

## 66. A historical view of the politics of inequality

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*Discussions on development frequently take place in a historical vacuum. Debates are based largely on prevalent theoretical and conceptual paradigms and iconic (usually Northern) case studies. Seldom do they draw systematically on the lessons of history. Yet looking at the origins of historical success on any given topic liberates us to propose a wider range of policy options than whatever is the received wisdom of the day. To illustrate the value of such an approach, this article briefly surveys four countries that have experienced prolonged periods of redistribution at some point in the past fifty years: Bolivia, Brazil, Malaysia and Mauritius.*

The historical narrative we currently use on inequality, redistribution and social justice is a limited one. The New Deal in the USA and the origins of the UK welfare state are far too prominent. History is much richer than that. In diverse cases where inequalities have declined, this outcome has depended on the interactions between policy and politics; between top-down leadership and bottom-up action; between deliberate responses and others unrelated to inequality in itself; and between measures aimed at both vertical and horizontal inequalities. One change can open up or close down possibilities for another.

To explore the potential of this approach, I identified four countries that had experienced prolonged periods of redistribution at some point in the last fifty years: Bolivia, Brazil, Malaysia and Mauritius. While a complete analysis would consider multiple dimensions of inequality, such as nutrition, health, education, security, wealth and land ownership, I concentrate here on income redistribution, for reasons of space.

Bolivia and Brazil have been at the forefront of Latin America's impressive recent achievements in reducing inequality. Over the past decade, the incomes of the poorest Brazilians have risen more than five times faster than those of the richest. Women's incomes are rising faster than men's, black people's faster than whites', the impoverished north-east faster than the rich south-east (Ivins, 2013). Beyond income inequality, Brazil has made stellar progress in achieving 'zero hunger'.

The political drivers of **Brazil's** turnaround include:

- The transition from military rule to democracy, encompassing a constitution and political process attuned to the importance of basic rights, such as the right to food. The new charter also sought to restrict the power of the military and strengthen people power by establishing citizen oversight councils and mass-participation policy conferences, and by extending formal avenues of political participation and representation. These include greater freedom to propose new laws and initiate referenda (PDA, n.d.);
- The election of the centre-left government of the Workers' Party (PT), which assembled a coalition of working-class and progressive middle-class Brazilians behind a programme tackling poverty and inequality;
- A high level of public participation, for example in holding nineteen different ministries to account on Brazil's 'zero hunger' effort to achieve universal access to food (FAO, 2011).

Promising political and economic conditions paved the way for redistributive policies, including:

- Brazil's renowned and widely imitated Bolsa Familia social protection system (World Bank, n.d.), with cash transfers for women in return for getting their children vaccinated and keeping them in school;
- Labour policies that promoted a reduction of unemployment and job informality as well as an increase of social security coverage, average wages and reinstated tripartite wage bargaining (Cornia, 2014).

Also the reduction of the skill premium thanks to the increasing supply of educated workers (Lustig et al., 2011);

- Major increases in the minimum wage, and the introduction of a universal pension, particularly important in deprived rural households;
- The maintenance of political and economic stability, for example the avoidance of high inflation, throughout the period of reforms.

As of early 2016, however, there were signs that Brazil's recent economic model of progressive social policies combined with growth led by commodity exports in a market system was losing energy. In its place were an economic slump, calls for presidential impeachment, and mass public protests calling for deeper structural reforms (see e.g. Trebeck, 2014) and improvements in the country's health and education services (Mason, 2013).

**Bolivia** has seen a much sharper fall in inequality than Brazil, stemming from a seismic shift in Bolivia's social and political identity akin to the end of apartheid in South Africa. In 2006 Evo Morales took office as the country's first ever indigenous president, at the head of a new political movement, the Movement for Socialism (MAS).

The Morales government instigated talks on a radical new constitution enshrining a series of political, economic and social rights, intended to ensure that 'people power' became a driver of redistribution. This helped build momentum for new progressive spending programmes which the government funded by renegotiating the country's oil and gas contracts.

The new government used this windfall to invest in infrastructure, targeted social programmes and a universal pension entitlement. It has raised the minimum wage and presided over an expansion of the formal economy. There has been a substantial increase in public spending on health and education, which has had the biggest redistributive impact (Lustig et al., 2013) by providing the poorest with urgently needed 'virtual income' (Seery, 2014). Traumatic memories of Bolivia's 1980s hyperinflation have also ensured a degree of spending restraint, although little progress has been made in increasing the size or progressivity of the non-hydrocarbon tax take.

**Malaysia's** combination of stellar growth and high-speed redistribution in the 1970s and 1980s was born out of widespread rioting in 1969, as the country's ethnic Malay majority protested about its economic and social marginalization compared with the country's ethnic Chinese and Indian minorities. This prompted the introduction of the New Economic Policy (NEP) the following year. The NEP sought:

- a decisive reduction in urban and rural poverty for all Malaysians irrespective of race
- a definitive reduction in racial economic imbalances in terms of income, employment and wealth
- high growth rates with an annual target of 6.4 per cent per capita for 1970–85
- full employment, with the state guiding industrialization towards labour-intensive sectors
- state intervention to support small farmers (overwhelmingly Malays) and ensure asset redistribution, for example ownership of shares by ethnic Malays
- social policies in areas such as housing, education and health to reduce the likelihood of communal conflicts and build a sense of common identity
- comprehensive data gathering to monitor and adapt policies as they evolved.

