

**RISKS FOR DEMOCRATIC RULE IN LATIN AMERICA:
GROWING INEQUALITY, SOCIAL UNREST AND
POLITICAL INSTABILITY
Two “Contrasting” Experiences: Brazil and Venezuela**

GUADALUPE CORREA-CABRERA
Ph.D. Student of Political Science
NEW SCHOOL UNIVERSITY
Graduate Faculty of Political and Social Science
CorrG795@newschool.edu

ABSTRACT

The aim of the present paper is to propose an analytic framework to identify the major sources of recent social unrest and political instability in some countries of Latin America. Specifically, I wish to provide an alternative methodological schema and propose the use of new measures to determine under which conditions high levels of income inequality—or the “alleged” increasing income concentration after nearly two decades of structural economic reform—by fueling social discontent, could bring about political instability, thus constituting an important risk for democratic consolidation in the region. In order to elucidate the proposed relationships, I will briefly make reference to two quite interesting and, in some way, contrasting experiences: Brazil and Venezuela.

INTRODUCTION

After nearly two decades of structural economic reform and during a period of transition to democratic rule, the countries of Latin America in general have made almost no progress in reducing poverty, inequality and social injustice. Several people even argue that the last two conditions have been exacerbated. Persistent (or increasing) income inequality and slow social progress seem to be among the main reasons for the current dissatisfaction with the new economic and political order. Such a discontent seems to be reflected on the recent left-wing electoral successes and the emergence of new social and political movements across Latin America. In this context, social deterioration has apparently translated into growing violence and crime throughout the region. Furthermore, patronage, high levels of corruption and weak public administration are still visible features of Latin American politics.

Recurrent economic crises, low economic growth, social and economic polarization, recent manifestations of popular discontent, and the appearance of anti-globalization movements and other forms of social mobilization, seem to be challenging the viability of the new economic model that has been operating in most part of the region for about two decades. At the same time, growing social unrest and some manifestations of political instability seem

to be jeopardizing prospects for rapid democratic consolidation. According to some, these events might eventually reverse the current processes of liberalization and democratization.

In this context, and especially due to the fact that Latin America is the most unequal region of the world, the issue of inequality acquires especial importance. Poor income distribution and the alleged growing income concentration as a result of the structural reforms of the 1980s and 1990s are often regarded as major risks to the survival of democracy in many countries of the region. Several assessments of such a possibility have been frequently made, but few people have attempted to formally test the relevant interactions. Therefore, I suggest the combination of regression analysis and comparative case studies as a way to verify if economic inequality is indeed a major factor accounting for recent manifestations of social discontent and political instability in some Latin American countries.

The relationship between inequality, social unrest and political stability is difficult to test. What is more, current measures of these variables seem to be relatively inadequate and present several limitations. Thus, I propose the creation of new measures that account for such deficiencies. Additionally, I suggest to make use of “path analysis,” and in particular, a “mediational” or “common factor model” to verify: first, if some deterioration of the social order and increasing social unrest in Latin America is fundamentally a product of high levels of (or increasing) income inequality; and second, if there is there is some significant relationship between social unrest and political instability—and thus if inequality and political instability are indeed interrelated.

In sum, I propose the development of more adequate indicators of income inequality, social unrest and political instability than the ones already available, and then define a specific model in order to achieve four basic goals: a) verify if inequality has indeed risen as a result of

structural economic reforms—and, if this is the case, to what extent; b) analyze the relationship between economic polarization and social unrest; c) determine under which conditions the varied manifestations of social discontent in Latin America could translate into political instability; and d) provide general conclusions on the prospects for democratic consolidation in the highly unequal Latin American region.

Thus, in the first part of this paper I will provide an overview of the current political and socioeconomic panorama of Latin American. Subsequently, I will develop my main arguments and establish the relationships I will try to verify in the future through quantitative analysis and comparative case studies. In the second section of the paper, I will clearly define my model and the new ways I propose to measure inequality, social unrest and political instability. In the final section, I will illustrate the proposed interactions referring to two quite interesting and, in some way, contrasting experiences: Brazil and Venezuela. However, the analysis won't be limited to these countries exclusively; the main purpose of the work is to provide an analytic framework for the region as a whole. It is important to mention that these efforts are part of an ongoing project that will be developed during the next couple of years.

I. POLITICAL AND SOCIOECONOMIC PANORAMA OF LATIN AMERICA

Long characterized by authoritarian governance and closed, state-directed economies, Latin America is now dominated by “democracies” and open, market-based economies. In the 1980s the region embarked on a comprehensive democratization process; free elections were held across the region and autocratic regimes were replaced by governments supposedly committed to democracy, the rule of law, and respect for human rights. At the same time, dramatic economic restructuring and policy reforms contributed to lower inflation, promoted exports,

and expanded access to international capital.¹ This simultaneous transformation of political and economic regimes is often conceived of as a *dual* or *double transition*. It is important to assess the durability of this process and try to verify if Latin America is indeed on a development path that includes both free markets and political democracy. Taking this context into account, several analysts have examined the prospects for economic development, greater equality, social justice and democratic consolidation in the region.

In general, everybody agrees that insufficient economic and social progress is the result of nearly two decades of structural reform (Stiglitz 2002, Birdsall and de la Torre 2001; Morley 2001; ECLAC 2002; IDB 2000, 1998, 1997). Notwithstanding the beneficial effects of political liberalization—the correction of macroeconomic imbalances in some countries of the region, and the fact that old pervasive practices of government intervention have been dismantled, thus allowing markets to operate more smoothly—the overall results of this reform seem to be unsatisfactory, particularly in the areas of economic growth, poverty reduction, income distribution, and insecurity.

The disappointing economic and social performance after nearly two decades of reforms seem to reveal basic deficiencies and limitations of the new order. Recent economic adjustments and structural changes—together with the economic and financial crises of the 1990s—have generated important dislocations and social costs for several countries in the region. At the same time, Latin America has been experiencing an increase in crime and violence² (De Mesquita 2002; IDB 2000) and the appearance of new forms of popular sector

1 Among these reforms are: fiscal and monetary discipline, privatization, tax reform, financial liberalization, reduction of barriers to foreign trade and investment, protection of property rights, and a reduction of excessive state intervention in the productive sectors of the economy.

2 Crime rates have noticeably increased during the past few decades. For example, murder rates—that as far back as the 1970s were on average the highest in the world—have risen in almost all Latin American countries,

mobilization. Recent left-wing electoral successes³ and the emergence of new social and political movements⁴ seem to be reflecting growing social discontent throughout the region. What is more, key democratic institutions in several Latin American countries have not been performing adequately. In many cases, they remain quite weak—especially political parties and Congress. The critical problems of political systems in the majority of countries in Latin America are, in general: crises of *governability*; crises of representation and limited participation; institutional weakness; and low levels of accountability and transparency (Oxhorn 2000; Diamond, et al 1999; O’Donnell 1996; Lowenthal and Hakim 1993).

