correlation between the ranking of the seventeen countries according to their relative 1976 levels of GNP per capita and their relative PQLI standing in the mid-1970s is 0.68, statistically significant, but with ample room for other causal influences. This inference is reinforced by the statistically insignificant correlation, 0.15, between the ranking of the countries according to relative rates of growth of GNP per capita during 1950–76, and their ranking according to percentage improvement in their PQLI.

Tables 2 and 3 provide data on "inputs" to the quality of life in a few Latin American countries during the 1960s and 1970s. They document statistically what is visible to the naked eye—that the markets for all non-food categories of consumer goods and services are dominated by the most affluent third of the households. They also, however, shed flickering light on some of the more subtle dynamics of the trickling-down of such goods in Latin America.

Thus, table 2 shows that between 1963 and 1975, when Mexican national income per capita rose about one-third, the overall income elasticity of trickling-down to the lowest 60 percent of households nationally was strongest in recreational equipment (primarily radios and

TV receivers), weaker in other household durables and vehicles, and negligible for household non-durables. Because income shares of the lowest 60 percent of households also fell in this period, however, the income elasticities of demand for such goods within the lower household-income brackets were higher for most of the categories than is suggested by the table. A more equitable distribution of income would have increased substantially the rates of trickling-down, although it is unlikely that income redistribution, even if it could be achieved in an economically nondisruptive manner (a questionable assumption), would have increased the overall demand for these goods. It should be noted, however, that on the basis of similar data for Brazil, John Wells's recent study reaches a more optimistic conclusion about the effect of income redistribution on the overall demand for most consumer durables.[8]

Table 3 suggests added complexities in the trickling-down of consumer goods in Latin America. The table summarizes data from a methodologically homogenized set of household income and expenditure surveys in the metropoli of four countries. Note that Asunción and Lima show somewhat less concentration in most of the non-food categories than do Bogotá and Caracas. Asunción, however, had both the lowest per capita income of the four, and the highest income concentration, while Lima was second highest in both income concentration and per capita income. Neither a consistently positive nor a consistently negative relation between income per capita and trickling-down is indicated by the comparative statistics of table 4.

This is probably because of an intervening factor, the relative strength of the tug on household expenditures exerted by the preference for "modern" consumer goods of European and American design and styling that are imported directly or produced locally by import-substituting firms. As indicated previously, this preference has long been a uniquely intense characteristic of the affluent classes of Latin America. Since World War II, such preferences have filtered down more deeply than in the previous era of modern growth. The filtering has been strongest in the fast-growing metropoli with their more richly layered and porous socioeconomic strata, intensified middle-class social climbing through consumption display, disproportionately large share of postwar national income growth, and greater concentration of mass communications and huckstering of goods. The filtering has been weaker in the small cities and weakest in the more tradition-laden social structures of the small towns and villages.

This differential filtering is reflected statistically in Latin American household-savings data. In Venezuela, according to a 1962 survey, only 22 percent of rural and small-town families spent beyond their current income. Families earning over five hundred bolivars per month were net savers, and the average household-savings rate was plus 10 percent.

TABLE 2 *Shares of National Household Outlays on Selected Household Items by Family Income Class: Mexico 1963, 1968, and 1975*

Income Percentiles	*Household "Software"* [1]	*Telephone*	*Electricity*
81–100			
1963	47.5	87.3	53.0
1968	56.6	91.9	52.0
1975	52.2	n.a.	n.a.
61–80			
1963	26.1	8.7	27.5
1968	23.6	5.6	22.3
1975	22.6	n.a.	n.a.
41–60			
1963	12.6	2.3	11.6
1968	11.6	2.0	14.0
1975	10.9	n.a.	n.a.
0–40			
1963	13.8	1.7	7.9
1968	11.4	0.5	11.7
1975	17.2	n.a.	n.a.

Sources: Banco de Mexico, *Encuesto sobre ingresos, 1963*, Cuadro 26–7; Banco de Mexico, *La distribución del ingreso, 1968*, Cuadro 4–2; Banco de Mexico, *Encuesta de ingresos, 1975*, Cuadro 8–2.

[1]Clothing, shoes, hats, linens and drapery, candles, laundry, cleaning, personal grooming materials
[2]Furniture, utensils, kitchen, heating, cooling and cleaning durable equipment
[3]Toys, radios, TV receivers, tape recorders, phonographs, cameras, musical instruments
[4]Automobiles, motorcycles, bicycles, and accessories

The major Venezuelan cities, however, showed collectively a household-savings rate of minus 10 percent, with only the 33 percent of families who earned over two thousand bolivars a month reporting net savings. For metropolitan Caracas, the average household-savings rate was minus 16.5 percent, and 80 percent of the families spent beyond their income. Similarly, in Brazil in 1960–62, 70 percent of Belém households were net savers, whereas in more affluent and swinging São Paulo only 30 percent were.[9]

Such behavior can explain some of the anomalies in table 3. Asunción is the most provincial of the four cities, hence the upper two quartiles probably save more of their income than do those of Bogotá and Caracas. The unusually wide cultural gulf in Lima between the

Household Durables[2]	*Recreational Equipment*[3]	*Vehicles and Accessories*[4]	*Vacations, Other Recreational and Cultural Services*
62.2	57.6	90.6	78.9
52.8	59.5	94.8	58.1
48.5	50.3	83.5	n.a.
25.9	28.1	6.6	15.3
26.2	24.3	3.6	26.6
31.4	22.2	10.5	n.a.
6.8	9.5	2.0	3.8
12.1	10.9	1.1	13.1
11.2	16.5	2.8	n.a.
5.1	4.8	0.8	2.0
8.9	5.3	0.5	2.2
8.9	10.9	3.0	n.a.

Indian underclass and the modernized upper two quartiles may somewhat ease the pressure on the latter to spend beyond their means in order to maintain social distances. Of course, some of these differences may also be explained by conventional economic theorizing about consumer behavior: for example, by hypothesizing that families in the rapidly growing large cities are more debt-prone because they have stronger expectations that their permanent income will rise than do the families in the other locales; or by redefining savings to include the accumulation of consumer durables. What cannot be explained away by such theorizing, however, is the Brazilian consumer behavior delineated in table 4.

The survey on which table 4 is based found that 68 percent of all Brazilians in 1975 consumed less than the Food and Agricultural Orga-

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TABLE 3 *Distribution of Private Consumption Expenditures by Quartiles for Four Latin American Capital Cities; Late 1960s*

Consumption Category	Percentage of Total Expenditure on Each Category per Quartile: Lowest Quartile A	B	L	C	2nd Quartile A	B	L	C
Food & Beverages	17.5	12.8	17.3	16.4	20.0	18.1	20.5	20.4
Durables	4.2	2.0	9.1	4.7	10.2	4.4	17.2	16.6
Household Non-Durables	16.2	12.4	14.9	14.1	14.9	14.9	17.6	19.1
Clothing & Footwear	10.3	6.3	10.3	10.3	16.6	11.5	13.4	17.9
Housing	7.8	8.2	8.5	9.0	13.0	15.7	12.8	14.7
Transportation & Communication	4.5	7.7	5.6	8.8	11.9	9.1	12.0	15.5
Recreation	6.7	4.0	9.2	10.3	13.1	11.1	14.6	15.9
Percent of total city expenditure covered by above 8 categories	89.9	87.6	85.8	83.8				
Relative per capita income of city	100.0	148.9	165.7	195.6				

Source: Computed from tables A–2 to A–5 of Arturo Meyer, "Patterns of Consumption in Latin America," in *Consumption and Income Distribution in Latin America*, ed. Robert Ferber (Washington, D.C: Organization of American States, 1980).

