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DEVELOPMENT WITH NEO-LIBERAL POLICY

Is income inequality a negative societal outcome?

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ABSTRACT

Neo-liberal policy as a means for development has been present in our society since the first experiment in Chile during the 1970s. This experience came to be known as an economic 'miracle' and the model was soon imitated by surrounding countries. In these countries income inequality has been a well-known feature and the Gini Coefficient in all Latin American countries exceeds the world average. There is however no consensus that income inequality is an actual societal problem, or that the implementation of policy is needed in the struggle against it.

The strengthening of the middle class is by numerous scholars, especially within the modernisation theory, mentioned as an important factor for democratisation. Increased marginalisation is opposed to the concept of a strong middle class, which is one of the reasons why it may be considered a negative pattern. Scholars advocating neo-liberal policy, on the other hand, mean that income inequality not is a problem in itself and that with time the free market will even out the gaps.

Keywords: Chile, Development, Income inequality, Modernisation, Neo-liberalism

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TABLE OF CONTENTS

1. Introduction	1
1.1 Purpose and Question at Issue	1
1.2 Method and Theory	1
1.3 Material and Delimitation	2
1.4 Disposition	2
2. Modernisation theory and Neo-Liberalism	3
2.1 The Modernisation Theory	3
2.1.1 Theory	4
2.1.2 Economic Growth and Democracy	4
2.1.3 Operationalisation	5
2.2 Critique on the Modernisation Theory	6
2.2.1 Societal Conflict	6
2.2.2 Operationalisation	6
2.2.3 Neo-Marxist Critique	7
2.2.4 The Dependency School	7
2.2.5 Empirical Examples	7
2.2.6 Response to the Critique	7
2.3 Development Through Neo-Liberal Policy	8
2.3.1 Critique	8
2.3.2 Comparison to the Modernisation Theory	9
3. Income Inequality	10
3.1 Income Inequality and Neo-Liberalism	10
3.2 Income Inequality and Democracy	12
4. Chile and Neo-Liberal Development	14
4.1 A Political Overview	14
4.1.1 The Pinochet Era	15
4.1.2 Democratisation	15
4.2 Neo-Liberalism in Chile	16
4.2.1 1975-1982, From Growth to Crisis	16
4.2.2 1983-1988, From Crisis to Miracle	17
4.2.3 1989- , Democratisation	17
4.2.4 Summary	18

4.3 Societal Development	18
4.4 Income Inequality	20
4.5 Economic and Societal Development in Latin America	21
4.5.1 Income Inequality	22
5. Discussion	24
5.1 Neo-Liberalism and Income Inequality	24
5.2 The Middle Class and Education	25
5.3 The Contradiction	25
6. Conclusion	27
References	28

Appendix: **Table 1:** Correlation between level of democracy and income inequality

Figure 1a and 1b: Correlation between income inequality and the level of democracy in the world

Figure 2: GDP Growth in Chile 1973-2004

Figure 3: Development of the Gini Coefficient in Chile 1971-1998

ABBREVIATIONS

CPD	Concertación de Partidos por la Democracia
ECLAC	Economic Commission for Latin America and the Caribbean
IADB	Inter-American Development Bank
IMF	International Monetary Fund
PDC	Partido Demócrata Cristiano
UBV	Utbildning för biståndsverksamhet (Education for Development Assistance)

1. INTRODUCTION

1.1 PURPOSE AND QUESTION AT ISSUE

Neo-liberalism has spread around the world since the 1970s. The first example we saw was the experiment carried out by the Chicago Boys in Chile during the Pinochet regime. This was an experiment that came to be known as an economic ‘miracle’ (Barton&Murray 2002:333). I consider neo-liberalism to be an important development model to study mainly because of the great impact it has had both on developed and developing countries throughout the world the last decades, especially in Latin America.

The main purpose of this essay is to examine neo-liberal policies as a means for development. Since the Chilean neo-liberal experience often is referred to as a miracle I find it interesting to look into the negative societal effects of this specific case¹. The two main negative outcomes were increased *unemployment*² and *income inequality*. Great income gaps are a common feature for all Latin America and this is the issue I have chosen to focus on. Table 1 shows that a higher level of income inequality is negatively correlated with a high level of democracy. This connection is also supported by Figures 1a and 1b³. In spite of this, not everybody agrees that income inequality is a negative outcome or that something should be done to change this kind of situation. My hypothesis is that *neo-liberal development breeds income inequality which in its turn is a threat to democracy*. Since the neo-liberal approach is highly present I believe that it is important to clarify both if income inequality is a negative outcome, and in that case why. This leads me to the main question of this work: *Can increased income inequality be regarded as an effect of neo-liberal development and how does it affect society?*

1.2 METHOD AND THEORY

The essay is meant to examine the connection between neo-liberal development and income inequality, and its societal effects. In order to do this I have made an empirical study of Chile, and to some extent Latin America, where I review the development under neo-liberal policies since the 1970s. The neo-liberal development model is linked to more historical development theory with the purpose to have a more solid base for the assumptions. It is not my purpose to lead a normative discussion, but it is interesting to have the question of whether neo-liberalism is a desirable alternative for development or not, in mind. It would have been pos-

¹ Since this model rapidly spread to other Latin American countries examples from these will therefore also be discussed.

² Income inequality is partly a result of increased unemployment which is a matter that should be deeply discussed, however separately and not in this essay.

³ All tables and figures are presented in the appendix.

sible to make a comparative study of countries that have gone through similar processes but my interest in this matter is specifically on Chile since it has been so widely praised and copied, something that has occurred even though the regime was authoritarian and repressing.

The first part of the essay is based on development theory and the connection between modernisation and neo-liberalism. The second part is on income inequality and its impact on society and possible democratic effects. I will compare the neo-liberal view on inequality with other scholars and use empirical examples from Chile, the neo-liberal 'tiger', to show what the consequences have been from the economic development.

The Gini Coefficient is used as a measure for income inequality. It is a measure developed by the World Bank and it is a widely accepted concept in this matter.

1.3 MATERIAL AND DELIMITATION

Except for the discussion part I try not to be too subjective, but I am well aware that my own preferences are reflected. I have tried to use literature both from an economic (mainly pro-neo-liberalism) and a societal (mainly con-neo-liberalism) perspective. I have however found more material from a societal perspective which can be one explanation why most of the scholars presented have had a negative approach to the neo-liberal development model. I have used books, articles, and Internet sources since the 1950s in order to have a perspective that is as wide as possible.

Neo-liberalism is a means for economic growth and does not bother much with state policies, other than that most policies should be left to the market. I study neo-liberalism as a development model but since this is not an economic essay focus is not on the specific reforms in the economic sector. What I do emphasise are negative societal effects of this model, more closely the increase of income inequality.

1.4 DISPOSITION

I will first go into development theory where the modernisation theory and neo-liberalism will be discussed first separately and then compared to each other. I will then bring up the issue of income inequality and its societal effects, mainly from a democratic point of view. I discuss the connection to neo-liberalism that has been focused on in the literature used and the different ideas of whether it harms or benefits society. Some parallels are drawn to empirical examples but most I save to the next chapter where Latin America in general and Chile in particular is examined. In this part I start with a historical overview of Chile, mainly since the 1970s, in order to understand the societal situation. I do not believe that it is possible to understand the development if one does not understand the history. Finally I will lead a discussion based on the facts and opinions presented and it is mainly here my own perspective and reflections come in.