1.1 Plausible Outcomes and Three Main Puzzles

As of this panorama, several analysts have been calling into question the view that free markets and enduring democracies can be compatible in the longer term (Petras and Veltmeyer 2001; Oxhorn and Starr 1999; Oxhorn and Ducatzenzeiler 1998). It has often been argued that the high social costs of economic transitions and recurrent economic crises could provoke widespread protests leading to the collapse or serious weakening of democratic institutions (Starr 2000; Oxhorn and Starr 1998; Haggard and Kaufman 1995). Under this perspective, poverty, social injustice, income inequality, and a persistent public perception that living conditions have either deteriorated or not improved as promised under the new economic and

“in some instances reaching levels 40 times higher than those of the developed countries or Southeast Asia” (IDB 2000).

3 Consider, for example, Luiz Inácio Lula da Silva’s presidential victory in Brazil, Hugo Chávez’s landslide victory in 1998 and reelection, and the recent election of Lucio Gutiérrez as president of Ecuador.

4 The current scheme of economic and political liberalization has been recently challenged by dynamic political and social movements, such as the Landless Workers Movement (MST) in Brazil; the *Zapatista* movement in Mexico; the Revolutionary Armed Forces in Colombia (FARC); the *Piquetero* movement in Argentina; peasant-Indian movements in Ecuador, Bolivia and Paraguay; anti-privatization battles in Bolivia, Colombia and Peru, among others.

political order might undermine public support for both free-market policies and for the democratic regime that has supported them.

Promoting an effective market-based development strategy seems to be inseparable from promoting the long-term survival of democracy. Thus, the failure to achieve stable growth, and reduce poverty and income inequality might lead to certain manifestations of social discontent that could eventually translate into political instability in new and fragile democracies. Moreover, democracy itself could be undermined if governments are incapable of implementing a coherent, and equitable, growth strategy. This line of reasoning, and the recent economic and political situation in Latin America, has led many to examine the prospects for democratic consolidation in the region (Schedler 2001; O'Donnell 1996; Diamond 1996; Lowenthal and Hakim 1993; Mainwaring, et al 1992). The current Latin American panorama presents interesting puzzles that would be worth to carefully analyze. In particular, three important questions seem to remain at the center of the present discussion:

Is democracy indeed at risk in Latin America? Some countries of the region—characterized by high levels of income inequality and growing socioeconomic polarization (Venezuela, for example)—have recently experienced some events of political instability that seem to pose major potential risks for democratic rule. Meanwhile, other extremely unequal countries (such as Brazil)—experiencing several manifestations of social unrest, such as higher crime rates, new forms of popular mobilization and left-wing electoral successes —seem to be developing in a path towards democratic consolidation, showing no major signs of political instability that could visibly undermine the democratic character of their institutions in the near future. This situation can lead us to identify two possibilities concerning the prospects for democratic rule in Latin America. First, it might be the case that low economic growth, recent

social polarization and political instability in some Latin American countries would eventually lead to the collapse of democratic institutions. Second, it is also plausible that such outcomes are simply part of the normal path towards democratic consolidation, and pose no serious challenge to the current process of political liberalization and democratization in the region.

What are the main threats for democratic rule in Latin America? There is no agreement on what are the main causes of social unrest and political instability in the region. Some analysts focus their explanations on issues of income inequality, while others are more concerned with certain aspects of economic development or alternative political issues. Therefore, it seems important to evaluate whether the recent deterioration of the social order and increasing social polarization in Latin America are *fundamentally* determined by low economic growth (*changes* in absolute income levels), *extreme levels* of economic destitution (extreme poverty), *high levels* of income inequality, *changes* in the overall distribution or income shares of particular groups, or if they are mainly the result of other political/economic factor(s).

What are the mechanisms through which manifestations of social discontent and events of political instability could bring about widespread authoritarian reversals? Apparently, it is just “under certain conditions” that social unrest translates into political instability. What are these conditions? What are the specific mechanisms through which this interaction takes place? Such a relationship is not easy to test and the relevant implications are not evident at first sight. The prospects for democratic consolidation and the plausibility of a resurgence of authoritarianism in Latin America are even more difficult to appraise.⁵

⁵ But there is some evidence that even though economic deterioration and “increasing” income inequality have not yet led to widespread authoritarian reversals, such outcomes have seriously jeopardized prospects for

1.2 Main Hypotheses and Rival Theories

Efforts to address these questions are extremely valuable, especially if they can influence those actions implemented with the aim of reducing the threats to the new and fragile Latin American democracies. However, the topic is broad and the relevant relationships are difficult to assess. Due to this fact, analysts focus on “specific” aspects of the process of democratic consolidation. What is more, they attribute different weights to alternative factors that could eventually undermine democracy in Latin America

Some analysts have relatively optimistic views concerning the prospects for the region as a whole; and yet recognizing some basic difficulties and challenges in the double transition process, they highlight the positive aspects and viability of simultaneous political and economic liberalization (Domínguez 1998; IDB 1997; Przeworski 1991; Williamson 1990). For others, the current situation poses important threats to the new democracies in Latin America; according to them, the view that celebrates the victory of free markets and free elections in the Hemisphere is premature (Petras and Veltmeyer 2001; Oxhorn 2000; Starr 2000; Petras 1999; Agüero and Stark, et al 1998; Oxhorn and Starr, et al 1998).

Some scholars concentrate on the effects of economic development in the achievement of democratic stability, that is, on changes in absolute income levels (Przeworski, et al 2000; Crisp 1998a; Rueschemeyer 1992; Lipset 1959). An alternative perspective examines, in particular, the relationship between income inequality and political democracy; this approach focuses on recent shifts in the composition of inequality and increases in overall disparities of wealth (Boix 2003, 2001; Boix and Garicano 2001; Bardhan 2001; O’Donnell 1999; Midlarsky

“rapid” democratic consolidation in some countries of the region. “They do so in part by causing increased social violence, and in part by creating the raw material for polarizing populist and antidemocratic political movements” (Haggard and Kaufman 1995).

1999, 1998, 1986; Chalmers, et al 1997; Castañeda 1996; Dahl 1989). In addition, while various analysts focus mainly on issues of democratic consolidation (Schedler 2001; Rueschemeyer 1998; Diamond 1996; O'Donnell 1996; Mainwaring, et al 1992), others are more interested in the intermediate processes, that is, in the diverse manifestations of social discontent, social mobilization and events of political instability that could eventually pose threats to the survival of democracy (De Mesquita 2002; Bardhan 2001; Petras 1999; Méndez, et al 1999; Alesina and Perotti 1993; Kling 1968).