Key: A = Asunción, Paraguay; B = Bogotá, Colombia; L = Lima, Peru; C = Caracas, Venezuela

nization–World Health Organization (FAO-WHO) minimum daily caloric requirement for normal physical activity, and that 37 percent of Brazilian children suffered from first-degree and another 21 percent from second-degree malnutrition. The family-income groups in table 4 are those whose daily per capita food consumption was below the FAO-WHO requirement. Note that each income class shows the same gradients: the percentage spent on food falls and the caloric deficit rises as one moves from rural areas to cities (population twenty thousand to one million) to metropoli (larger than one million), while the proportion of families with televisions and refrigerators rises as one moves from rural through the two urban locales. No doubt the rural proportions in the

3rd Quartile				Highest Quartile			
A	*B*	*L*	*C*	*A*	*B*	*L*	*C*
26.4	24.5	19.9	25.8	36.1	44.6	42.3	37.4
22.8	20.1	19.6	24.6	62.8	73.5	54.1	54.1
25.8	22.6	25.5	23.8	43.1	50.1	42.0	43.0
27.2	22.2	25.9	23.8	45.9	60.0	50.4	48.0
26.2	23.8	22.3	24.4	53.0	52.3	56.4	51.9
19.5	16.1	20.6	28.1	64.1	67.1	61.8	47.6
29.2	19.6	23.3	22.8	51.0	65.3	52.9	51.0

last gradient were depressed by lesser access to electricity and TV transmitters; but such complications do not distort the urban part of the durable-goods gradient, nor the food expenditure and caloric-deficit gradients. Moreover, food prices also show a sharply rising gradient in Brazil as one moves from rural area to middle-sized city to metropolis. Combining the price- and food-expenditure gradients produces therefore the astonishing conclusion that the price elasticity of demand for food of the undernourished urban families in each of the income classes, many of whom were recent rural emigrants, was much greater than unity. They treated food as a luxury expenditure![10]

It is not surprising, therefore, that despite the overwhelming concentration of medical services in the cities, the survey found that in each of the main three geographic regions of Brazil, average life expectancy at birth in 1970 was higher for the rural than for the urban cohorts of the poorest 65 percent of Brazilian families. The findings are also supported by other survey data for the city and state of São Paulo that show rising accumulation of household durables and a decline in per capita food consumption and housing conditions among the metropolitan Paulista working classes during the 1960s and early 1970s. Concurrently, health statistics record a persistent rise of infant mortality rates in metropolitan São Paulo during 1960–73, reversing the substantial decline in such rates during the 1950s. By contrast, the infant mortality rate in the rest of São Paulo state, which had risen through the 1950s, declined in the subse-

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TABLE 4 *Urban and Rural Family Expenditure on Food and Durable Good Ownership Ratios of Brazilian Families with Nutritional Deficits, Expenditure By Class, 1974–1975**

Per Capita Expenditure per Family in August 1974 Cruzeiros	*2000–6000*		*6001–10,000*		*10,001–14,000*	
Food and Nutrition	% Spent on Food	% Caloric Deficit	% Spent on Food	% Caloric Deficit	% Spent on Food	% Caloric Deficit
1. Metropolitan	51.6	30.2	46.3	20.8	41.3	14.5
2. Other Urban	56.7	26.7	52.0	14.3	47.5	12.2
3. Rural	64.5	13.6	60.7	2.3	58.1	−3.3

Possession of Durables	% Families with Auto	T-V	Refrig	% Families with Auto	T-V	Refrig	% Families with Auto	T-V	Refrig
1. Metropolitan	0.2	10.7	7.9	1.1	33.8	22.5	1.8	43.4	30.1
2. Other Urban	0.3	5.7	2.3	0.7	17.3	11.9	2.0	12.4	16.3
3. Rural	0.2	0.3	0.7	4.0	6.2	4.8	1.5	7.6	5.1

Source: Computed from World Bank, *Brazil: Human Resources Special Report* (Washington, D.C.: The World Bank, 1979), Tables B.1 to B.4, Annex III, Appendix B. Original data from Instituto Brazileiro de Geografía e Estadística, *Estudos Nacional da Despesa Familiar*, and *Despesas das Familias: Dados Preliminares* (Rio de Janeiro: ENDEF, 1979).

*Caloric deficit is the percentage caloric shortfall from the "Low" FAO–WHO Daily Caloric Requirement.

quent fifteen years.[11] Yet despite the twisting of their expenditures toward non-food items, the shares of the lowest 60 percent of São Paulo families in total metropolitan expenditure on these items remained small. A comparison of tables 5 and 2 shows that in 1971–72 these families' shares were lower than the *national* shares of the lowest 60 percent of Mexican families.

The Brazilian pattern does not imply that malnutrition is not extensive in rural Brazil. The survey data show that it is very high among rural families in the Northeast and lower, but still sizeable, in central Brazil. Nor is this a uniquely Brazilian problem. Indeed, scattered evidence from hacienda records suggests that the purchasing power over food of rural workers in the Bogotá Sabana was lower in 1962 than in the late eighteenth century, and that the lowest 40 percent of rural Mexican families in 1968 could command less food with their income than estate peones of north-central Mexico in the 1840s![12]

FACTORS BEHIND THE PERSISTENCE OF THE LATIN AMERICAN TREND TOWARD GREATER INCOME CONCENTRATION

Early postwar theorizing about economic development was imbued with optimism that the economic and political dynamics unleashed by sus-

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14,001–18,000			*18,001–22,000*			*22,001–26,000*		
% Spent on Food	% Caloric Deficit		% Spent on Food	% Caloric Deficit		% Spent on Food	% Caloric Deficit	
39.0	12.2		36.6	23.3		39.0	8.9	
42.2	6.7		39.7	4.5		38.7	8.9	
49.4	0.0		—	—		—	—	
% Families with			% Families with			% Families with		
Auto	T-V	Refrig	Auto	T-V	Refrig	Auto	T-V	Refrig
2.5	57.0	33.9	6.8	70.7	67.8	5.6	80.9	74.4
3.8	42.3	30.2	10.5	44.5	59.7	8.9	58.7	61.0
7.3	81.9	29.0	—	—	—	—	—	—

tained growth of income per capita must eventually generate a more equitable trend in the distribution of income. This optimism was reinforced by Simon Kuznets's tentative finding that income concentration in Britain, the United States, and Germany had followed a long-term parabolic curve, rising for about five to seven decades in the nineteenth century, leveling off toward the end of the century, and then falling through the first half of the twentieth century. Kuznets speculated hesitantly about why the pattern occurred and whether it was a universal pattern of modern economic growth.[13] Many development economists, however, quickly seized upon his cautious finding, dubbed the pattern the *Kuznets curve*, and set about establishing its universality by cross-country regression analysis across groups of low- medium- and high-income countries.[14] This procedure is, however, an inherently dubious one for simulating the future growth-distribution path of LDCs. Most development economists are coming to appreciate more fully that differences in institutional conditions, socioeconomic policies, and modes of economic interaction with the advanced economies, as well as differences in income growth, will affect the actual time path.