2. MODERNISATION THEORY AND NEO-LIBERALISM

In the Western countries and their allied in the Third World the modernisation theory was the dominating perspective on development after World War II. It was based on the thought that Third World countries should follow the Western road to success through adopting similar measures. The critique was strong and came from many different scholars, whence some even claimed that this kind of development would lead to tyranny. Times were changing and soon neo-liberal recipes for development became more common in the big Western countries and in the powerful and dominating international organisations. Both economists and political scientists started blaming Third World failures on too heavy political interventions and on the attempts to radical political shortcuts. These new scholars founded the concept ‘instant democracy’ and earlier studies on the many complicated pre-conditions for actual democratisation were neglected. In the late 1980s people started to realise that neo-liberalism not often resulted in the expected outcome and that political intervention actually was what resulted in the extraordinary socio-economic development in Southeast Asia (Törnquist 1996:44-47). I will below explain the main idea of neo-liberalism as development but I will start by describing the modernisation theory since I consider this theory as an important base for neo-liberal thinking. My interest is on economic growth as a means for democratisation and societal development; hence that is the part I will focus on.

2.1 THE MODERNISATION THEORY

According to the modernisation theory political modernisation was an effect of social, economic, and cultural modernisation (Törnquist 1996:53). It developed in the post-World War II era and there are three main events that stood for the foundation: (1) the rise of the superpower US who was the only Western nation that was strengthened by the war. In the 1950s they more or less took over the responsibility of managing the whole world. (2) The communist influence of the Soviet Union was extended to China and Korea. (3) The end of the European colonial empires in Asia, Africa, and Latin America created many new nation-states in the Third World. These new countries were looking for a development-model that could promote economy in order to enhance political independence. The modernisation school was, not surprisingly, founded by American scholars (encouraged by the political elite) as a means to avoid losing the new states to the Soviet communist bloc. It was generously supported both by the US government and by private foundations (So 1990:17-18).

Since Aristotle the theory that democracy is only possible in societies that are fairly wealthy and have a low level of poverty, has been present. A society with a

small elite and a large impoverished mass creates oligarchy or tyranny (Lipset 1959:75). Max Weber was also an adherent of the modernisation theory and he suggested that modern democracy only can develop under the unique conditions of capitalist industrialisation (Lipset 1959:73). This development theory means that to overcome the great gap between rich and poor countries the more underdeveloped countries should imitate the earlier developmental process of the more developed countries to gain the same qualities (Hettne 1992:60).

2.1.1 Theory

In the search for its own theory the modernists adopted both *evolutionary* and *functionalist* theory. Evolutionary theory fits well when explaining the development to modern society in Western Europe and therefore it was thought to be useful for modernising even Third World countries. As can be understood by its name it sees societal development as evolutionary; that it is unidirectional, desirable, and slow. It will take centuries to complete such an evolution as the one from a simple, primitive society to a complex, modern society (So 1990:18-19).

The functionalist theory is influenced by biology and means that the institutions in a society are, just as biological organisms, interrelated and interdependent (such as economy and government). Just like the body, society will always restore equilibrium so if one institution changes, others will change accordingly – a chain reaction starts. This also means that institutions not fight each other (So 1990:20-21).

2.1.2 Economic Growth and Democracy

Within development studies the modernisation theory is what mainly has focused on the question of the connection between economic growth and democratisation. The most prominent of scholars is Seymour Martin Lipset who means that economic development leads to increased income, greater economic security, and higher education (Lipset 1959:83). In the scientific periodical ‘American Political Science’ he 1959 presented his thesis that “*the more well-to-do a nation, the greater the chances that it will sustain democracy*” (Lipset 1959:75). He explains this by pointing at a chain reaction:

economic growth → increased level of *education* → increased economic efficacy because of *rational arguments* that are universal and puts the individual in focus → bigger tolerance for *differences in opinion* → a more *democratic culture*.

With a higher living standard people have more time to devote to questions about politics and society since the perspective changes when food for the day and pure survival no longer are critical issues. Questions about political rights, civil liberties, rule of law, democratic procedures, and corruption had earlier been secondary (Karvonen 1997:28-29). Other important societal effects of economic growth

are that the state gets richer which creates new career opportunities for all groups. NGOs also arise which is important for democratic development and consolidation since it both increases political participation and creates opposition (Karvonen 1997:30).

The Middle Class

The foundation for the chain reaction is the expanded and strengthened middle class. A society has better chances to fight or even avoid extremist groups if the hierarchy is diamond shaped instead of triangular. It also affects the way people see themselves and others and they treat each other more like equals – a smaller group is no longer automatically inferior. If people are no longer as inferior they might be considered to be given political rights, above all they will claim it and have the strength to carry through their demands. The elite itself is often opposed to democracy since it means they would have to share their power and privileges (Lipset 1959:83-84). The role of the elite is highly important both in the discussion on neo-liberalism since this model usually is implemented by this very group. It is also an important factor for explaining the Chilean society during the Pinochet era. These are however topics that further will be discussed below.

Socio-economic development not only changes the balance of class power through the enlargement of the working class, but also erodes the size and the power of the large land-owning classes who can be seen as the most anti-democratic force (Rueschemeyer et al 1992:76).

Education

Lipset stated that one of the important factors for democratisation is that economic growth promotes a higher level of education. Education is an important and well-examined variable and there is strong positive correlation between higher education and higher democratic standards. In 1959 education was in all relevant studies proved to be far more significant than occupation or income. It is a necessary condition, however not sufficient (Lipset 1959:76-79).

The way I see it a middle class will not emerge by itself but through the increased education level. However, if people not are given the same opportunities the class differences would rather increase. I will come back to this issue later on in the discussion.

2.1.3 Operationalisation

There are two distinct traditions of research that have come to quite different results on the issue of the connection between economic growth and democratisation; quantitative *cross-national comparisons* and *comparative historical studies* with qualitative emphasis. In the quantitative studies a positive correlation between development and democracy has been found, whereas the qualitative studies rather trace the rise of democracy to a favourable historical constellation of conditions in early capitalism, and thus being more pessimistic to the developing countries today (Rueschemeyer et al 1992:1, 3).

2.2 CRITIQUE ON THE MODERNISATION THEORY

The modernisation theory at first received great optimism, but that was soon to be broken down and the idea of sustainable development and democratisation through liberalisation has been strongly criticised, mainly for being typical results of Western researchers. The Western values are assumed to be natural and undoubtedly the 'best', which is an expression of Western superiority. Since Third World countries are assumed to want Westernisation, alternative positions are not considered. Is democracy really necessary for economic development? Can developing countries not create their own models? (So 1990:54-55)

2.2.1 Societal Conflict

As a response to the argument that extremism would decrease through an emerged middle class Huntington, as one of the main critics, asserts that through modernisation societal and political conflicts aggravate rather than diminish. When big changes are set in motion, ethnic and religious belonging gets more important for people and fundamentalism is more easily evolved. This can start conflicts that often result in serious political clashes. In a society with increasing urbanisation, education, and awareness, demands and expectations in social and economic respects grow. If the state fails in fulfilling these demands society will suffer from alienation and strong tensions. In this kind of society political and religious extremism is bred (Hadenius 1994:80-83). Huntington was also one of those who argued that socio-economic modernisation not automatically leads to democracy, but rather to new political and social conflicts impossible to handle for the pre-existing political institutions (Törnquist 1996:118-119).

2.2.2 Operationalisation

Since modernisation researchers have a strong tendency to use arguments on a high level of abstraction, it is hard to distinguish which country and which historical period they are referring to. They use cross-national research at a given time instead of historical research over time, for example an assumption that 20th century China was at the same developmental stage as 18th century Great Britain and therefore should use the same measures to reach the same results. This kind of comparison is not possible if one wants to reach a scientifically valid result (So 1990:56-57).

One massive result though remains that cannot be explained away by problems of operationalisation. This is that "there is a stable positive association between social and economic development and political democracy" (Rueschemeyer et al 1992:29).

2.2.3 Neo-Marxist Critique

According to neo-Marxist critique the modernisation theory is nothing but a strategic move from the West during the Cold War, and this way of thinking leads to un-revolutionary behaviour, hence hindering development (So 1990:58). Another strong critique lies in the neglecting of foreign domination, such as colonialism and the control over Third World countries by multinational corporations. Neo-Marxists mean that even after the colonial domination, Third World countries are still dominated by Western countries; politically, economically, and culturally. How can such a crucial factor be neglected? (So 1990:58)

2.2.4 The Dependency School

One of the strongest critiques however came from the *Dependency School*, which developed from social scientists of the Third World, especially in Latin America during the 1960s, as a counter reaction (Hettne 1992:69). The dependency theorists meant that capitalism and modernisation in the Third World generated underdevelopment, and that it not can generate democracy, only dictatorship (Rudebeck&Törnquist 1995:2, Törnquist 1996:74).