As of the current efforts to assess the prospects of new and fragile democracies, one could try to contribute to the debate by analyzing specific aspects of the process at hand. After identifying some relevant risks for democratic rule in the region [1], one could assess their relative importance [2], and then evaluate the channels through which prolonged economic deterioration and/or *high* (or *increasing* levels of) socioeconomic inequality might translate into social polarization [3], and eventually into political instability [4]. Subsequently, one could determine the conditions under which such factors undermine support for representative governments and drain institutions of their democratic content [5].

In particular, the analytic framework proposed here will be mainly focused on the first four tasks. The “dependent variable” in this case is *political instability*. Political stability seems to be determined by several factors; but since recent studies put particular emphasis on the effects of *income inequality* and due to the fact that poor income distribution is a trait common to the entire Latin American region, it would be interesting to think of this variable as a major explanatory factor. Actually, from an international comparison standpoint, Latin America displays the most unequal distribution of incomes and assets of any region in the world (World Bank 2001). The greatest concern about Latin America’s pattern of economic development has

long been the way in which incomes and wealth are distributed. Hence, there are good reasons to think that a crucial factor that matters for democratic stability in Latin America is the distribution of incomes.

In order to assess the relative importance of income distribution as a determinant of democratic stability, it seems important to verify first, whether—as some people contend—the already high levels of inequality in Latin America have indeed exacerbated after nearly two decades of structural economic reform, or if poor income distribution has just persisted during this period. Subsequently, one should try to determine if this variable is the major (or one of the major) source(s) of recent social unrest and political instability throughout the region. Consequently, the main aim of the project outlined here is to determine under which conditions—if any—(growing) income inequality, by fueling social unrest, increases political instability, thus constituting an important risk for democratic consolidation. From the previous discussion, and after a brief examination the current socioeconomic and political panorama of Latin America, three main hypotheses arise:

HYPOTHESIS 1. *“Inequality in Latin America has not only persisted, but increased, despite the economic policies implemented to restore economic dynamism.”*

In general, official statistics show that the last two decades have not been characterized by widespread increases in poverty and inequality, although the socioeconomic deterioration led by the 1980s debt crisis has barely been reversed (IDB 1998; World Bank 2001; ECLAC 2000, 2002). According to these sources, recent economic policies implemented to restore economic dynamism have been apparently ineffective to change the underlying socioeconomic structures generating inequality. However, the relevant figures do not support the existence of a

significant adverse impact of the reforms on income distribution (see Tables 1 and 2; pp. viii-ix of the present document).

In spite of this “evidence,” some analysts argue that structural reform in Latin America has indeed resulted in growing income concentration, thus exacerbating the negative trends of the 1980s (Petras and Veltmeyer 2001; Petras 1999; Oxhorn and Starr 1999; Castañeda 1996). This view seems to be supported by several facts. The early stages of privatization, for instance, brought many opportunities for public officials to favor certain groups. Such groups increased their wealth and assets considerably during this period, while the social costs of economic transition and the financial crises of the 1990s were borne primarily by the poorest and most vulnerable segments of Latin American societies. According to this view, then, Latin America’s historically unequal societies have become even more unequal since the early 1980s.

Has inequality risen mainly as a result of the new economic order, and specifically due to the structural economic reforms implemented in Latin America after the 1980s debt crisis? The initial task then would be to determine whether structural reforms have indeed exacerbated socioeconomic disparities, or have been just ineffective to reduce already existent inequalities and furthering economic development in Latin America.

HYPOTHESIS 2. “Income inequality is a major determinant of social unrest and political instability in Latin America.”

What are the major sources of current social discontent, increasing rates of crime and violence, recent left-wing electoral successes and the formation of new dynamic social movements throughout Latin America? Are these sources predominantly economic or political? Are the relevant outcomes basically determined by prolonged economic deterioration, extreme

economic destitution, sustained high levels of/or changes in income inequality, perceptions of growing inequality, or by some other political factors? Actually, the relative importance of alternative explanatory factors seems to vary among different countries. However, there are some reasons to think that the major determinants of social unrest in Latin America and recent events of political instability in some countries of the region are economic in nature, and closely related to socioeconomic inequality.

It is also important to consider the different possible ways of accounting for income inequality when trying to explain social unrest. Three approaches are especially relevant: One account of inequality as a source of social discontent focuses on the poorest segment of the population (the first quintile according to the general classification of income distribution); and has to do specifically with the relationship between impoverishment and social disintegration. A second view takes inequality as a condition of the last quintile (the richest segment of the population), and focuses on the links between social injustice, corruption and unrest. An alternative account has to do with the concept of socioeconomic *polarization* viewed as a condition of the last and first quintiles: “the richest getting richer and the poorest getting poorer.” According to this view, it is increasing polarization—that is, the growing distance between the richest and the poorest segments of society—what causes social discontent.

HYPOTHESIS 3. *“Unequal income distribution is a major source of social discontent that, under certain conditions, could translate into political stability—thus representing an important risk for democratic consolidation.”*

According to the present account, enduring high levels of (or increasing) income inequality, by fueling social discontent, could plausibly be a major source of political instability. However, the evidence of such an interaction in the case of Latin America is apparently inconclusive, particularly if one analyzes different experiences within the region itself. Consider, for

example, Brazil and Argentina. It seems that the main problem in Brazil is its extremely unequal distribution of incomes and assets in a context of “relative” political stability. In fact, the unequal Brazilian society seems to be developing in a path towards democratic consolidation. In Argentina—a country recently hit by a severe economic and political crisis—on the contrary, the “central” problem is not (or has not been) inequality, but apparently other factors, such as corruption, low (or lack of) economic growth, among others.

In order to better understand the proposed relationship, one might need to utilize a theory of unrest. It seems reasonable to think that growing economic polarization causes some kind of social discontent,⁶ but it is not always the case that such a discontent is translated into political instability. There are several factors that might affect this process such as cultural values, ethnic identities, diversity among the poor, technology (e.g. the mass media), interest group structure, social structure, material resources and political opportunities, among others (McAdam, Doug, et al 1996).