For Latin America, the comparison of Mexico's actual growth-distribution time path with nineteenth-century Britain's is appropriate and enlightening. Through the rise and fall of its Kuznets curve, Britain

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TABLE 5 *Percentage of Expenditures in Each Category by Household Income Class in the City of São Paulo, 1971–72*

Income Class	*Articles for the Home*	*Car Purchase*	*Car Maintenance*	*Clothing*	*Property Acquisition*
Top 20%	67.0	69.3	78.6	60.8	79.5
Next highest 20%	16.3	26.9	19.2	20.2	13.4
Lowest 60%	16.7	3.8	2.2	19.0	7.1

Source: Computed from John R. Wells, "The Diffusion of Durables in Brazil and Its Implications for Recent Controversies concerning Brazilian Development," *Cambridge Journal of Economics* 1, 3 (September 1977), table 6.

maintained one of Latin America's major institutional characteristics, highly concentrated landownership. Mexico, on the other hand, is the one capitalist country in Latin America that during the past seventy years reduced partially its land concentration by intermittent redistribution. At its peak in the 1880s, Britain's Gini coefficient was at least as high as Mexico's in the 1970s. But Britain reached that turning point in its Kuznets curve after only six to seven decades of GNP per capita growth that was one-third slower than Mexico's average growth rate since 1885, whereas there is little evidence that Mexico's rising income-concentration trend has yet reached a turning point after nine decades of faster economic growth.[15] The lesson, of course, is not that land concentration is irrelevant—it contributed substantially to high levels of income concentration in both countries. The point is that the other socioeconomic forces that brought about Britain's turning point, despite the persistence of land concentration, have not been as effective in Mexico.

One major difference between nineteenth-century Britain and twentieth-century Latin American countries like Mexico is the relationship between economic growth and trends in technological dualism. A number of economists have sought to explain the dynamics of the Kuznets curve by two-sector theoretical models in which the rise and then decline of intersectoral productivity differences during long-term economic growth account for the parabolic shape of the curve. In these models, inequality rises during "early modern growth" because the industrializing and faster-growing urban sector initially increases its output per worker relative to the agricultural sector. The turnabout of the Kuznets curve comes when enough rural labor is drawn to the cities to generate labor scarcity, which induces rising wages and laborsaving techniques in the countryside, so that the intersectoral labor-productivity and income gaps begin narrowing.[16] The model has some crude correspondence to British experience, where the ratio of industrial-to-agricultural labor productivity hit its peak of 1.5 in the mid-nineteenth

century and then began sagging. In Latin America around 1970, the ratios ranged from 1.3 for Argentina to 2.7 for Peru, with most Latin American countries closer to the Peruvian figure; however, these ratios diverge too moderately from the British peak ratio to explain much of the failure of Latin American countries to replicate the Kuznets curve.[17]

Much more important have been the enormous differences between Britain and the Latin American countries in labor-productivity dispersion *within* each sector. Nineteenth-century British agriculture was relatively homogeneous, and its labor-productivity dispersion was moderate with no rising trend. This was only slightly less true of the British industrial sector with its large, and technologically progressive, artisan subsector. Britain thus met a second essential for producing a turnabout of the Kuznets curve according to the two-sector model—relatively constant *intrasectoral* productivity differences. Latin America, on the other hand, has not. A basic structural feature of Latin American economic growth in the twentieth century has been increasing dispersion of labor productivity within each of the main sectors.

This feature is illustrated by the intrasectoral productivity ranges of table 6. In that table, Argentina represents the region's most technologically modern case; Central America, the least modern, is also representative of Bolivia, the Dominican Republic, Paraguay, and Ecuador, while the overall average for Latin America is broadly representative of the remaining ISI countries like Brazil, Chile, Colombia, Mexico, Peru, and Venezuela. Note that, as one moves up the "modernization ladder," there is no consistent fall within any of the three productive sectors in the ratios of value added per worker of the modern component to either the intermediate or primitive component; nor between the intermediate and primitive components. What does occur along the ladder are shifts of the employment shares in each sector from primitive to intermediate and, less strongly, to modern, as well as shifts of the output shares primarily (except in manufacturing) to the modern sector. The notion of a modernization ladder is, of course, a deceptive metaphor. The primitive in Argentina has been of minor importance for many decades. The labor-productivity characteristics of the mining sector in Latin America have been shaped far more by resource availability activated by foreign enterprises than by a process of indigenous technological upgrading; and in general, it is virtually certain that the intrasectoral productivity dispersions in all the countries were substantially higher in 1970 than at the beginning of the century.

Some neoclassical economists have attributed the postwar income-concentration trends, the extreme structural heterogeneity illustrated by table 6, and the increasing unemployment and underemployment afflicting Latin American countries to product and labor-market distortions brought on since the 1930s by ISI policies and conquistas

TABLE 6 *Estimated Composition of Employment, Product, and Relative Value Added per Worker by Sector at the End of the 1960s*

	Latin America Technological Strata			
	Modern	*Inter-mediate*	*Primi-tive*	*Total*
Employment and product as percent of each sector's total:				
All Sectors Combined				
Employment	12.4	53.3	34.3	100
Product	53.3	41.6	5.1	100
Value Added per Worker*	328	99	19	100
Agriculture				
Employment	6.8	27.7	65.5	100
Product	47.5	33.2	19.3	100
Value Added per Worker*	700	120	29	100
Manufacturing				
Employment	17.5	64.9	17.6	100
Product	62.5	36.0	1.5	100
Value Added per Worker*	359	55	8	100
Mining				
Employment	38.0	34.2	27.8	100
Product	91.5	7.5	1.0	100
Value Added per Worker*	240	21	1	100

Source: CEPAL, *La mano de obra y el desarrollo económico de América Latina en los últimos años* (E/CN.12/L.1), as summarized in Aníbal Pinto, "Notas sobre estilos de desarrollo en América Latina," CEPAL Working Paper ECLA/JDE/Draft/103, Dec. 1973.

*Index of value added per worker, with sectoral average of each group of countries = 100.

sociales. The implication is that under free-market policies, economic growth would have disseminated technological progress more evenly and income more equitably. The support for that inference is, however, partly the erroneous theoretical notion that competitively determined relative prices can keep any and all capitalist economies, regardless of differences in initial conditions and modes of external interaction, on a long-term full-employment growth path; partly it is sheer historical amnesia.