2.2.5 Empirical Examples

Critics did not have a hard time finding empirical examples that deviated from the development-pattern explained by the modernisation theory. India is one, where the socio-economic development was low but with simultaneously good democratic achievement. Also in the rich Arab world great deviations were found since the countries were rich but with no sign of democratisation. Overall it was shown in Latin America that despite major efforts no economic take-off occurred, rather retrogression. The same happened from a democratic point of view, and Latin America was in the mid-1960s broadly occupied by different military regimes (Hadenius 1994:80-81).

2.2.6 Response to the Critique

The modernisation theory had its revival in the late 1970s. It was still focused on Third World development; it still meant that modernisation is good for these countries, and still used terms like tradition and modernity. It however responded to the critique and some striking differences can be found. The critique received from the neo-Marxists has been called propagandistic and a misreading of their arguments, but most critique has been considered and some dubious assumptions eliminated (So 1990:60-62).

This new modernisation theory opens up for new research and provides a more sophisticated analysis. Traditional values can actually promote growth (e.g. Hong

Kong and Asian Values), and focus is now put on the unique development of each case – they now use theory to explain individual cases instead of the opposite. More attention is also given to multi-institutional analysis, including social, cultural, political, and economic institutions (So 1990:86-87).

My focus is on the part of the modernisation theory that emphasises economic growth, which leads me to the more contemporary theory of development through neo-liberalism.

2.3 DEVELOPMENT THROUGH NEO-LIBERAL POLICY

Milton Friedman's reworking of the neo-classical economic doctrine is what we today refer to as neo-liberalism, and the first experiment was carried out in Chile (Barton&Murray 2002:333).

Just like Lipset's thoughts on development, neo-liberalism is based on economic growth, but here the important aspect is how this is achieved. Too much politics was the problem since it interfered with, and thereby negatively disturbed, the market. The foundation is that individuals are rational creatures who seek to maximise their own profit, and that economic gains were in public interest. Capitalistic market-economy was seen as crucial for democratic development (Törnquist 1996:85-87). The neo-liberal economic policies are mainly based on market liberalization, the dismantling of the state, indiscriminate opening, deregulation, and financial speculation (Borón 2000:95). The expected results of less money spent on inefficient production are higher efficiency, better rule-of-law, improved civil liberties and political rights, and liberal democracy. But the economy has to be market-led (Törnquist 1996:85-87). This can be compared to Lipset's chain reaction where economic profit generates well-being and political awareness.

The optimal speed of liberalisation has been debated but many analysts agree that gradual is better than 'big-bang' since it gives time for firms to restructure their operations, resulting in lower unemployment (Edwards&Lederman 1998:11). In this matter the neo-liberal theory agrees with the evolutionary theory of modernisation; development is and should be slow.

2.3.1 Critique

Market liberalisation deeply affects the competitive rules for local entrepreneurs. As a result from the monetary policy there will be a decline in domestic demand and local market in combination with mounting worldwide competition.⁴ The ones most affected are the local consumers where cleavages increase. The upper middle class will likely benefit from lower prices for sophisticated imported goods, the lower middle class will suffer from higher prices on basic, local goods, and unemployment will soar (Duquette 1999:13).

⁴ In Latin America this is likely to drive businessmen out of the international market, as well as the domestic.

Bresser Pereira, Maravall, and Przeworski advocate social democratic policy in new democracies even though growth has not yet resumed. Those hardest hit by the market reforms must be protected (lower middle class in urban areas) and economic reforms oriented towards their welfare (in the transitional states with those preconditions). These economies should step away from liberalism and the deeply founded tradition of political exclusion and economic inequality. The degree to which the new democracies distance themselves can be seen on the pursued social policies (Duquette 1999:176-177).

According to Veltmeyer and Petras neo-liberal policies in fact have little to do with economic development (Veltmeyer 2000:95). De Vylder means that the neo-liberal model carried out by the military regime in Chile is incompatible with a democratic regime. It was however also in contradiction with the authoritarian regime since there were no free exchange of ideas and information, which is crucial for the efficiency and development desired by the neo-liberal model.

[...] a systematic and coherent application of the neo-liberal model is incompatible with a democratic regime, and also to a dictatorial regime. The model is, hence, incompatible with itself.⁵

De Vylder 1985:38

I find this argument interesting and worth noting. The neo-liberal experiment in Chile was carried out under extreme conditions and some mean it would not be possible under a democratic regime. How can it then be recommended? There is a lot more critique to discuss but since it mainly concerns poverty and income inequalities I have chosen to put that in chapter three and four.

2.3.2 Comparison to the Modernisation Theory

I see the neo-liberal development model as not too distinguished from modernisation theory, or more specifically Lipset's thesis, that economic growth generates democracy. They have the same kind of theory on a chain reaction starting in economic growth and ending up in improved well-being. The neo-liberal model is though not applied with the desire to create democracy, but rather a proposal on how to achieve economic growth. This is where I see the main difference from Lipset's thesis and also one of the clearest shortages of using neo-liberalism as a development model. I believe that the cooperation between economy and politics is crucial in the struggle for a 'good' or desirable society.

The neo-liberal policies have frequently been accused of generating income inequalities, which is what the next chapter will examine.

⁵ This is my translation. The original quote: "una aplicación sistemática y coherente del modelo neoliberal es incompatible con un régimen democrático, y también con un régimen dictatorial. El modelo es, en fin, incompatible consigo mismo."

3. INCOME INEQUALITY

In an unequal society with great class-divergence, the poor (the many) have less education, less wealth, less honour, and most importantly less individual power (Rueschemeyer et al 1992:41). Lipset means that poorer countries generally have a higher degree of income inequalities.

In countries with great inequality of wealth, the poor are more likely to be a threat to the privileged and the established order. The rich in turn tend to be hostile to democracy, both because they feel threatened and because they often view it even as morally wrong to let the poor and wretched participate in political decisions – an arrogant attitude which in turn feeds the resentment of the poor.

Rueschemeyer et al 1992:13-14

This explains Lipset's view of a growing middle class as an important breeder for democratisation. Increases in wealth, education, communication, and equality are results of industrialisation (Rueschemeyer et al 1992:13-14).

Social reforms must be revised since both an unequal situation and poverty are both ethically unacceptable. The population living in poverty are shut off from the educational and job opportunities, proper healthcare, and decent quality of life that are every person's right. Politically it is a problem because the poor cannot become responsible citizens to involve in the political process unless they are full partners in social development and the production apparatus. When 40 percent of a nation's people are poor and unproductive, no country has ever been able to compete on the global marketplace, hence an economic problem (Iglesias 1993:29-30). Utilitarianism addresses inequality as 'distributional badness' since there is not a maximisation of utility (Sen 1997:115-116).

Jackson means that income gaps between employers and employees have deepened during the last 10-15 years. According to Borón, the reason that the United Kingdom has the most unequal structure of income distribution in the European Union, is the heritage of Margaret Thatcher and John Major and all due to neo-liberalism (Borón 2000:109). I will further explain what this type of argument is based on.

3.1 INCOME INEQUALITY AND NEO-LIBERALISM

A higher rate of savings allows a higher rate of investment, which allows a higher level of productive capital, which allows more output, hence economic growth. There is a chain reaction from public savings to economic growth. The ones who save are the rich so more money to the poor would lead to less savings; unequal distribution generates growth.

The neo-liberal position is that maximum economic growth will be obtained by allowing the distribution of income to be determined by the market; governments should not adopt policies that would redistribute income away from the rich and towards the poor.