After analyzing the plausible effects of inequality on social unrest and political instability, a major concern related to democratic consolidation arises. How compatible are democracy and socioeconomic inequality? Could democratic rule survive in conditions of growing inequality and sharp social and economic polarization? Along with levels and cycles of economic development, and poverty conditions, socioeconomic inequality has been a recurring concern for scholars of democratic consolidation—especially in Latin America, where one of the most durable aspects of the political economy is the unequal distribution of incomes and assets (Lamounier 1999; Nylén 2000; Schedler 2001). In fact, extreme economic

⁶ It is important to point out that personal levels of dissatisfaction are not solely related to socioeconomic status. Other factors may also be determinant, such as age, certain values, and the strength of ideological conceptualization.

destitution and inequality tend to undermine the minimal conditions to effectively exercise those equal rights that are constitutive to democratic citizenship (Dahl 1989). What is more, these factors could even threaten the stability of a democratic regime itself.

In Latin America the relationship between degrees of (or changes in) socioeconomic inequality and degrees of democratic consolidation has not been linear. There is apparently no conclusive evidence of an inverse relationship between these two conditions. However, the prevailing levels of socioeconomic disparity and the “perceived” sentiments of increased economic polarization, social injustice and social deterioration in the region seem to have been posing a constant challenge to democracy in the current times (Schedler 2001).

II EXPLAINING POLITICAL INSTABILITY AND SOCIAL UNREST: A STATISTICAL APPROACH

The relevant formulations and proposed relationships can be illustrated by a specific model of political decay (Haggard and Kaufman 1995). According to this model, *increasing inequality* could lead to an increase in crime, strikes, demonstrations, and civil violence—all of these, manifestations of *social discontent*. At the same time, rapid social changes and downward mobility for members of the middle and working classes could increase the appeal of political movements on the extreme left and right. The deterioration of the social order and increasing social polarization could lead to a “gradual erosion of the substance of democratic rule through intermittent repression of opposition groups, emergency measures, and a decline in the integrity of legal guarantees” (p. 333). The last is what I call *political instability*.⁷

⁷ But what is worse, this situation could provide the classic justification for more severe kinds of repression and intervention (e.g. military intervention). “In more extreme circumstances, the state could even collapse entirely as an organization with a credible claim to a monopoly of force” (Haggard and Kaufman 1995, p. 334).

2.1 Measuring Inequality, Social Unrest and Political (In)stability

Taking this line of reasoning into account, and in an attempt to verify the three main hypotheses previously posed, it is crucial to deepen our understanding of the relevant interactions, and empirically test the relations already defined. For this purpose, I propose, in the first place, to develop more adequate measures of inequality, social unrest and political (in)stability than the ones already available (See Methodological Appendix: *Measuring the Relevant Variables*; pp. i-vii of the present document).

These new datasets *will not rest on original fieldwork*; they will be based on a group of already existing measures. I plan to use more than one measure of the relevant variables, since no single current indicator accounts for the specific factors I wish to examine. Therefore, I will begin with data from certain collections and check their reliability. Subsequently, I will scale some of these measures to create new indexes that better capture levels of socioeconomic inequality, social unrest and political stability. In order to do this, I plan to make use of three alternative methods: 1) *factor* analysis, 2) some variant of the *summated rating* model, and 3) *principal components* analysis.⁸ Deciding on the “specific” method to create the relevant indexes requires us to verify which technique is the most appropriate for each case, depending on data availability and the final specification of the model. However, at this moment, it is possible to identify suitable options for each variable.

In the case of *income distribution*, I will not employ the best available and most popular dataset on income distribution: Deininger and Squire 1996.⁹ These figures do not show

8 For further explanation of these techniques see Methodological Appendix: pp. i-vii of the present document.

9 See <http://www.worldbank.org/research/growth/absineq.htm>. This file contains data on Gini coefficients, cumulative quintile shares, explanations regarding the basis on which the Gini coefficient was computed, and the source of the information. There are two datasets, one containing the "high quality" sample and the other one

widespread increases in inequality in the Latin American region, and have been frequently challenged. In fact, this dataset presents several limitations; it is still far from complete, and combines numbers collected by different methods. I propose then to employ alternative measures of socioeconomic inequality. In particular, I will focus on the datasets developed by the *University of Texas Inequality Project (UTIP)*,¹⁰ and add to these figures additional indicators, based on considerations related to unemployment and people's perceptions of inequality, among others. For this purpose I plan to make use of either factor analysis or principal components analysis (see Methodological Appendix: pp. i-iii).

In my attempt to provide an alternative measure of *social unrest*, I will combine, in one variable, indicators of crime, civic violence, large-scale protests, strikes, demonstrations, riots, and other cultural conflicts. The relevant index thus, may require the utilization of some variant of the summated rating model, principal components analysis, or factor analysis (see Methodological Appendix: pp. iii-iv). In the case of *political instability*, I will also combine different indicators, but chose just between the first two scaling techniques—the summated rating model and principal components analysis. Specifically, I will begin with statistics of the *Polity* project (Polity IV),¹¹ and then add measures of perceived country creditworthiness, plus an indicator of media coverage of major events reflecting political instability (see Methodological Appendix: pp. iv-vi).

including all the information (of lower quality) that was collected. This information is already updated, but not yet accessible through the World Bank webpage.

10 See <http://utip.gov.utexas.edu>.

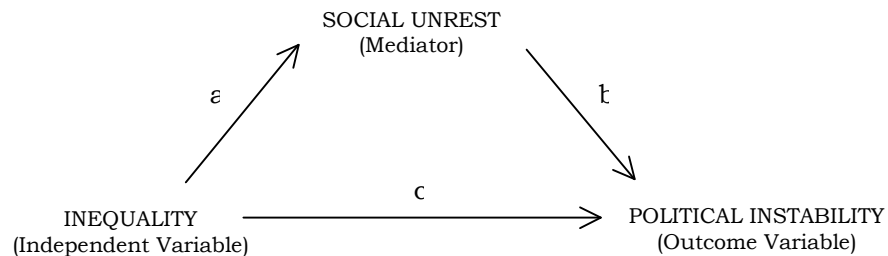
11 See <http://www.cidcm.umd.edu/inscr/polity/index.htm>.

2.2 A General Quantitative Study

In order to verify and measure the proposed relationships, I plan to conduct a general quantitative study making use of alternative political and economic indicators, and basic statistical techniques. This requires carrying out two main tasks. One is to assess the relationship between (changes in) inequality and social unrest. The second task would be to determine whether social unrest—fueled by changes in income inequality—has an effect on political stability. After testing such interactions, one might be able to verify if there is any significant correlation between inequality and political instability.

I will tentatively employ “path analysis,” and in particular, a “mediational” or “common factor” model to draw causal inferences with panel data (see Finkel 1995). Specifically, I will make use of a time-series cross-sectional panel data set of 10 Latin American countries (Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Peru, and Venezuela) for which comparable political and economic indicators are available for the period 1970-2003.