Increased spending on essential services, and job creation through rapid industrialization in manufacturing (Malays had largely been employed in agriculture), led to a boom period of 'growth with equity', rapidly reducing poverty among ethnic Malays. However, inequality has risen since 1990, with signs that the government finds it harder to tackle intra-Malay inequality than inter-ethnic divisions.

At independence in 1968, the prospects for **Mauritius** looked grim: there was almost total dependence on sugar (93 per cent of its exports) in a racially fragmented society with serious ethnic tensions. Yet political leadership ensured a 'one nation' strategy, including a constitution that guaranteed parliamentary seats to the various ethnic minorities. Mauritius's first post-independence leader, Sir Seewoosagure Ramgoolam (1967–82), pursued 'consociational' coalition governments that ensured social stability.

Social peace aided an extraordinary economic take-off based on heterodox policies. First the government negotiated preferential access for Mauritian sugar to the European Union, while at the same time pursuing labour-intensive manufacturing through the introduction of export processing zones based on the experiences of Singapore, Hong Kong and Taiwan, China. When those showed signs of losing momentum, the government moved to promote services such as tourism, although in this latest phase, inequality has started to rise again.

The government also developed 'OECD-style social protection', working with a large and active trade union movement to introduce centralized wage bargaining, price controls on socially sensitive items, and generous social security, especially for the elderly. Income taxes, while progressive, are low and have 'negligible impact' on overall distribution.

One academic study concluded that 'strong domestic institutions have contributed substantially to Mauritian success and are a good candidate for underlying explanations of the Mauritian miracle' (Subramanian and Roy, 2003).

Some common factors behind these redistributive episodes warrant further study. They include the importance of new political parties in Brazil and Bolivia, in both cases linked to social movements. New constitutions have changed the nature of politics in these two countries. Big political shocks were important in Malaysia, in the form of race riots, and in Brazil with the end of military rule.

Factors that turned out not to be problematic include the curse of wealth – big commodity booms in Bolivia and Brazil coincided with redistribution. Another factor is ethnic diversity: Malaysia and Mauritius were both ethnically divided, but proved able to redistribute. In fact it may even be the case that having political and economic power in the hands of different groups can lead to them having to negotiate, although it can also lead to conflict, and we need to understand what determines the final outcome.

These initial thoughts have led to a joint and ongoing research programme with David Hudson and Niheer Dasandi from University College, London. Using the Gini index figures in the Standardized World Income Inequality Database, covering 173 countries from 1960 to 2012,<sup>1</sup> they identified twenty-three countries that have experienced redistribution over seven years or more.

The timeframe follows the literature on growth episodes, but is somewhat arbitrary and throws up anomalies. Nevertheless, the list provides a useful starting point for a more systematic review of the politics of redistribution.

A conference in Birmingham, UK (in February 2015) added a number of further avenues for exploration. One is decentralization in the run-up to the distribution period, which helped develop tools such as cash transfers and participatory budgeting in Brazil. Another is the way in which 'coalitions of commitment' have brought together state insiders and grass-roots outsiders to push through redistributive programmes. Also important is the use of narratives, national myths and symbols to generate momentum and weaken opposition to reforms.

The spread of secondary and tertiary education is seen to be important in reducing the return to skills for more educated people, so the wage differential between skilled and unskilled falls, bringing down income inequality. There is also a complex connection between horizontal and vertical inequalities. Horizontal inequalities affect groups – based on ethnicity, gender, region and other factors – whereas vertical inequalities are those between individuals. Stewart (2015) argued that horizontal inequalities are often the triggers for redistribution (such as race riots in Malaysia), but the impact of subsequent reforms affects both types of inequality.

This initial work raises other questions. Was falling inequality a conscious aim of the government, or an unintended consequence of something else, for example a shift to labour-intensive manufacturing in pursuit of growth in Mauritius and Malaysia? Are there particular historical windows of opportunity, when the prevailing economic and policy winds are favourable for national redistribution? (Of my four examples, two are from the 1970s, while two fall in the present century, after the global Washington consensus had already passed its high water mark.) How much of this was about a fortunate combination of circumstances, rather than conscious politics or policy?

Those concerned with international development too often operate in a historical vacuum, supplementing contemporary empiricism by falling back on either disciplinary 'priors' or an impoverished set of historical reference points. This is unfortunate, because a more rigorous consideration of a breadth of historical examples can greatly enrich discussions on a range of pressing contemporary challenges.

**Note**

1. The Standardized World Income Inequality Database is available at <http://myweb.uiowa.edu/fsolt/swiid/swiid.html>. Although questions have been raised about the accuracy of some of the data points in the database, for the purposes of this exercise, the author considered it good enough to provide a 'long list' of countries to consider. Subsequent analysis will weed out rogue data and erroneous candidates.

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