Rigorous probings of the logical requirements for the notion to hold have thoroughly refuted its claim to universality. The necessary

Central America				Argentina			
			Technological Strata				
Modern	*Inter-mediate*	*Primi-tive*	*Total*	*Modern*	*Inter-mediate*	*Primi-tive*	*Total*
value added per person as percent of each sector's average							
8.1	33.6	55.0	100	21.3	65.8	5.3	100
42.6	48.0	9.4	100	58.6	40.5	0.9	100
528	144	17	100	276	61	1	100
5.0	15.0	80.0	100	25.0	57.0	18.0	100
43.9	30.6	25.5	100	65.1	32.3	2.6	100
877	204	32	100	260	57	2	100
14.0	57.4	28.6	100	25.6	70.6	3.8	100
63.6	30.4	3.3	100	62.1	37.5	0.4	100
468	55	11	100	240	53	10	100
20.0	60.0	20.0	100	50.0	40.0	10.0	100
57.2	40.0	2.8	100	77.8	21.6	0.6	100
285	67	14	100	156	54	6	100

and sufficient conditions for sustained full-employment growth turn out to be very demanding, which reduces the notion to merely a theoretically possible special case. That case is particularly implausible for technologically lagging market economies interacting with advanced ones, in which many of the requisite conditions are absent.[18] The belief in this notion's universal applicability to LDCs remains strong in Washington and in some of the "Authoritarian Capitalist" countries of Latin America, but its support comes from ideology, not scientific economics.

The supportive role of historical amnesia is illustrated by table 7, which compares output and employment trends from 1895 to 1930 of

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Mexican and Japanese manufacturing. This period was one of positive growth of gross domestic product per capita in both countries, with the Japanese rate moderately higher. In both countries, the dominant strategy was export-led growth, unionization was negligible, and minimum wages and other labor-market "distorting" institutions were largely absent. There were some deviations from purity, offsetting ones, however, as concerns the comparison. Japanese tariffs were lower, but Japan excluded foreign investment while Mexico welcomed it. Mexican policy became less hostile to unionization after the revolution, but Japan in the 1920s was initiating its permanent job-tenure system in the larger industrial firms. These minor falls from grace could hardly account for the contrasting trends shown in table 7, in which industry's share of both national employment and output rose in Japan, while in Mexico the industrial employment share fell as the output share rose. Nor can these market "distortions" explain why during this period the agricultural shares in Japan of both employment and output fell sharply, while in Mexico the agricultural employment share rose as the output share fell. Neither can they account for the contrasting wage trends. In Japan the emergence of wage dualism was the consequence of factory real wages rising faster than the *rise* of agricultural and artisan real wages. In Mexico, particularly during the fast-growing Porfiriato subperiod of 1895–1911, all three real-wage categories fell.[19] As an addendum on nutritional trends, calory- and protein-intake per capita rose around 50 percent in Japan between 1880 and 1930; in Mexico the trend during the Porfiriato was downward.[20]

The comparative speed with which modern factory products displaced artisan output is a major key to the contrasting structural trends in the two countries. On Mexico, Keesing concludes, "In these early years expanding industrial production must have displaced handicraft industries more than imports. During each period of rapid industrial growth up to 1930 people seem to have been thrown out of work in the traditional rural occupations faster than the modern sector could absorb them."[21] In Japan, by contrast, craft output rose over 400 percent and craft employment 45 percent between 1895 and 1937. The Japanese craft sector was an expanding and technologically progressive sector, not a stagnating employer of last resort.[22]

Behind these different speeds were major differences in the pattern of preferences for consumer manufactures. In Japan, imported consumer manufactures were a diminishing fraction of total supply during 1895–1911, a period in which the "Unequal Treaties" with the major Western powers set a 5 percent upper limit on Japanese import tariffs. In Mexico, despite higher tariffs, imports supplied a rising fraction of consumer goods during the same period.[23] In sum, relative prices may be

TABLE 7 Output and Employment Trends in Manufacturing, 1895–1930, in Japan and Mexico

	Index of Manufacturing Output		Manufacturing Share of Gross Domestic Product		Labor Force	
	Japan	Mexico	Japan	Mexico	Japan	Mexico
1895	100.0	100.0	.097	.125	.152	.116
1900	—	123.0	—	.132	—	.122
1905–7	176.0	—	.130	—	.181	—
1910	—	176.1	—	.127	—	.115
1915–17	367.3	—	.191	—	.181	—
1925–27	503.3	—	.196	—	.258	—
1930	—	270.5	—	.167	—	.099

Sources: Japan: Ohkawa and Shinohara, *op. cit.* p. 232, Table 13.5; pp. 278–79, Table A–12. Mexico: Clark W. Reynolds, *The Mexican Economy: Twentieth Century Structure and Growth* (Yale University Press, 1970) p. 60, Table 2.1; p. 386, Table E.2; Donald Keesing, "Structural Change Early in Development: Mexico's Changing Industrial and Occupational Structure from 1895 to 1950," *Journal of Economic History* 29, 4 (December, 1969), table 1.

an important guidance mechanism of market economies, but they guide in varying directions, with different structural and welfare consequences, depending on the respective distributions of wealth, the cultural determinants of consumer behavior, and other specific institutional characteristics.[24]

The relationship between consumer behavior and the speed of product substitution is also central to understanding the subsequent Latin American experience with import-substituting industrialization. The early postwar optimism that ISI would bring faster and more equitable growth by diversifying the economic base and reducing the economy's dependence on primary exporting for its growth dynamics was molded primarily by the 1935–45 experience of the Southern Cone countries and Brazil with ISI. During that decade, they managed through ISI to restore GNP growth despite sharply falling average-import coefficients. Moreover, the industrial share of employment rose, the effort to overcome import bottlenecks unleashed a latent capability for technological innovation in these countries, and, as indicated earlier, the period was an egalitarian pause in the secularly rising trend of income concentration. Encouraged by that favorable response, the ISI effort was intensified in the postwar decades, but with more problematic consequences. Industrial output rates accelerated, but the industrial share of employment stopped rising, and instead, the average-import coefficient began turning up. The incipient flurry of local innovating petered out as industrial firms looked abroad for new process and product technology. The

GNP growth rate again became tethered closely to export growth and the inflow of foreign capital, while multinational subsidiaries took over the commanding heights in most of the faster-growing industries.

To most critics and supporters of ISI as a development strategy, it was self-evident that with imported consumer goods reduced to a minor proportion of total imports by the 1950s, the more industrialized Latin American countries were struggling with the "hard phase" of ISI, during which the role of "leading sector" was necessarily shifting from consumer manufactures to intermediate and capital goods. In fact, after the early 1950s, the fastest growing industries in Brazil, Argentina, and the other more-advanced ISI economies were the consumer durables (including the passenger-car industry) and technically sophisticated, new consumer nondurables. What was occurring was a product-substitution dynamic within the various two-, three-, and four-digit industries, and it was the differing speed of that dynamic within each of these statistically fixed industry categories that underlay most of the differential industry growth rates. The main difference between the "easy" and the "hard" phases of ISI was that in the latter, the consumer-goods sector was no longer primarily replacing competing imports, but older import substitutes with new products.