In this model the *mediator* would be *social unrest*; and *inequality* would be the *common factor*, since this variable supposedly has an effect on both social unrest and political instability. To clarify the meaning of mediation, I will introduce a path diagram as a model for depicting the proposed causal chain. This chain is diagrammed in the following figure:



This model assumes a tree-variable system such that there are two causal paths feeding into the dependent or *outcome variable* (in this case, *political instability*): the direct impact of inequality (independent variable) [Path *c*], and the impact of social unrest (the mediator) [Path *b*]. There is also a path from the independent variable to the mediator [Path *a*]. Social unrest will function as a mediator if it meets the following conditions: i) variations in levels of inequality account for variations in social unrest (i.e., Path *a*); ii) variations in social unrest account for variations in political instability (i.e., Path *b*); and iii) when Paths *a* and *b* are controlled, a previously significant relation between the inequality and political instability is no longer significant, with the strongest demonstration of mediation occurring when Path *c* is zero.

III. TWO INTERESTING AND “CONTRASTING” EXPERIENCES: BRAZIL AND VENEZUELA

Additionally, the conduction of a detailed qualitative study of the relevant processes in specific countries would be useful to illustrate more clearly the proposed relations, and assess the relevance and role of political actors, economic forces, institutions and international factors in the development of these interactions. Through comparative case studies, one could show how inequality translates—if it does—into political instability, and determine which are the main elements and specific mechanisms operating in this process. A complementary method to examine more closely the processes outlined here would be the conduction of time-series regression analysis for selected case studies. In each case, one could control for different factors such as economic growth, inflation, levels of corruption, external factors and other major economic and political determinants.

Considerations about national institutions, foreign policy, international trade and other external and institutional factors are especially relevant when assessing the impact of inequality on regime stability (Fitoussi and Girre 2001; Bardhan 2001; Przeworski et al 2000; Smith 2000; Koreniewicz and Smith 2000; Lowenthal 1991). Such considerations make us think of the following questions: What are the roles of political institutions and the international financial community in this process? To what extent are the main trends in inequality, and patterns of democratic change and stability in Latin America influenced by the United States and international financial institutions? What is the specific role of the international community and national institutions in taming manifestations of social unrest that could eventually turn into political instability? Answers to this kind of questions could be provided through a careful assessment of particular cases.¹² Hence, I propose the analysis of two illustrative, interesting and, in some way, “contrasting” experiences: Brazil and Venezuela. Venezuela is a clear example of socioeconomic polarization and political instability. Brazil is the most unequal country in the region, and thus, it is a case that must be included or referred to in any study dealing with issues of income inequality.

3.1 Polarization and Political Decay in Venezuela: *Inequality and instability (verifying the relationship)*

The Venezuelan case seems to confirm the existence of a positive and significant correlation between changes in inequality, manifestations of social unrest and political instability.¹³

12 Another example that illustrates the usefulness of conducting this type of analysis for specific cases has to do with the relationship between economic reform and *safety nets*. It would also be interesting to determine if social programs—operating as safety nets for the most vulnerable groups in society—mitigate the destabilizing effects of the transition process, and could then prevent increasing social and economic polarization from translating into political and social instability.

13 Another case that exemplifies such a relationship is Costa Rica, where political stability and decreasing income inequality seem to have been developing simultaneously. Costa Rica has experienced a situation that differs from most countries of the region. In the last few decades, this country has improved in terms of income

During the last few years, social discontent and economic polarization have risen sharply in this country. Moreover, one could claim that Venezuela—one of Latin America’s longstanding democracies¹⁴—has turned, in the recent years, into “some sort of “illiberal democracy.” Actually, democratic actors have been unable to prevent the country from turning into some kind of *plebiscitarian authoritarianism* (Schedler 2001).

Hugo Chávez was democratically elected as president of Venezuela in 1998; he came to power on a platform of radical reform, promising to end with the corruption and patronage systems that had drained the nation’s oil wealth, and particularly to address the severe economic inequalities.¹⁵ With Chávez, the concentration of authority in Venezuelan politics became evident. According to some, this phenomenon arose, in part, “as a reaction to circumstances of economic decline and neoliberal reform, in the context of a stagnant political party system” (Aguilar and Appling 2003).

Over the past few years, the political situation in Venezuela has become increasingly polarized, confrontational, and unstable. Shortly after Chávez’s accession to power, the economy began to deteriorate at a faster pace, and the President’s popular support decreased substantially. The middle class and business elites, in particular, became increasingly dissatisfied with Chávez’s fiscal mismanagement and populist rhetoric.¹⁶ Chávez’s support

distribution (see p. x of this document) and has maintained a relatively stable political situation. To date, only a few Latin American countries enjoy political and social stability and show good economic performance—namely, Chile and Costa Rica.

14 Venezuelan democracy was inaugurated in 1958, and during the 1960s survived economic crises, repeated military coups, and an extended leftist insurrection.

15 Soon after his election, Chávez drafted a new constitution and gained overwhelming support from the plebiscite. In 2000, he was reelected for another six-year term.

16 Mass protests dedicated to bringing down the Chávez government became routine in the capital city. In April 2002, a military coup backed by business elites succeeded in removing Chávez from power for two days before he reclaimed the government. Eight months later, the opposition initiated a two-month general strike to deprive Chávez of oil revenues, destabilize his government, and force his resignation. The Venezuelan president

nowadays concentrates on parts of the lower class, which have effectively alienated the rest of the political spectrum. In view of this situation, the future of the current government, and perhaps even of the country's democratic institutions, seems uncertain.

3.2 The Most Unequal Latin American Society: *Toward democratic consolidation in Brazil?*

Brazil is the most unequal country in Latin America. This fact, together with the application of the structural—so-called “neoliberal”—economic reforms and its corresponding high social costs, seem to be major sources of social discontent in the country. Manifestations of such a discontent are, for example, higher crime rates, greater civil violence, the appearance and growing strength of the Landless Workers Movement (MST), and the election of Luiz Inácio Lula da Silva of the Workers’ Party as president last year. However, this case seems to disprove, in some sense, the relation proposed here. Despite growing social unrest, this country has enjoyed relative political stability alongside high and increasing levels of economic inequality.

In fact, Lula’s historic presidential victory had lifted the expectations of those Brazilians who seek an end to social inequality and the austerity programs, which, in their view, have contributed to support it. The Workers’ Party government promised to deliver improvements in social welfare programs and make serious efforts to combat the mayor problem of Brazilian society: income inequality. However, there is currently no evidence of a radical change in Brazilian politics. On the contrary, Lula’s actions during his first year in power show a continuation with the previous political and economic model.

survived both the protests and the strike. However, further demonstrations seem likely to occur as underlying tensions persist between Chávez and the business elite (Aguilar and Appling 2003).