MacEwan 1999:73

According to neo-liberal adherents, income inequalities will have an increasing trend in developing countries before levelling forces become strong enough to first stabilise and then reduce them. This will occur if the government does not interfere and the free market can act automatically. Hence, these countries are encouraged to wait and be patient. Efforts to help the poor through subsidies or distributive policies would only end up hurting them since such measures have growth-reducing impacts (MacEwan 1999:74).

Martin Feldstein however argues that income inequality not is an issue that should be dealt with through the implementation of new policies. The real problem does not lie in income inequality but in poverty, which is where efforts of improvement ought to be put. He makes an example where he states that if a number of rich people are given \$ 1 000 each, by a bird (!), the Gini Coefficient⁶ would rise but no one is worse off. He, as many other economists, refers to the Pareto principle that concludes that ‘a change is good if it makes someone better off without making anyone else worse off’. In economic evaluation of policies it is a widely accepted argument (Feldstein 1999:1). This arises wonder whether well-being should be measured only in economical terms, and I consider it to be extremely insufficient. I see this is a great example of the importance of communication between politicians and economists, and of how easy it is for one to neglect the other.

MacEwan questions whether it could be so that the poorer would be even poorer if the rich were not so rich and/or that in order to improve the position of the poor it is first necessary to improve the position of the rich (MacEwan 1999:67).

Income inequalities are supposed to generate growth since it enlarges public savings. MacEwan means that there are no data supporting the argument that unequal distribution enhances growth. Rather the other way around and that equality generates growth. He further argues that the neo-liberal adjustment programmes not should be considered an alternative since they generate large amounts of human suffering. The neo-liberal arguments that inequalities are good for economic growth are wrong also because it ignores the many ways it affects social and economic relations (MacEwan 1999:82-83, 147).

Evidence proving that income equality has been good for growth are strong and the policies formulated by the IMF, the World Bank, and the US government can only be justified by the assertions that inequality promotes growth. They have however been forced to acknowledge reality. Latin America is probably the region where neo-liberalism has been strongest during the recent decades, and mean-

⁶ “The Gini Coefficient measures the concentration of incomes in the nation, with a higher Gini Coefficient value implying more concentration.” (Feldstein 1999:2) The values are rated from 0 to 1 but are commonly multiplied by 100.

while it has been an era of increasing inequalities in the very same area⁷ (MacEwan 1999:95-96).

Inequalities have increased throughout the world during the last 15 years, which has resulted in an extension of poverty and according to Veltmeyer there is no doubt of the connection between neo-liberal policy of adjustment and these results. Neo-liberalism has caused societal polarisation – winners and losers, thus one can say that the benefits of neo-liberalism have been highly concentrated to one group of which the majority is excluded. Politically these policies have also generated effects, mainly in the form of rising resistance and protests (Veltmeyer 2000:27).

Since the 1970s, after decreasing inequalities in the Western countries, the US and the UK once again had increasing figures, a trend that distinguishes these two countries. Rising inequalities is a clear indication that something is wrong in the world economy (MacEwan 1999:70-72). I would here like to emphasise that Reagan and Thatcher during the 1970s were the biggest advocates of neo-liberalism and it was in their countries income inequalities increased. Can we already here start to see a connection? Borón has given these two politicians and neo-liberalism the whole blame for the increased marginalisation.

On several occasions throughout history crimes against humanity have been committed by people claiming that ‘the means meet the end’ (MacEwan 1999:146).

3.2 INCOME INEQUALITY AND DEMOCRACY

Both Aristotle and Rousseau stressed that socio-economic inequality was a hostile condition to democracy. They also assumed that the non-propertied groups of society were excluded from participation. Jefferson did not believe in this exclusion, but he (too) argued that a democratic society had to be a one-class society. John Stuart Mill considered the growing prosperity and literacy, and the expansion of transportation and communication as means that increased people’s mobility and chances to organise. Hence, democracy was inevitable. Even if Mill’s position was proved wrong the history of democratisation cannot be understood without reference to class. The lower classes have been the once fighting for democracy (Rueschemeyer et al 1992:45-46). According to Lipset the elite has no interest in fighting for democracy since it would mean less power and privileges for them (Lipset 1959:84). This means that if the lower classes need strengthening to be able to push through democratisation, there are little incitements for the elite to give them that.

In a society suffering from poverty, high inequalities, and a non-functioning social security system people are likely to be prepared to support an authoritarian regime as long as it can meet the demands for social welfare. In other words, one must not underestimate the undemocratic effects of this issue, and its effects on democratic stability. It is a question of the hen or the egg, what provides what and

⁷ I will lead a further discussion on this matter in Chapter 4.

where could one begin? Inequality generates instability, but an improved and more stable democracy is needed to fight inequality (UNDP 2005:39-41).

Even though substantial inequalities are not completely incompatible with democratic development, a more egalitarian social structure is certainly more conducive to democracy (Diamond et al 1999:48-49).

Class inequality is just one form of socio-economic inequality and those based on race or ethnicity and on gender are equally important. Gender inequalities have not been of critical importance historically, but may well be so for future developments in democracy. When women received the right to vote no significant differences were seen in any country. The importance of ethnicity and race rises when they are linked to class and/or when the linkage to the state apparatus is differentiated. Class differences can be reinforced or deepened and can sometimes create social segments that can be viewed as, and thus treated as, classes and may have a direct impact on democracy. In the functionalist view ethnic divisions contribute to breakdown of democracy since they undermine social integration and societal consensus. Here it is argued that these divisions only are fatal for democracy if they are related to class alignments (Rueschemeyer et al 1992:48-49).

4. CHILE AND NEO-LIBERAL DEVELOPMENT

I will further discuss the issue of development through neo-liberal measures and to make it as clear as possible Chile (and to some extent the rest of Latin America) will be used as an empirical example since it was the first 'experiment' of implementing neo-liberal policies, and later on used as a role model for economic development. To understand the situation one must also know about the recent history of the country so I will start by giving a historical overview of the political situation. What I want to show is the strong hostility between left and right since the right to a larger extent supported the military and the economic policy. I also wish to highlight the fact that Chile while implementing neo-liberal policies were under an authoritarian regime with a tyrannous leader.

4.1 A POLITICAL OVERVIEW

Before the military-coup in Chile 1973, the country can be classified as a political success with a stable and uninterrupted case of democratic rule. For the latest 100 years Chilean politics has predominantly been characterised by high level of party participation, open and fair elections, and strong respect for democratic freedoms. Already in the 19th century democratic institutions and procedures developed which separates Chile from other Latin American countries. Citizenship was however sharply restricted to men who owned property and were literate. Women's suffrage was not established until well into the 20th century, as well as for the illiterate. From the 1920s middle class and working class were incorporated into the democratic political game. They grew stronger and gained power thanks to urbanisation, incipient industrialisation, and a booming export economy. An organised left now arose and thereby also sharp political polarisation (Valenzuela 1999:191-193).

In the close election in 1958, Salvador Allende was edged out by only 2.7 percent by the conservative businessman Jorge Alessandri. In the 1964 election, the right's fear of the growing left made them support Eduardo Frei and the new *Partido Demócrata Cristiano* (PDC)⁸ that had replaced the Radicals as the largest and most powerful party of the centre. The Frei government received massive financial assistance from the US, which was used to dissolve the alliance with the right. In the 1970 election the right felt betrayed by the PDC and refused to support them. Thanks to this dispute, Allende won the election with only 36.2 percent of the votes. Shortly after this the democratic system collapsed due to vivid hostility between civil groups, and the military could seize power (Valenzuela 1999:201).

⁸ The Christian Democratic Party (CDP)

The breakdown in 1973 was related to the fall of the Allende government and the present economic crisis, but mainly due to the role economy played in the political struggle (Rueschemeyer et al 1992:210).