This substitution dynamic is, of course, a basic characteristic of modern economic growth with its continual outpouring of new products. For Latin American countries, the problem has been that because the new products are overwhelmingly of foreign design, a balance is needed between the speed of product substitution and the lags in developing domestic sources for the specialized equipment and intermediate inputs required to produce the succession of new substitutes, that is, backward linkages. Because of the lag, new products are initially more import-intensive than the older products they are displacing, hence beyond some critical speed of product displacement, the import intensity of industrial output rises despite ISI, putting the balance of payments at risk. Consumer product substitution substantially outpacing backward-linkage expansion explains why the intensification of ISI in postwar Latin American economies has been accompanied by a rising average-import coefficient and stop-go cycles of economic growth linked mainly to recurring balance-of-payment crises. Similarly, strong links are traceable from the extent of "foreignness" of the new products, to the extent to which labor-saving technologies have been imported, to the heightening of structural dualism and income concentration. In sum, the Latin American ISI countries have been navigating ineffectively against the strong current of their consumer dynamics.

Sorting out econometrically the determinants of the consumption dynamics is a task that still needs doing.[25] The evidence strongly suggests that we can rule out "distorted" relative prices of consumer goods

as a positive factor. If anything, the "distortions" worked to slow the demand for the new products. Until recently most of the ISI countries tended to subsidize basic food and public transport, while the side effect of their tight controls on competitive imports was to elevate substantially the prices of consumer durables and most other modern consumer goods. The relative prices of such goods in the ISI countries were thus much higher domestically than internationally. Not surprisingly, the tariff-liberalization policies of the Pinochet and Videla regimes have generated a flood of competitive imports and a major contraction of the consumer-goods industries of Chile and Argentina.

Separating the impact of preference bias from that of income concentration is more difficult. We know from the marketing literature that the purveyors of new goods in Latin America typically direct their product design and sales strategy at the wealthiest third of the households, which implies that income concentration accentuates product turnover.[26] On the other hand, econometric explorations in a number of Latin American countries of the effect of large simulated reductions of income inequality on the demand for imports and for labor have come up with only minor, although usually favorable, changes in either.[27] The studies have methodological flaws, and they do not even attempt to explore what institutional and attitudinal changes might accompany a large actual reduction of inequality. They are, however, consistent with the thesis that the addiction of the Latin American elite classes to foreign-styled goods has trickled down fairly deeply in the postwar era.

A few pieces of comparative evidence also support that thesis. One is evidence suggesting that the Japanese speed of product substitution in consumer goods was slower during the 1950s and 1960s than in the Latin American ISI economies. Thus, a 1955 income-expenditure survey of urban Japanese families found that almost three-fourths of their expenditure was still spent on pre-Meiji-style consumer goods and housing, and that the proportion fell only moderately with higher household income.[28] The second is the rather astonishing fact that Japanese production of passenger cars in 1967 was only eight hundred thousand, or about the same as Brazil's in 1975, whereas the 1967 Japanese output of trucks and commercial vehicles, 1.6 million, was almost eight times greater than Brazil's in 1975. Third are the findings of a recent econometric autopsy of the demise of Puerto Rico's success with "Operation Bootstrap," an export-led industrialization strategy designed to exploit Puerto Rico's tariff-free access to the U.S. market. The study found a strongly rising import content of Puerto Rican consumption, in particular a persisting rise of consumer imports in the same product classes that had led the export expansion. The exports were the less expensive, labor-intensive products, as called for by the strategy, but income growth, rising income concentration, and preference effects

turned Puerto Rican consumption increasingly toward more expensive goods in the same product classes.[29] The study summarizes its findings as system overload due to excessive speed "of the reshaping of the island's consumption into the 'American way of life'."[30]

None of this evidence, of course, cleanly separates the preference effect from the income-concentration effect, but it at least strengthens the case for taking the former seriously. The Puerto Rican experience also inferentially strengthens the case for taking seriously the links between the degree of "foreignness" of new consumption goods, the choice of techniques, and rising structural dualism. It does so by throwing further doubt on the validity of the alternative neoclassical notion that removing the divergences between domestic and international relative prices through trade liberalization will produce in the Latin American context more equitable and structurally homogeneous economic growth. Postwar domestic relative prices in Puerto Rico have been closely integrated with "international" relative prices. Yet despite the island's fast, export-led industrialization and the emigration of about a third of its population, the open unemployment rate is currently 25 percent, about double the rate at the start of Operation Bootstrap.

SOME CONCLUDING OBSERVATIONS ON INEQUALITY AND GOVERNANCE

The overriding conclusion I draw from the data and analysis of the preceding sections is that capitalistic economic growth in the Latin American institutional and cultural context is strongly biased toward income concentration and minimal rates of improvement in the quality of life of the lowest 60 percent. This bias might ultimately dissipate with further economic growth and transform the linear trend of rising inequality into a parabolic Kuznets curve, but I see little basis for expecting this to happen within the next couple of decades from market forces operating under prevailing institutions and economic policies.

The burden, if these polarizing market biases are to be checked, falls therefore on public policy, which within a capitalistic framework means primarily redistributive-tax and public-expenditure policy. In the literature on the postwar incidence of such policies in various Latin American countries, the following areas of consensus show up. There is agreement that the efforts of some of the countries in the 1960s to make their tax systems progressive have had only minor effects on the prevailing regressivity of tax incidence. There is also agreement that public expenditures have strongly favored the urban sector and agribusiness in the rural sector, and that nationally the absolute value of expenditure benefits, net of tax costs, has been larger the higher the household income level.

If the *ratio* of benefits to taxes declines as household income rises,

however, the combined impact of taxes and expenditures would be to reduce relative income disparities. A recent World Bank study of Colombian taxes and expenditures in the 1970s concluded that the ratios did decline mildly with rising income level and estimated that the overall effect was to hold down Colombia's Gini coefficient by as much as 5 percent.[31] I am not aware of similar detailed studies for other Latin American countries. Nonetheless, my impressionistic ranking of postwar Latin American countries by degree of government commitment to egalitarian tax-expenditure policies puts Colombia around the middle of the ranking—on a par with Venezuela and Peru, somewhat below Mexico, well below Costa Rica and the Southern Cone countries before their takeover by Authoritarian Capitalism, but above Brazil, and far above Guatemala, Honduras, and Paraguay, where in addition to other favors for the wealthy, government-assisted expropriation of peasant land is still an important mode of private capital accumulation. In most of the countries ranked below Colombia, public policies on balance probably have raised further the Gini coefficient, and of those ranked above Colombia, only Costa Rica's policies were sufficiently egalitarian to prevent postwar income concentration from rising.