It may be premature to establish any final judgment based on this situation, since important political and economic developments have been taking place quite recently. On the one hand, it seems that the Brazilian economy is developing in a context of “relative” political stability. Actually, the country seems to be currently located on a path towards democratic consolidation. On the other hand, social unrest in Brazil is still evident, and a clear manifestation of this is the recent growing influence of dynamic social movements, such as the MST.

3.3 Comparing Brazil and Venezuela

Increasing socioeconomic polarization is a defining feature of today’s Venezuela. Whether one focuses on the poorest segment, the richest, or both segments of the population at the same time (the first and/or the last quintiles), one can observe a clear deterioration in the distribution of incomes in this country since the early 1980s (see Table 1: p. viii). In fact, the richest in Venezuela are becoming richer, and impoverishment has been increasing considerably in the recent years. At the same time, the gap between the richest and the poorest segments of Venezuelan society has been persistently widening. Income distribution—measured by the Gini index—has shown a severe deterioration. Brazil experiences almost the same situation; the observed trends in income distribution are similar, but the magnitude of change is less significant (see Tables 1 and 2: pp. viii and ix). It is important to take into account that Brazil is the most unequal Latin American country, and thus, it is a case that must be referred to in any analysis related to inequality in the Hemisphere.

An additional interesting feature of these two countries has to do with the double transition phenomenon. In the 1970s closed economies and authoritarian (or semi-authoritarian) governments were dominant features in Latin America. Brazil was a clear

example of authoritarianism in the region from the mid-1960s till the mid-1980s.¹⁷ After this period, the country underwent a simultaneous process of economic and political liberalization, when emphasis was put on democracy as an essential precondition of free-market economy. Unlike most of its neighbors, Venezuela had enjoyed an unbroken period of democratic government since 1958—here power was alternated between two entrenched political parties. But as any other Latin American country, the Venezuelan economy embarked on a process of structural reform after the 1980s debt crisis.

Venezuela experiences nowadays an unstable political situation, and the democratic content of its institutions has been recently put into question. On the contrary, Brazil is now touted as a successful transition to democracy and free-markets; and could be considered, in a sense, a model of political liberalization and economic reform. For many years, Venezuela also seemed to offer a democratic model for Latin America; powerful political parties, a controlled military, and a strong economy used to provide a basis for social peace, political stability, and the apparent consolidation of democracy. Beginning in the late 1980s, however, this stability was shaken by economic decline¹⁸ and the decay of key state and political institutions, thus leading to growing public disaffection, violence, and attempted military coups.

It is important to mention though, that both countries—not only Venezuela—have experienced, at some point(s) during the last few decades, certain events of economic dislocation and some manifestations of social discontent—that apparently have to do with the high social costs of the economic transition, recent financial crises, and growing inequality. According to some, the recent appearance of strong and dynamic social movements—the

17 Brazil suffered a military coup in 1964, and the restoration of civilian rule took place until 1985.

Landless Workers Movement (MST) in Brazil, in particular—and left-wing electoral successes in these countries are manifestations of the growing resistance to the new free-market policies and their alleged negative effects (Petras and Veltmeyer 2001; Nylén 2000; Ruiz-Sánchez and De Almeida 2000).

Both countries then, apparently show a straightforward relationship between increasing economic polarization and social discontent manifested in several ways. However, political instability that could eventually threaten democratic consolidation in the near future is only evident in the case of Venezuela. This country seems to be a clear example of the relationship I wish to verify. On the contrary, Brazil—the most unequal country in Latin America—even with its several manifestations of social unrest, seems to be developing in a path towards democratic consolidation and shows, for the moment, no major signs of political instability that could visibly undermine the recent “democratic” character of Brazilian politics. To establish any conclusion about these apparently contrasting experiences is still premature. However, one could certainly analyze in depth the factors and mechanisms already involved in this process and make some projections on the future of these two countries. This would be useful to evaluate the perspectives for the Latin American region as a whole.

3.4 A Theory of Social Unrest

Taking this context into account, one obvious question arises: How does social unrest translate into political instability? In order to better understand this interaction, one might need a theory of unrest. I propose then to make use of some approach of collective behavior, and probably, some variant of the *new social movement theory*. According to the present account, growing

18 In the 1970s Venezuelans enjoyed economic prosperity underwritten by booming oil prices and political stability. The good times began to fade by the mid-1980s, as declining oil prices, disinvestment, fiscal

income inequality, by fueling social discontent, increases political instability. The story, as it is, poses a direct relationship between socioeconomic disparities and uprising. This line of reasoning could lead us to think of the *relative deprivation theory* (Gurr 1970).¹⁹ However, it is widely known that this approach does not have much explanatory power; the problem of relative deprivation is universal, and rebellion does not always occur. This is apparently the case when comparing Brazil and Venezuela. Hence, it seems reasonable to think that growing economic polarization causes some kind of social discontent, but it is not always the case that such a discontent is translated into political instability. There are several factors that might have an effect in this process, such as material resources, political opportunities, cultural values, interest group structure, social structure, etc.

Apparently, it is just “under certain conditions” that social unrest—derived from increasing inequality—translates into political instability. But what are these conditions? And what are the specific mechanisms through which these process takes place? The utilization of some variant of the new social movement theory—the *political process theory*, for example—could be useful to identify the main factors accounting for a direct relationship between social unrest and political instability.²⁰ It seems that social mobilization and its capability of influencing the political process has to do with the material resources and opportunities

imbalance, and a rising burden of debt service triggered a broad economic decline.

19 Relative deprivation theory links variation in protest activities to the changing perceptions and assessments of people’s—particularly economic—situation. In *Why Men Rebel*, Ted Robert Gurr (1970) uses this approach to explain social mobilization. He developed a model of relative deprivation as a psychological source for violence. According to him, *absolute deprivation* does not produce mobilization; rather, it is relative deprivation that accounts for collective action.

20 The political process theory is currently one of the most popular paradigms among social movements analysts. According to this approach, there are three sets of factors that explain the emergence and development of social movements. These factors constitute what is called the political process model, and are the following: 1) the structure of political opportunities and constraints confronting the movement; 2) the forms of organization (informal and formal) available to insurgents, or mobilizing structures; and 3) the collective processes of interpretation, attribution, and social construction that mediate between opportunity and action, or framing processes (McAdam, et al 1996).

available to certain groups, mobilizing structures, framing processes, cultural patterns, particular strategies, and several other factors that constrain or facilitate the capacities of social groups to achieve their goals and have an effect—even destabilizing—on national politics.