4.1.1 The Pinochet Era

The military had great support both from the elite and from business groups who supported the new institutions and were determined in their demands to never go back to a leftwing government (Gillespie 1990:62). All democratic institutions were now repressed. Political leaders were killed, exiled or persecuted, and parties and unions were banned or dismantled (Valenzuela 1999:193).

In 1982 the Chilean economy collapsed⁹ and unemployment rates were pushed up to almost 30 percent. It was not until now with the high levels of unemployment that political parties reasserted and started to demonstrate their discontent with the government and forced them to allow earlier banned parties who took over the leadership of the opposition movement. The opposition however failed since it had large inner fragmentation between those who sought peaceful and those who sought violent 'negotiations' (Valenzuela 1999:227).

4.1.2 Democratisation

The economic crisis of 1982 and 1983 resulted in the state taking over the banking system, which made the business sector completely dependent on state decisions. In the new constitution of 1980 a plebiscite was planned in 1988 on whether Pinochet should stay in power, and due to the economic reforms the right could not possibly abandon Pinochet in this plebiscite. The repression of democratic institutions and the violations of Human Rights however made the PDC turn to the left (Valenzuela 1999:227).

The opposition parties were though stronger than the military thought and the last week before the election the opposition had managed an extraordinary mobilisation through media and door-to-door campaigns that defeated Pinochet (Valenzuela 1999:193, 229). Compromises were however necessary between the old and the new governments in order to establish a peaceful transferral of power. The old constitution was amended and the most undemocratic features were struck. By 85.7 percent majority the amended constitution could be ratified on July 30, 1989. On December 14 the same year the represent of the PDC, Patricio Aylwin, was elected president through support from the opposition coalition. The new alliance got to be known as the *Concertación de Partidos por la Democracia* (the CPD) (Valenzuela 1999:231-232).

⁹ The collapse meant a downturn of 14.3 percent of GDP in 1982.

4.2 NEO-LIBERALISM IN CHILE

The programme instituted by Pinochet can be called monetarist, economically liberalising, or 'neo-conservative', but most commonly the economic policies carried out through this period is labelled *neo-liberalism* (Brooker 2000:157). The neo-liberal reforms in Chile were an experiment, and according to Waagstein, the implementation was part of a project that sought to prevent a repetition of the socialist experiments during the Allende-government (Waagstein 1989:1, 3). Throughout the world, Chile has become a model for reforming economies (Edwards&Lederman 1998:1). MacEwan however means that the Chilean economic/neo-liberal success is substantially overrated (MacEwan 1999:42). It is an interesting fact that a model implemented during an authoritarian regime, and with repressing measures that might not have been possible in a democracy, is used as a role-model.

The free-market economists, the Chicago Boys¹⁰, revolutionised the Chilean economy by lowering tariffs, privatising state corporations and pension systems, and by reducing the size of the state. Business leaders had gained power through the coup and even though they had some objections to the economic policies they stayed quite, knowing that a leftwing alternative was not preferable (Valenzuela 1999:226).

The first wave of privatisation came during 1976-1979. Public banks and firms were sold (very cheap) to private owners of whom the majority nearly went bankrupt already in 1981. The second wave, during the mid 1980s was more cautious. This programme slowed down under the democratic government of 1989. Although it was not complete, it is widely accepted that it was an important contribution to Chile's economic recovery during the 1990s due to its stabilising effects (Duquette 1999:102).

4.2.1 1975-1982, From Growth to Crisis

The recuperation plan implemented in 1975, under the leadership of Jorge Cauas and Sergio de Castro, was designed in absolute macroeconomic abstraction, without any social influence, and an expression of pure liberal thought. Within two years inflation was drastically reduced, a major privatisation programme was launched, and the economy opened up for international competition. The volume of circulating currency was reduced almost immediately with the purpose to reduce domestic production. Both workers and middle class were affected directly by this and their income reduced by half in subsequent years (Duquette 1999:52, Edwards&Lederman 1998:16, 22). Much of the criticism the liberalisation programme received in the late 1970s was centred on employment and social conditions (Edwards&Lederman 1998:25).

¹⁰ The Chicago Boys were a group of Chilean civilian economists with monetarist neo-classical theories, founded at the Chicago University, and their economic approach, led by Nobel-price winner Milton Friedman, was a completely free market. See further in Brooker 2000:145 and Gillespie 1990:46ff

The economic experiment of the Chilean regime was, in comparison to the similar regimes in Argentina, Brazil and Uruguay, both the most rigorous and long lasting even though it produced a wave of bankruptcies, which ended in a financial collapse in 1982 (Gillespie 1990:46-47).

4.2.2 1983-1988, From Crisis to Miracle

After the economic crisis in 1982, where the private sector almost went bankrupt, a new stabilisation plan was put forward. This one was also constructed under IMF restrictions but it was surprisingly short of structural adjustment procedures. A more liberally orthodox plan was introduced in 1985 with a path to radical policy. The Finance Minister, Herman Büchi, demanded and received absolute freedom of action. Duquette explains the plan:

Public expenditure was drastically reduced, and a reform of the taxation system was implemented to encourage private spending. The steady decline of inflation was therefore interpreted as a dividend of strict monetary policy, and explains the support of IMF and foreign creditors to the orthodox liberal approach consistently pursued by Chile.

Duquette 1999:52

In 1985 the opposition against the military was mounting and the bolder export-oriented strategy was launched as a response and 500 new firms entered the market within ten years as the international demand for Chile's natural resources expanded (Duquette 1999:54).

4.2.3 1989- , Democratisation

The CPD had close ties to labour and popular groups, which, in combination with the weakness of the Communist Party, made the deepening of the free-market economic reforms possible. Social spending expanded significantly making a substantial dent in poverty and inequality, although income distribution remained heavily skewed. By the end of Aylwin's administration Chile had become the fastest growing economy in Latin America. The growth rate between 1991 and 1997 averaged over 7 percent and per capita income rose by almost 50 percent. The population living in poverty decreased from 39 percent to 23 percent¹¹ (Valenzuela 1999:232-233).

The Frei administration, the PDC, who came to power in 1993, followed the previous policy lines and sought to improve infrastructure and educational systems. The positive macroeconomic balance sheet continued, with maintained high growth and declined inflation levels. Like most other economies, the Chilean experienced a serious downturn related to the Asian crisis of 1998 (Valenzuela 1999:235).

¹¹ Societal effects and income inequalities will below be discussed further.

Even though the policy adjustments since 1988 has included stabilisation measures and market-friendly strategies, most Chilean economists are today worried about the fragility of Chile's 'miracle' and are promoting an extension of the export strategy based on higher technology (Duquette 1999:55, 101).

4.2.4 Summary

The neo-liberal programme carried out by Pinochet was the first experience in Latin America of implemented neo-liberalism. This kind of economic policy has five main notions:

1. Open markets
2. Free trade
3. Reduction of the public sector
4. Decrease of state intervention in the economy
5. Deregulation of markets.

Strong financial international organisations such as the IMF and the World Bank are, and have been, the main recommenders of these programmes. The state should be small and have less participation in social services, which include education, health, public transportation, pensions and retirement, and affordable housing. These services are better off privatised (Torres 2002:368-369).

The liberalising reforms have brought a steady economic growth and a strengthening of the Chilean State in comparison to the pre-1975 era (Diamond et al 1999:17-18). In Figure 2¹² the annual growth of GDP is shown with data achieved from the Inter American Development Bank (IADB) and the Organisation for Economic Cooperation and Development (OECD). Except from two major setbacks the economic growth in Chile has had a high level.

4.3 SOCIETAL DEVELOPMENT

Chile during Pinochet is by Rueschemeyer classified as a *Bureaucratic Authoritarian Regime* in which radical political, social, and economic changes were the aims. First, the organisational power of the lower classes was destroyed – economic exclusion. However, the new policy not only hurt the working and lower classes, but also the middle classes and the traditional sectors of the bourgeoisie. Pinochet's policies worked to destroy the party system and resulted in a significantly weakened civil society. These policies have generated marginalisation, segmentation, and disintegration, which is in stark contrast to what happened in Brazil where new social forces were consolidated due to industrialisation and expansion of the state. This is one important factor to explain the delay of Chilean

¹² See Appendix.

democratisation (along with military control and repression) (Rueschemeyer et al 1992:210-214).