What are the implications for governance in the coming decade or two? Albert Hirschman's tunnel parable is a helpful way of arraying the prospects.[32] That parable envisions a one-way motor tunnel with two lanes of cars, both stalled. One lane then starts to move, and the frustration of the stalled drivers in the other lane turns to eager anticipation. But if, after a time, their lane remains stalled, the anticipation turns to anger and resentment. Horn-blowing begins, drivers in the stalled lane try to force their way into the moving lane, and chaos ensues. Hirschman uses the parable as a departure point for discussing the reasons why there is initial tolerance of rising inequality in fast-growing LDCs and the conditions under which it turns to hostility, political unrest, and political explosions. The general implication is that there are political limits to inequality; the tunnel effect, like the Kuznets curve, is parabolic.

If we enrich the parable by also having the cars in the fast-moving lane stall periodically from overheating or fuel-exhaustion, we have the main ingredients for identifying the alternative relationships among growth, inequality, and governance in Latin America. There are now two main alternative sources of political unrest in the enriched parable: the exacerbation of discontent among the disadvantaged lower 60 percent during periods of rapid growth and unremittingly rising inequality, and frustration among the advantaged upper 40 percent when the rapid growth terminates periodically in a balance-of-payments crisis and growth slowdown. In postwar Latin America, the first source of discontent mainly has fed populist-reformist or anticapitalist political movements or both. The political consequences of the second source of dis-

content has been more complex, with the middle classes within the top 40 percent being the swing group. In the first two postwar decades, the middle classes tended to ally with populist reformism, bringing to power in some of the countries regimes that pursued mildly redistributive social programs, were tolerant of unionization, etc. More recently, the discontented middle classes have tended to join the discontented wealthy in support of Authoritarian Capitalism: that is, to use force to keep the stalled lane in line, and to siphon gasoline from it to refuel the engines of growth in the fast lane.

These alternative outcomes have depended not merely on the shifting domestic-power balances, but also on which side of the scale the United States chose to put its weight. Through most of the postwar period, the U.S. position toward moderate reformist movements ranged from mild distaste to enthusiastic support, the main exceptions being its overthrow of the reformist Guatemalan government in 1954 and its military intervention against the Dominican populists in 1965. Enthusiasm peaked with the Alliance for Progress, which formed half of a two-part strategy. One part was modernizing the counterinsurgency and political-surveillance skills and technology of the Latin American military in order to keep political radicals under control more efficiently. The Alliance's part was to promote land reform, progressive taxation, and educational and social programs in order to "win the hearts and minds" of the lowest 60 percent for democracy and moderate politics. The reforms did not sit well with the Latin American wealthy, who complained with some justification that changes were aimed at cutting back only their wealth and power, not that of the U.S. multinational firms operating in Latin America. They also managed to deflect most of the redistributive reforms.

In its early years, the Alliance gave added political impetus to moderate reformist parties in many of the countries, but during the Vietnam War, Washington's interest in pushing reforms dwindled along with the funding. Much of the task was then tacitly turned over to the World Bank and the Inter-American Development Bank, institutions in which the United States held controlling shares.

The World Bank became an especially vigorous proselytizer for more equitable growth policies; it urged, in particular, that the LDC governments tilt their public expenditure more toward providing "basic needs" (public health, sanitation, housing, and education) for the lowest 60 percent. Neither bank, however, put much of its money where its mouth was. As before, credit worthiness and political acceptability to the United States necessarily dominated the allocation of bank loans. Thus both banks gave more generously to Nicaragua after the Managua earthquake than to the Sandinista government following the greater destruction of the civil war, despite the fact that Somoza's commitment to basic needs was, to put it mildly, considerably weaker than that of the

Sandinistas. Ironically, only the conservative IMF continued giving new credits to Chile during the Allende years, whereas the two reform-minded banks suspended all new loan projects until after Allende's overthrow.

With the Reagan administration, the last vestige of the Alliance's interest in reformism is disappearing, and with it may go also the two banks' rhetorical push for basic needs, leaving only a reinvigorated counterinsurgency program as the United States' contribution to Latin American governance, at least for the next few years. This reinforces the likelihood that the income-concentration trends will persist, along with the recent trends toward political polarization in many of the Latin American countries between a fascistic-minded right and an increasingly anti-United States left. If the tunnel parable has validity, the combined economic and political trends presage an explosive political future for Latin America.

Let me end, however, with a less metaphoric and slightly more upbeat finale. A basic theme of the essay is that there has been no *stable* tradeoff between growth and equity in Latin America. There are two main reasons for this. The first is that periods of fast economic growth tend quickly to sow the economic seeds of their demise. The second is the tunnel effect, which can bring political explosions and shifts to more egalitarian, but growth-retarding, policies. In Latin America, however, the second reason has been subordinate to the first. There are very few examples in Latin America of a period of fast inequitable growth being brought to a halt by a political crisis. Typically, the crises have come after the economy has slowed down, after the bonanza economic policies have lost their effectiveness and the progenitors their political support, particularly among the middle classes. An economic crisis seems to be necessary to bring the rancorous phase of the tunnel effect to the boiling point.

It is incorrect, therefore, to analyze the relationship among economic growth, distributive equity, and governance as primarily a question of jam today versus jam tomorrow. This oversimplification disregards that excessive preference of the Latin American middle and upper classes for imported jam today that has been a major reason why periods of fast economic growth and rising inequality have tended to terminate rather quickly in balance-of-payments crises, leading to crises of governance. Capitalist regimes in Latin America that impose income–concentrating policies may induce fast economic growth, at least when external conditions are favorable; but unless they also constrain consumer behavior, they cannot sustain that fast growth for long.

A second clarifying point concerns the relationship between capitalist development and the Latin American growth-equity trends. It is obvious from table 1 that the Latin American pattern of inequitable

growth is not a universal attribute of capitalist development, even among late-developing countries. Is it an irremediable attribute of capitalist development in the Latin American cultural and institutional context? Probably yes, if market forces are allowed to operate freely, Chicago style, in that context. Perhaps not, if capitalist development is accompanied by policies that modify the institutional and behavioral context and moderate some of the play of market forces.

It is much easier, of course, to devise technically feasible reforms than to make them politically feasible. Mentioned above was the minimal success of the Alliance for Progress in getting redistributive tax reforms implemented during the 1960s. Cognizant of this, the World Bank's basic-needs lending program of the 1970s sought to work the public expenditure side, to induce governments to tilt their investments more toward servicing the rural and urban poor. Yet, according to a recent internal report, the World Bank has been ineffective in getting the recipient governments to carry out their contractual obligations under the bank-financed basic-needs projects. The bank's advice, even when backed by its loans, has not been an effective remedy for foot-dragging.