FINAL REMARKS

The present document is the initial stage of an attempt to explain the impact of inequality on the political process in Latin America after two decades of structural reform. According to the present account, the combination of methods—quantitative analysis and comparative case studies—is quite appropriate to explain the relationship between socioeconomic polarization and democratic stability, and also to determine the extent of the interactions involved and the main channels through which they occur.

Finally, the project outlined here—and to be developed in the next couple of years—would probably help others to determine whether recent social polarization and political instability in some Latin American countries could eventually lead to the collapse of democratic institutions, or if such events are simply part of the normal path towards democratic consolidation and pose no serious challenge to the “new” Latin American democracies. In sum, this project is designed to identify the main risks for democratic rule in the region at present, and evaluate the channels through which prolonged economic deterioration, and persistent high/increasing levels of income inequality, in particular, could undermine support for representative governments and drain institutions of their democratic content.

A1. METHODOLOGICAL APPENDIX: *Measuring the Relevant Variables*

Inequality

The most popular measures of household income inequality are the ones presented by Klaus Deininger and Lyn Squire (1996). Deininger and Squire gathered a dataset of cross-national cross-time observations including Gini coefficients and the proportion of income in the hand of each quintile. This dataset consists of 692 “high-quality” (that is, comparable) observations—587 of them with Gini coefficients.²¹ Relying generally on these statistics, the IDB and World Bank’s reports, and most recent analyses of inequality in Latin America, show that the last two decades have not been characterized by widespread increases in inequality. According to these measures, inequality in the region has indeed increased, but stabilized after a few years; and this effect can be mainly attributed to the 1980s debt crisis. What seems evident through these figures is that the socioeconomic deterioration led by the debt crisis has barely been reversed (IDB 1998; World Bank 2001; ECLAC 2002).

Several scholars have challenged these assertions, which are based on the main global dataset for household income inequality—as published by the World Bank and used in many recent studies. According to this alternative view, inequality in Latin America after two decades of economic reforms has not only persisted, but noticeably increased. Under this perspective, structural reform in itself has resulted in growing income concentration, thus exacerbating the negative trends of the 1980s. These contentions might be verified using alternative indicators of inequality. For example, one can examine those datasets made available by the *University of Texas Inequality Project* (UTIP). This project has focused on presenting “accurate measures of the inequality of pay—mainly of manufacturing pay—for as many countries and over as long a time span as the available underlying data permit.”²²

UTIP figures show a persistent increase in manufacturing pay inequalities throughout Latin America, beginning in the early 1980s. This approach then could lead us to question the accuracy of Deininger and Squire’s dataset for household income inequality. In fact, “trends in pay inequality ought to have implications...for trends in income inequality. When these are not found, it is reasonable to ask whether the cause lies in fundamental differences between pay and income, or rather in differences of data quality” (UTIP 2003). Deininger and Squire’s figures present additional problems; in fact, this dataset is still far from complete and combines numbers collected by different methods.

21 Deininger and Squire’s database was supplemented in 2002 by David Dollar and Art Kraay. Recently, minor adjustments to this supplemented database were made (see Desai, Raj M., et al 2003).

22 UTIP proposes a new approach for estimating household income inequalities in the global economy. This approach uses econometric methods to estimate the relationship between income inequality and pay inequality. The estimates are conditioned by other variables, including the relative size of the manufacturing sector, for a matched set of observations covering just over 500 data points in Deininger and Squire. According to the creators of this dataset, the regression calibrates the systematic relationship between measures of income inequality and other variables. In their view, the estimated regression coefficients from this exercise can be used to calculate estimated household income inequality coefficients for a very large number of observations (Galbraith and Kum 2003).

Through alternative measures of inequality, I will try to verify if views that challenge statistics showing no increases in income inequality are correct. Overall, I will try to provide some concluding evidence about the recent trends in inequality in Latin America. My measurement of this variable will be based on UTIP figures, and not on the most popular data on household income inequality—that of Deininger and Squire. It is important to take into account that pay inequality and income inequality are not the same. For several analysts, “the study of household income inequality remains the central focus for research in this domain. Many researchers have reservations about UTIP pay inequality measures, particularly on the ground that manufacturing as a proportion of total economic activity varies across countries and can be a small proportion in many developing nations” (UTIP, 2003). Notwithstanding the last, UTIP figures seem to be relevant for analyzing “general” trends in inequality in Latin America. This claim is supported by the rigorous character of the corresponding methodology,²³ and especially, by the patterns in inequality revealed by such figures.²⁴

Taking into account some basic shortcomings of the relevant calculations, I plan to present my own measure of inequality. This measure will add to UTIP figures several additional indicators, based, among other factors, on considerations about unemployment and people’s perceptions of inequality. In order to construct the relevant series I will use either factor analysis or principal component analysis. Employing exploratory factor analysis, I will attempt to reduce my set of chosen variables into one or two underlying factor(s) measuring socioeconomic inequality (see Kim and Mueller 1978). With principal components analysis I will try to do something similar.²⁵ However, it is important to recognize the difference between these methods—even if both are designed to reduce the dimensionality of the original dataset (Widaman 1993; Velicer and Jackson 1990).

People’s Perceptions of Inequality

It might be the case that the main determinant(s) of social unrest—and, under some circumstances, of political stability—is/are not increasing socioeconomic inequality or/and high levels of it, but people’s “perceptions” of a deteriorated distribution of incomes. In this case, perceptions of growing inequality and social injustice are crucial to analyze the relationship between socioeconomic polarization and democratic stability.²⁶

23 UTIP presents two versions of inequality data. The first (EHII2, with 3152 country-year observations) is based on just two regressors: 1) measures of pay inequality, and 2) the share of manufacturing in total population. The second (EHII4, with 3126 observations) adds in the measured influences of urbanization and population growth. The coefficients can be interpreted as ordinary Gini coefficients for household income inequality, measured on a scale of 0 to 100.

24 Recognizing the limitations of UTIP indicators, I might use a different dataset, which may or may not show increases in inequality during the relevant period.

25 Principal components analysis is a statistical technique that linearly transforms an original set of variables into a substantially smaller set of uncorrelated variables that represents most of the information in the original set of variables (see Dunteman 1989).

26 Latin Americans’ opinions reflect, in general, the development problems of the region and their perceptions about inequality and social injustice. “According to surveys in 17 countries taken over three consecutive years during the 1990s, only 10 percent of Latin Americans characterize their country’s current economic situation as good. An overwhelming 60 percent believe that their parents were better off, despite the

In order to measure people's perceptions of inequality in the region, I might use the *Latino Barometer* data set.²⁷ Unfortunately, access to this database is costly, and thus limited. Additionally, efforts to gather data on public opinion for Latin American countries are relatively recent. The *Latino Barometer* is an annual public opinion survey carried out in 17 Latin American countries; it expresses the opinions, attitudes, and behaviors of the approximately 400 million inhabitants of the region. The survey started in 8 countries in the region in 1995 and extended to 17 countries in 1996. In particular, it might be useful to examine *Latino Barometer's* surveys on the "Evaluation of the Economic Situation." This section includes public opinion data on: 1) national economic evaluation, 2) economic mentality, 3) wealth distribution, 4) the market and the state, and 5) an economic sentiment index).