In the early 1970s, Chile's social development was among the highest in Latin America, they had one of the best distributive situations, and in the 1980s child mortality was among the lowest in the region. The new policies also had severe negative effects, such as decreased wages. Between 1973 and 1993 real wages in Chile have decreased despite an average annual growth of 7 percent. This proves that growth per se not is enough to achieve a better income distribution, nor a strengthened middle class. It is however a good condition and starting point for a democratic government (Ffrench-Davis 1993: 12-13, 17). Between 1990 and 1996 there was a sharp increase (47.8 percent) in per capita income in Chile, simultaneously the proportion of poor households decreased by 13 percentage points (Sáinz 2000:21).

Most of these transfers of wealth and income were possible because of the high societal instability caused by the authoritarian regime. According to Ffrench-Davis lack of stability was the main reason for several negative patterns, such as financial speculations, bad trends in income distribution, and decreased productivity (Ffrench-Davis 1993:20).

Moving from the public to the private sector means becoming subject to the private sphere's labour laws, and thereby previous job security might disappear. In the example of teachers in Chile many had been dismissed which created a large 'labour reserve' of competition. Salaries were pushed down and tougher conditions set up, such as longer days. The number of pupils in each class simultaneously increased which made it almost impossible to keep a good, or improved, level on the given education. "Opportunities for health care, housing, and education for the middle class and their children were all reduced." (Lomnitz&Melnick 1991:147)

Duquette means that the democrats today, thanks to the effective economy, ought to have what they need for reforms targeted on wage distribution. New groups are emerging in Chile demanding improvements in social welfare, such as agrarian reform, the sharing of authority, new housing, the improvement of health and education, measures against absolute poverty and marginalisation, and for protection of the environment (Duquette 1999:181, 182). I hope that these new organisations are democratic and peaceful, and that the government is able to communicate and be open for a dialogue, since this would lead to an increase both in participation and credibility.

One has to take into consideration that even though the political leaders of a new democracy very well may be true democrats, there are still strong civil forces. In Chile where the conservatives who had supported the military regime were strong and powerful, too radical measures to empower the poor (at the expense of entrepreneurs) would only yield further conflict (Duquette 1999:183-184).

4.4 INCOME INEQUALITY

The high level of income inequality in Chile, despite the decline in poverty in that country to moderate the levels, illustrates how economic globalization and liberalization may worsen income distribution even as growth reduces absolute poverty. [...] For many of these countries, the neoliberal development model has yet to demonstrate its ability to correct the region's vast social inequities.

Diamond et al 1999:53

Looking back at the economic development during the military regime, de Vylder finds two major characteristics: (1) the majority are worse off, the shanty towns had a giant increase in population and big parts of the middle class saw their economic situation worsen dramatically. (2) The best-off got even better off. These two factors add up to one thing: increased income inequality (de Vylder 1988:20-21).

The neo-liberal model's lack of economic steering in Chile has according to the UBV led to serious societal problems, such as short-term exploitation, environmental effects, and an increase in poverty and marginalisation. The economic development has during the 1990s been positive but no big improvements in income distribution can be seen. By the year 2000, 20 percent of the population could be classified as poor or extremely poor. The 10 percent richest had 41 percent of the country's assets whereas the 10 percent poorest had 1.4 percent. Due to political measures the number of people living in poverty decreased by 1.1 percent between 1998 and 2000. Some though argue that with an economic growth of 7 percent during the same period, the decrease should be better (UBV 2002). Barton and Murray mean that by 2000 democracy had not achieved much when it comes to improving the situation for the majority of Chileans (Barton&Murray 2002:335). In Figure 3¹³ the development of the Gini Coefficient in Chile is shown between 1971 and 1998. What is interesting is that it not at all has followed the same, or similar, patterns as the level of economic growth and that the coefficient was almost as high in 1994 with a democratic regime as in 1989 with an authoritarian regime.

However, according to the World Bank Group, Chile made great progress during the 1990s in the struggle against poverty. Since 1989 every government has increased public spending on social welfare. Poverty dropped from 40 percent to 17 percent between 1987 and 1998, and indigence was reduced from 13 percent to 4 percent during the same period (World Bank Group 2005).

In the 1990s marginalisation took an interesting shape where those who had profited from the authoritarian regime and the economic 'miracle' imitated the wealthy North American lifestyles and consumption patterns. Simultaneously those on the other end remained in poverty in the shanty towns of Santiago (Barton&Murray 2002:334).

The success of the Chilean economic experience has also had great influence on Latin American political and economic leadership, and the role of economic

¹³ See Appendix

stability was reassessed as a necessary condition for preventing the deepening poverty (Iglesias 1993:24-25). The neo-liberal model rapidly spread to several other countries in the region. Becker means that both Chile and Latin America should be grateful for what neo-liberalism has done for the region, but the development is not successfully completed:

Free-market reforms have not solved all the problems of Latin American societies. For example, a recent World Bank study documents that this region has greater economic inequality than other regions of the world, in good part because schooling and other capital investments in the very poor have been inadequate.

Becker 1997

4.5 ECONOMIC AND SOCIETAL DEVELOPMENT IN LATIN AMERICA

The new economic policies in almost all Latin American countries had three main objectives; (1) price stability through efficient markets, (2) external openness and international trade, and (3) authentic modernisation of the state and public policies, that is a smaller and more efficient state with less regulations of economic activity (Iglesias 1993:25).

The greatest achievements on the domestic front have been stability, investment, and production. Total openness, modernisation, and competitiveness are according to Iglesias crucial if the Latin American economies wish to join the international community as active players (Iglesias 1993:27, 30)

Since the 1960s, the trend in socio-economic development in Latin America has been positive. Though, in the 1980s inequality and poverty have increased and thereby the room for tolerance and compromise has shrunk (Rueschemeyer et al 1992:155).

The road to recuperation of democracy in Latin America started precisely at the moment in which the capitalist metropolis began the neo-conservative period of prosperity led by Margaret Thatcher and Ronald Reagan¹⁴. After 15 years of neo-liberalism in Latin America, 15 years of patience with ‘temporary downwards’ and wait for improvement, the situation has worsened. There are more poor people than before and the gap between rich and poor has increased (Borón 2000:95-100).

In Argentina the middle class were the ones hardest hit by the neo-liberal policies. The working class has absorbed most of the policies’ social cost and towards the 1990s it had been radically change, to ‘an echo of what it ones was’. It no longer had its base in factors and offices but in the streets, and subject both to economic and social insecurity (Veltmeyer 2000:25-26).

Economic growth has constantly been one of the main issues for the Brazilian government, and they have done well. High rates of growth however coexist with dramatic imbalances. According to the opposition that grew stronger in the early 1980s growth was achieved at an unacceptable social cost, namely “income con-

¹⁴ Borón himself sees this coincidence as highly unfortunate for the Latin American countries.

centration, neglect of welfare investments, denationalisation of economy and culture, damage to the environment, and corruption.” (Lamounier 1999:153)

Measuring Brazil’s mass poverty and income inequality one finds numbers that are among the worst in the world. There is a combination of different factors¹⁵ that has maintained the extreme inequalities. The fact that the country has become highly urbanised and mobilised must also be taken into account in this matter. From 1940 to 1990 population grew from 14 to 119 million and GDP/capita from \$391 to \$2.680. Income inequalities increased in the 1960s and 1970s and measuring numbers from 1960, 1970, and 1980 one finds that it was drastic. These numbers show that no policies were implemented to shrink economic cleavages, and the stagnation and inflation in the 1980s and 1990s made them even deeper (Lamounier 1999:154-156).