An important policy implication of this essay is that to generate more equitable growth in Latin America, it will be necessary, among other things, to adopt measures that slow the speed of substitution-chaining in consumer goods. There are technically feasible techniques for accomplishing this, techniques that have been resorted to by European capitalist economies and that therefore are not incompatable with capitalist development. Selectively heavy purchase taxes that are calibrated to the import-intensiveness of sumptuary goods is one such technique; converting Latin American television from its current prime use as a sales medium to its potential function as an educational and cultural medium is another. Are these politically feasible options in Latin America? Probably not today. But the boundary between political feasibility and infeasibility is not immovable. Usually it is shifted by the bludgeonings of major socioeconomic crises; but it is to be hoped that the boundary can also be nudged by preemptive intellectual persuasion—by consciousness raising that does not derive solely from brute experience. This essay focused heavily on consumer behavior, not because it is a sufficient explanation of the failure of Latin American growth to generate Kuznets curves—it is not—but because consumer behavior has been one of the more neglected, and yet significant, causes of this failure. The essay is in part a modest effort at consciousness raising.

NOTES

1. Postwar trend estimates for Brazil, Puerto Rico, and Argentina, plus point estimates for a few other countries are summarized in Adolfo Figueroa and Richard Weisskoff, "Viewing Social Pyramids: Income Distribution in Latin America," in *Consumption and Income Distribution in Latin America*, ed. Robert Ferber (Washington, D.C.: Organization of American States, 1980), pp. 257–94. For Colombia, Albert Berry and Ronald Soligo, "The Distribution of Income in Colombia: An Overview," in *Economic Policy and Income Distribution in Colombia* (Boulder, Colorado: Westview Press, 1980), pp. 14–17, which updates the earlier estimates of Berry and Miguel Urrutia in *Income Distribution in Colombia* (New Haven: Yale University Press, 1976). The Mexican estimates are from David Felix, "Income Distribution Trends in Mexico and the Kuznets Curves," in *Brazil and Mexico: Patterns in Late Development*, ed. Richard Weinart and Sylvia Hewlett (Philadelphia: ISHI Press, 1982), pp. 265–316.
2. David Felix, "Interrelations between Consumption, Economic Growth and Income Distribution in Latin America: A Comparative Perspective," in *Consumer Behavior and Economic Growth in the Modern Economy*, ed. Henri Baudet and Henk Van der Meulen (London: Croom Helm, 1982), pp. 152–68.
3. On falling real wages in the state of São Paulo during the 1880–1914 coffee boom, see Nathaniel Leff, "Economic Retardation in Nineteenth Century Brazil," *Economic History Review*, Second Series 25 (August 1971): 491; for Chile, see Arnold J. Bauer, *Chilean Rural Society: From the Spanish Conquest to 1930* (Cambridge: Cambridge University Press, 1975), p. 156, table 31; for Colombia, see Luís Ospina Vásquez, *Industria y protección en Colombia, 1845–1930* (Medellín: 1955) and William P. McGreevey, *An Economic History of Colombia, 1810–1930* (Cambridge: Cambridge University Press, 1971); for Mexico, see Fernando Rosenzweig, "La industria," and Luís Cossio Silva, "La agricultura," in *Historia moderna de México*, ed. Daniel Cosío Villegas (Mexico, D.F.: Editorial Hermes, 1956–71); Friedrich Katz, "Labor Conditions on Haciendas in Porfirian Mexico: Some Trends and Tendencies," and John Coatsworth, "Railroads, Landholdings, and Agrarian Protest in the Early Porfiriato," *Hispanic American Historical Review* 54 (February 1974): 1–71; for Peru, 1900–39, see Rosemary Thorp and Geoffrey Bertram, *Perú, 1890–1977: Growth and Policy in an Open Economy* (New York: Columbia University Press, 1978), pp. 114–40. Argentina is a partial exception, with a horizontal real-wage trend during the nineteenth century, according to Carlos F. Díaz-Alejandro, *Essays on the Economic History of the Argentine Republic* (New Haven: Yale University Press, 1970), pp. 49–52.
4. An early perceptive statement of the growth-immiseration view sans historical numerology is Margaret Alexander Marsh's "Monoculture and the Level of Living: An Hypothesis," *Inter-American Economic Affairs* 1 (June 1947): 77–111; Sanford A. Mosk, "The Coffee Economy of Guatemala, 1850–1918: Development and Signs of Instability," *Inter-American Economic Affairs* 9, 3 (1955): 6–20, also stresses that land seizure and labor impressment intensified with the spread of coffee cultivation in Guatemala.
5. See notes 1 and 3 for data sources.
6. Morris D. Morris, *Measuring the Condition of the World's Poor* (New York: Pergamon Press, 1979).
7. Along with the PQLI estimates, Morris has an excellent discussion of the difficult conceptual and measurement problems in constructing a quality-of-life index. On this topic, see also Norman Hicks and Paul Streeten, "Indicators of Development: The Search for a Basic Needs Yardstick," *World Development* 7 (June 1979): 567–80.
8. John R. Wells, "The Diffusion of Durables in Brazil and Its Implications for Recent Controversies concerning Brazilian Development," *Cambridge Journal of Economics* 1 (September 1977): 259–79.
9. United Nations, Economic Commission for Latin America, "Income Distribution in Selected Major Cities in Latin America and Their Respective Countries," *Economic Bulletin for Latin America*, 17, 1 and 2 (New York: United Nations, 1973): 13–45.
10. From the diagonals of table 4, one also observes that families moving to the next-higher income bracket and to a more urbanized locale on average reduce their food-

expenditure percentage and thus conform to Engels's Law while increasing their caloric deficiency. On the other hand, those moving to the next-higher income bracket and to a less-urbanized locale violate Engels's Law, but reduce their caloric deficiency.

11. Wells, "The Diffusion of Durables in Brazil," *Cambridge Journal of Economics* 1: 263–67, 269–71; World Bank, *Brazil: Human Resources Special Report*, Annex 1, Table 12.
12. On Colombia, see McGreevey's *Economic History of Colombia*, p. 131, table 18; on Mexico, compare the hacienda data in Harry E. Cross, "Living Standards in Rural Mexico: Zacatecas, 1820–1880," *Journal of Latin American Studies* 10 (May 1978): 1–19, with those for the lowest 40 percent of rural households in the Banco de México's *La distribución del ingreso en México: encuesta sobre los ingresos y gastos de las familias, 1968* (Mexico, D.F.: Fondo de la Cultura Económica, 1974), Cuadro IV-2. In neither country, however, was the decline monotonic. McGreevey's data imply that the 1890s were the low point for rural Colombian workers, while Berry and Urrutia, in *Income Distribution in Colombia*, estimate a horizontal real-wage trend for rural Colombian workers during 1935–74, but at a higher level than that of the 1890s (pp. 68–72, 90–95). The consumption level for rural Mexican labor, other than in the northern states, deteriorated sharply during the Porfiriato, but probably rebounded after the revolution. Since World War II, however, rural income and employment data indicate renewed deterioration of the real income of rural labor. See Salomón Eckstein, *El marco macroeconómico del problema agrario mexicano* (Mexico, D.F.: Centro de Investigaciones Agrarias, 1968).
13. Simon Kuznets, "Economic Growth and Income Inequality," *American Economic Review* 45 (March 1955): 1–18, and *Modern Economic Growth: Rate, Structure and Spread* (New Haven: Yale University Press, 1966), pp. 206–19.
14. See, for example, Harry Oshima, "The International Comparison of the Size and Distribution of Family Income with Specific Reference to Asia," *The Review of Economics and Statistics* 44 (November 1962): 439–45; Felix Paukert, "Income Distribution at Different Levels of Development," *International Labour Review* 108 (August–September 1973): 97–125.
15. A. L. Bowley estimated the income share of the top 5 percent of British households at 48 percent in 1880 and 43 percent in 1913. Both are higher than the share of Mexico's top 5 percent after World War II; however, the share of Mexico's top quintile in the 1970s matched Britain's of the 1880s and exceeded Britain's of 1913, while the lowest 60 percent received a smaller share in post-World War II Mexico than in pre-World War I Britain. Compare Simon Kuznets, "Quantitative Aspects of the Growth of Nations: Distribution of Income by Size," *Economic Development and Cultural Change* 11, 2, part 8 (January 1963), table 16, and Felix, "Income Distribution Trends in Mexico," in *Brazil and Mexico: Patterns in Late Development*, table 3.
16. For example, John C. H. Fei and Gustav Ranis, *Development of the Labor Surplus Economy: Theory and Policy* (Homewood, Ill.: Richard D. Irwin, 1964). On the algebra of these models, see Sherman Robinson, "A Note of the U-Hypothesis Relating Income Inequality and Economic Development," *American Economic Review* 66 (June 1976): 437–40.
17. The British ratio pattern is computed from data in B. R. Mitchell and Phyllis Deane, *Abstract of British Historical Statistics* (Cambridge: Cambridge University Press, 1962), pp. 8, 60, 366. For recent Latin American ratios, see Figueroa and Weisskoff's chapter in *Consumption and Income Distribution in Latin America*, tables 5 and 7.
18. For theoretical appraisals of the stability properties of pure capitalist market economies in general, see Kenneth J. Arrow and Frank H. Hahn, *General Competitive Analysis* (San Francisco: Holden Day, 1971); Geoffrey Harcourt, ed., *The Microfoundations of Macroeconomics* (London: McMillan, 1977); E. Roy Weintraub, *The Compatibility of Microeconomics and Macroeconomics* (Cambridge: Cambridge University Press, 1979); Frank H. Hahn, "Monetarism and Economic Theory," *Economica* 47 (February 1980): 1–18; and "Unemployment from a Theoretical Viewpoint," *Economica* 47 (August 1980): 285–98. For a critique focusing on the LDCs, see David Felix, "The Technological Factor in Socio-Economic Dualism: Toward an Economy of Scale Paradigm for Development Theory," *Economic Development and Cultural Change* 25 Supplement (January

1977): 180–211; and "De Gustibus Disputandum Est: Changing Consumer Preference in Economic Growth," *Explorations in Economic History* 16 (July 1979): 260–96.

19. Kazushi Ohkawa and Henry Rosovsky, *Japanese Economic Growth* (Palo Alto: Stanford University Press, 1973), pp. 82–87; K. Ohkawa and Miyohei Shinohara, *Patterns of Japanese Economic Development: A Quantitative Appraisal* (New Haven: Yale University Press, 1979), p. 232, table 13.5; El Colegio de México, *Estadísticas económicas del Porfiriato: fuerza de trabajo y actividad económica por sectores* (Mexico, D.F.: Seminario de Historia Moderna, 1965), pp. 147–51.
20. Carl Mosk, "Fecundity, Infanticide and Food Consumption in Japan," *Explorations in Economic History* 15 (1978), table 1. On Mexico, see Rozenzweig's and Cossio Silva's chapters in *Historia Moderna de México* for material on the nutritional decline of Mexican urban and rural workers during the Porfiriato.
21. Donald Keesing, "Structural Change Early in Development: Mexico's Changing Industrial and Occupational Structure from 1895–1950," *Journal of Economic History* 29 (December 1969): 723.
22. Labor productivity of the Japanese artisan sector rose at only a moderately slower rate than did the factory sectors. For example, in 1909 the value added per factory worker was 2.3 times that of the artisan worker; by 1937 the ratio had risen merely to 2.8. Artisan employment increased during that interval and in 1937 was still supplying 26 percent of Japanese industrial output. Ohkawa and Rosovsky, *Japanese Economic Growth*, pp. 81–83, tables 4.4 and 4.6.
23. Yuichi Shionaya, "Patterns of Industrial Development," *Economic Growth: The Japanese Experience*, ed. Lawrence Klein and K. Ohkawa (Homewood, Ill.: Richard D. Irwin, 1968), appendix tables 3A–4 and 3A–5; *Estadísticas económicas del Porfiriato: comercio exterior de México, 1877–1911* (Mexico, D. F.: El Colegio de México, 1960).
24. "The long-term demand forces—in particular the degree of imbalance in technological progress between sectors using machines, skills, and raw labor with varying intensity . . . have been understated as determinants of inequality trends. Indeed, such technological imbalance has not been well-appreciated in explanation of accumulation and growth." Peter Lindert and Jeffrey G. Williamson, "Three Centuries of American Inequality," *Research in Economic History* 1 (1976): 107. For an elaboration of this theme, see Felix, "De Gustibus Disputandum Est," *Explorations in Economic History* 16:260–96.
25. For an initial attempt using postwar Argentine input-output tables, see David Felix, "The Dilemma of Import Substitution—Argentina," *Development Policy: Theory and Practice*, ed. Gustav Papanek (Cambridge, Mass.: Harvard University Press, 1968), pp. 55–92.
26. Nathaniel Leff, "Multinational Corporate Pricing Policy in Developing Countries," *Journal of International Business Studies* 6 (Fall, 1975): 55–64; Eileen McKenzie, "Marketing in Brazil Comes of Age" and "Measuring the Growing Consumer Market" in *Brazilian Business* 17 (January 1977).
27. For a recent review of these studies, see William R. Cline, "Income Distribution and Economic Development: A Survey and Tests for Selected Latin American Cities," in *Consumption and Income Distribution in Latin America*, pp. 205–49.
28. Henry Rosovsky and Kazushi Ohkawa, "The Indigenous Components of the Modern Japanese Economy," *Economic Development and Cultural Change* 9 (April 1961): 476–501. With housing excluded, the proportion was 49 percent, and it also fell moderately with higher household income.
29. Richard Weisskoff and Edward Wolff, "Linkage and Leakages: Industrial Tracking in an Enclave Economy," *Economic Development and Cultural Change* 25 (1977): 607–28.
30. Ibid, p. 626.
31. Marcelo Selowsky, *Who Benefits from Government Expenditures: The Case of Colombia* (New York: Oxford University Press, 1979).
32. Albert O. Hirschman, "The Changing Tolerance for Income Inequality in the Course of Economic Development," *Quarterly Journal of Economics* 87 (November 1973): 544–66.