4.5.1 Income Inequality

In the framework of the ‘market friendly reforms’, the 1 percent poorest of the Latin American societies lost almost half of the 14 percent of their miserable income, while the super-rich grew theirs by 52 percent, extraordinary increasing the distance that separates the rich from the poor.

Borón 2000:110

Latin America has the highest average Gini Coefficient in the world. In the 1970s poverty and inequality declined, but sharply increased again in the 1980s, and in spite of economic recovery in the 1990s they have not improved. The average Gini Coefficient in Latin America is approximately 54 and all countries exceed the world average of 40 (numbers from 1995) (Székely 2000:53, 55). One major explanatory factor is the extremely unequal distribution of education, but the main causes are the macroeconomic environment and the failures in the countries’ education policies (Behar 2000:3).

Most Latin American countries are classified as ‘middle-income’ countries, which indicates that poverty in these countries to a large extent is due to distributive problems and not to the lack of resources (such as in Africa and South Asia). With a different distribution policy poverty would be close to eliminated, that is around three percent (Székely 2000:52-53).

Diamond, Hartlyn, and Linz mean that the exacerbated poverty and inequalities in many Latin American countries are a high cost of the introduction of market-oriented economic reforms. The high cost of those implementations watered the growth in crime and insecurity as a result of earlier mentioned exacerbation (Diamond et al 1999:16).

Hausman and Székely (1998) found three main characteristics that most differentiates rich households from poor; education, labour force participation, and household size. These characteristics are interrelated (Székely 2000:61).

¹⁵ These were factors such as: “rapid industrial growth oriented toward a predominantly middle-class market, high rates of population growth, and the insufficiency of investment in basic welfare service.” (Lamounier 1999:154-155)

There is a clear conflict between democracy and social inequalities. Differentiation and state institutions are one issue, land distribution is equally important and the examples from Latin America carry a clear message – the difference between ‘real’ and ‘formal’ democracy. Democratic institutions are not realistic if there have not been changes in the overall distribution of power. Equally important is the impact of the social and economic power structure on political decision-making. Democracy has brought about ‘symbolic’ change (Rueschemeyer et al 1992:41-42).

Borón means that what we now have in Latin America are democracies without citizens, which serve the market and the gains only of the dominant classes (Borón 2000:112).

A more equitable distribution cannot be guaranteed only by growth. What is needed for an effective reduction is

an approach that integrated economic and social policy in a mutually supportive relationship and permits complementarity between measures to encourage competitiveness and measures to promote social cohesion. Although they may seem in conflict in the short run, public policy can benefit from the many points of complementarity between economic and social measures.

ECLAC 1997:4 in Duquette 1999:175

ECLAC highlights here an according to me crucial factor, the interaction between social and economic measures. I have earlier pointed out the importance of communication and I do not hesitate to do so again.

Education is the main explanatory factor to the increased income inequalities in Latin America. Educational development in Latin America has been relatively slow in comparison to for example Korea and Taiwan. There are also extreme inequalities in education level and to a large extent this is connected to family status (different opportunities) and education policies (Székely 2000:60-61).

5. DISCUSSION

I believe that the neo-liberal model is in need of political intervention. Economic growth is desirable as long as it is placed where needed and it is not reasonable that a big part of the population live in poverty in a country with an average growth of GDP on 7 percent. I strongly want to emphasise the importance of communication and cooperation between politics and economics, and the way I see it one cannot work without the other to create a stable and healthy society. Martin Feldstein argues with the Pareto principle that ‘a change is good if it makes someone better off without making anyone else worse off’, but I think it is an arrogant assumption to claim that being well off only is a monetary question. It also has a lot to do with the democratic society and according to Lipset, political rights is more likely to be given to people that are not considered too inferior. The wider the inequalities, the wider differences between human beings, and the less likely a more democratic society.

5.1 NEO-LIBERALISM AND INCOME INEQUALITY

My hypothesis was *that neo-liberal development breeds income inequality which in its turn is a threat to democracy*. I find support for my hypothesis in the literature I have studied. There is no doubt of the first assumption and scholars from each side agree on this point, they however disagree in the question whether or not it is a societal menace. In this matter I support my hypothesis firstly on the research and ideas of the modernisation theory and the frequent comments of the importance of an increased and strengthened middle class. Lipset’s thesis has its foundation in the expanding middle class and I believe he is right. With a stronger middle class comes greater pressure on the government who is obliged to meet the mass’ demands. I consider the chain reaction from economic growth to democratisation true, but not that it occurs automatically. Neo-liberal policy and economic growth are desirable not *because* they generate democratic thinking, but *if* they do. The possibility is there and it is up to politicians to seize it and administrate the surplus in a way that gains the mass. Great measures should be put on education, which is the key to a more equal society. The free market is said to automatically even out inequalities as long as it is allowed free space, movement, and time, but how long can suffering people be asked to wait?

Looking at Figure 2 and 3 in the appendix we see the Chilean development since the 1970s both concerning economic growth and income inequality. The annual GDP growth has had its downfalls, but it has overall been high. Simultaneously there have not been any significant changes in the Gini Coefficient, other than increasing trends apart from a dip in the early 1990s. What is most alarming is that the Coefficient is almost as high in 1994 as in 1989, that is, almost as high in the somewhat established democracy as during the transition. In chapter 2.1.2 I

mentioned that Pinochet himself would not be likely to strengthen the middle class since that means a stronger opposition, one can easily understand why nothing was done to reduce the gap between rich and poor. For the democratic regime this should though be one of the top priorities and I do not see the small improvement that has been done as acceptable.

This discussion is except for the question at issue even focused on some other distinct features that I would like to give extra attention to: (1) the middle class and education in the discussion on democracy, and (2) the possible contradiction of neo-liberal development.

5.2 THE MIDDLE CLASS AND EDUCATION

Numerous scholars on development theory highlight the strengthened middle class as one of the most crucial factors for democratic development. The Chilean neo-liberal policies have been shown to increase income inequality and weaken the middle class. If agreeing with Lipset on the issue that democracy is not desired by the elite it is understandable that Pinochet did not wish to strengthen the middle class, but the democratic regime should have been able to achieve more. I agree with French-Davis that this proves that economic growth does not automatically generate a better income distribution or strengthened middle class. According to the neo-liberal adherents the market is supposed to take care of this problem if left undisturbed, but how long is it really possible to wait and be patient? Since a stronger middle class breeds democracy I do not see orthodox neo-liberal policy as an alternative for developing countries. Too many are sacrificed along the way.

Education has been shown to be a crucial factor both when it comes to democratisation and income inequalities. Money has to be put on education since that is the keystone for democratic development and a strong middle class. In Lipset's chain reaction education is very much in the beginning and without this increased level, the whole reaction stops. Education is what generates more equal working opportunities and increased participation in political life, and I believe that it is a fundamental weakness in the struggle against inequity. This has now improved in Chile but it is debateable if this improvement has been as efficient as possible.

Since the Chilean neo-liberal model has been shown to weaken the middle class, it is a threat to the democratic process, and it is clear that some political intervention would have been necessary.

5.3 THE CONTRADICTION

The fact that the neo-liberal development in Chile occurred under an authoritarian regime and Augusto Pinochet is crucial in this discussion. It is by some argued that the implementation of this model never would have been possible in a democracy because the measures taken were too drastic and too many people suffered (Spannaus 2004:3). This is an important issue, and if this model is mentioned as a

'miracle' and as a model to imitate, the ones claiming so must only be focused on economic achievement. How can a model implemented with inhuman measures be used as a role-model? The Chilean model clearly needs revising.

6. CONCLUSION

My hypothesis was that *neo-liberal development breeds income inequality which in its turn is a threat to democracy*, and the question at issue was: *Can increased income inequality be regarded as an effect of neo-liberal development and how does it affect society?*

As stated in the discussion neo-liberal development does breed income inequality and I see it as a threat to democracy. With income inequality comes a weakened middle class which is essential for democratic development. It affects society negatively by distinguishing rich from poor and without any political intervention this leads to people not having the same opportunities when it comes to social welfare.

Economic growth is desirable since it can generate working opportunities and increased well-being for the mass, but what is needed is political interaction between economic and political policy. There must be regulated labour laws that set the conditions in which people work. These regulations for example concern minimum wage, working hours, employment security, and the freedom to join different labour unions.

Education is one of the strongest and most emphasised features throughout the literature concerning this matter and I too believe that is where improvements have to begin.

Since income inequality is a threat to democratic development measures must be conceived in order to decrease marginalisation, which is an interesting topic for future research. I believe that there must be a way for economic growth and equality to coexist. In order to reach a conclusion that successfully can be implemented in society this research should be carried out by a group where various schools are represented, such as researchers in economy, politics, law, and social anthropology.

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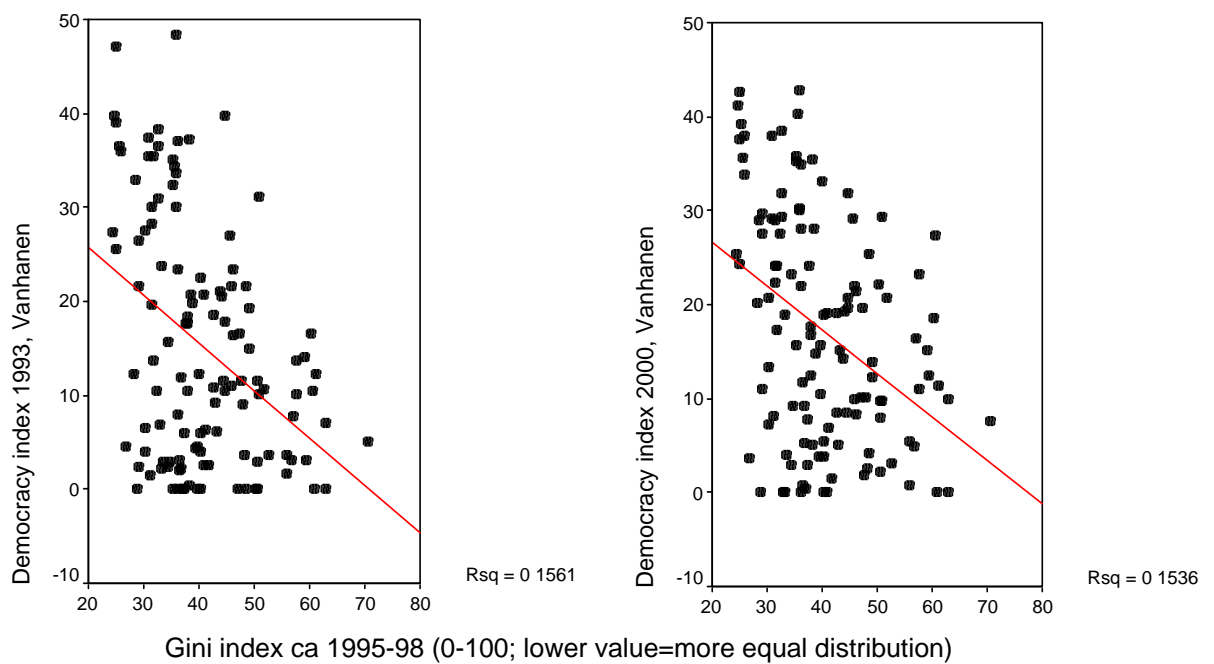
APPENDIX

Table 1. Correlation between level of democracy and income inequality

		Gini index ca 1995-98 (0-100; lower value=more equal distribution)
Democracy index 2000, Vanhanen	Pearson Correlation	-,392**
	N	123
Democracy index 1993, Vanhanen	Pearson Correlation	-,395**
	N	121

** . Correlation is significant at the 0.01 level (2-tailed).

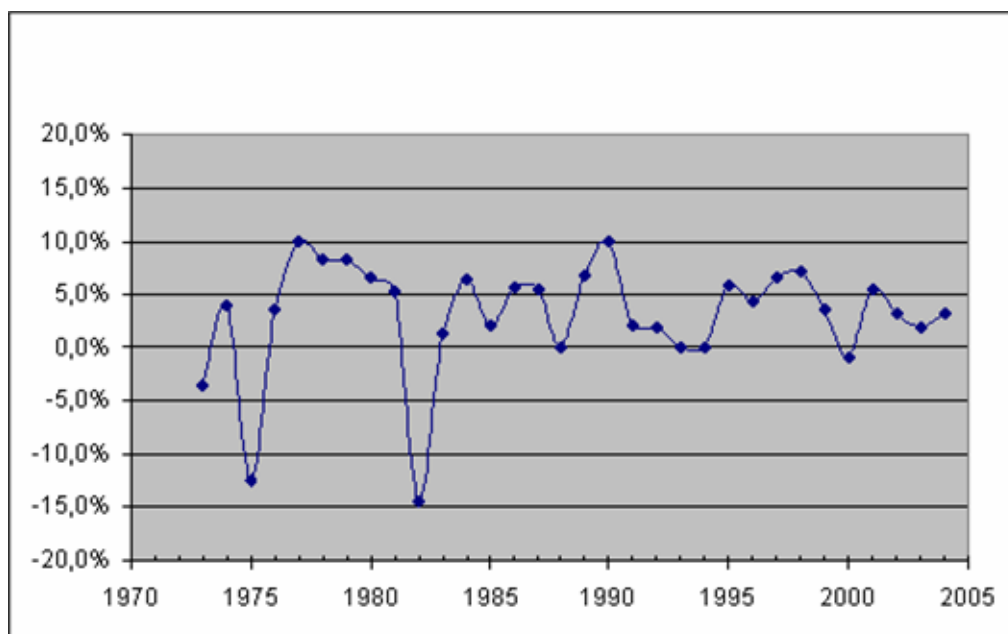
Source: Länder03 Database



Source: Länder03 Database

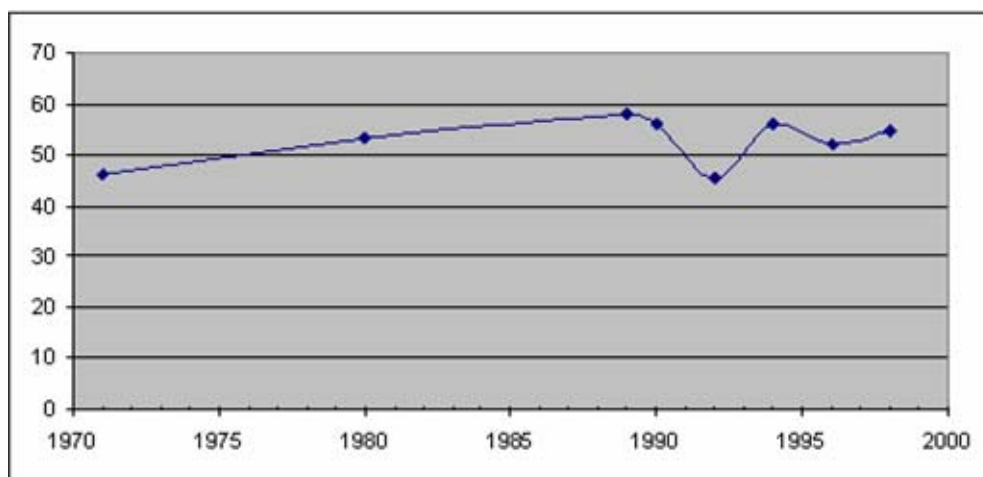
Figure 1a and 1b. Correlation between Gini Coefficient and the level of democracy in the world

APPENDIX



Sources: 1973-1987 from de Vylder 1988:22; 1989-2004 From Theodora.

Figure 2. GDP Growth in Chile 1973-2004



Sources: Robinson 2001:13 and Székely 2001:14

Figure 3. Development of Gini Coefficient in Chile 1971-1998