Social Unrest

As of the relationships proposed here, political instability is my dependent variable. However, I also plan to examine the determinants of social unrest in Latin America, but mainly the relationship between (changes in) inequality and social discontent. Primary manifestations of social unrest in Latin American societies include, among others, crime, civic violence, large-scale protests, strikes, demonstrations, riots, and cultural (ethnic and religious) conflicts. Therefore, I will construct an index that accounts for all these events in each country of the sample.

Specifically, I plan to gather data on the following variables: drug related arrests, drug offenses, persons arrested, prison population, murders, reported rapes, sexual crimes, estimated child abuse mortality for infants, auto-thefts, and terrorist incidents. Data on these variables are all reported in the *Statistical Abstract of Latin America* or SALA (see Chapter on "Drugs and Crime").²⁸ The summated rating model seems to be an appropriate method to combine all these measures into one index.²⁹ However, one could also apply factor analysis or principal components analysis, and use "one" of the factors or variables derived from these models.

If I decide to utilize one of the last two techniques, I could add to my representation of social unrest based on SALA's statistics, the measure "Turmoil Risk Ratings" included in the *Political Risk Services* Country Reports (The PRS Group, Inc.).³⁰ The first page of each Country Report shows the 18-month and five-year risk from turmoil. The term "turmoil" in

fact that current per capita incomes are better than they were several decades ago. The surveys reflect widespread impressions by many Latin Americans that add up to concerns about economic instability and inequitable income distribution" (IDB 2000: foreword).

27 See <http://www.latinobarometro.org>.

28 SALA has been published by UCLA since 1956, and is a "one-volume yearly work that contains data on Latin America and its place in the context of comparative globalization"; it presents statistics and time-series data from over 250 national and international sources.

29 Summated rating scales simplify the representation of empirical observations by summing across the levels in at least one of the ways of a multiway, multimode data matrix. There are several versions of summated rating scales; the best know are Likert scales and Thurstone's method of equal-appearing intervals (see Spector 1992; Jacoby 1991; McIver and Carmines 1981).

30 See http://www.prsonline.com/prs_default.asp.

this report includes large-scale protests, general strikes, demonstrations, riots, terrorism, guerrilla warfare, civil war, and cross-border war. It also includes turmoil caused by a government's reaction to unrest.³¹ It is worthwhile mentioning that this variable does not distinguish between measures of what I understand as social unrest and representations of political instability (guerrilla warfare, civil war, and cross-border war). However, using factor analysis or principal component analysis to construct an index of social unrest could probably isolate the undesired effects of what I consider as events of political instability.³²

THE DEPENDENT VARIABLE: Political (In)stability

The proposed quantitative analysis requires us to distinguish between measures of social unrest and political stability indicators. In this framework, manifestations of social unrest determine the potential for political turmoil and could represent risks for the stability of the existent (democratic) regimes. However, there are additional factors that can either reduce or spark such risks. These factors are essentially related to I) the nature and foundations of the political regime and the constitution; II) the quality of institutions; and III) patterns of social cooperation or conflict among members of society—determined by inequality concerns and ethnic diversity.

Leading components of (democratic) stability include, among others: a) elections³³; b) checks and balances on executive power; c) the rule of law versus impunity³⁴; d) degree of militarization of society³⁵; and e) the capacity of addressing basic needs. These are but some of the factors that determine political (in)stability. Though not easy to quantify, most of these features can be analyzed with precision. Accuracy requires careful attention to the legal, cultural, and social variations among societies, and constant monitoring of developments (Reding 1995).

Measuring political (in)stability is not an easy task. Political phenomena seldom lend themselves to quantification. In fact, rating political factors on a numerical scale makes quantification possible, but this can only be achieved by averaging subjective evaluations. In order to provide a reliable measure of this variable one should ideally account for the factors mentioned above. It is important to take into account that attempts to construct such an indicator rely on three main considerations: “First, a good measure of political stability should

31 The short-term risk of turmoil affecting international business is rated as Low, Moderate, High, or Very High. The five-year rating is calculated from the “base” (the Prince Score)—the relative balance of forces supporting and opposing—and the forecasts of change under the three most likely regime scenarios. When a forecast for turmoil changes, the previous rating appears in parentheses after the latest forecast.

32 I will use this measure only in the case SALA’s statistics are available for very few countries and for very short periods of time, or if complete (or partially-complete) series exist just for two or three variables.

33 Elections can help to defuse tensions by allowing for relatively peaceful change. But elections must be credible, and they must result in legislatures that reflect the composition of the electorate.

34 One of the greatest threats to political stability is impunity. “In Latin America the tradition of allowing the army to remain ‘outside’ the law lives on in military-imposed amnesties for murder of civilians. Though said to be necessary to heal divisions, the amnesties in fact keep old wounds festering and continue to undermine respect for the law” (Reding 1995).

35 When armies behave as police forces, they can intensify ethnic and religious animosities (Reding 1995).

rest on sound concepts and definitions. Second, it should be based on explicit and sensible coding and aggregation rules. Third, it would necessarily involve some subjective judgments” (Mainwaring, et. al, 2001).

Available measures of sociopolitical stability in Latin American countries do not account for every relevant factor that actually characterizes this phenomenon. Moreover, these indicators present certain important shortcomings in terms of methodology and coverage. However, recent attempts to classify political regimes and measure (democratic) stability in Latin America have brought about relatively good indicators, covering several years and a great deal of countries in the region. Additionally, such measures do account for many of the abovementioned considerations about political stability. Among these are: 1) *Freedom House* indicators,³⁶ 2) the Polity IV project, 3) Mainwaring, Brinks and Pérez-Liñan’s classification of political regimes in Latin America (Mainwaring, et. al 2001), and 4) data on democracy and democratization used in publications by Michael Coppedge.³⁷

Despite their merits, such indicators present some basic disadvantages, and their main focus is on democratic stability. For the purposes of the present analysis, I need a more comprehensive measure of political (in)stability that captures not only the nature and stability of the political regime, and the quality of institutions. In particular, I need an indicator that additionally accounts for: 1) patterns of social cooperation or conflict determined by inequality issues and ethnic diversity, and 2) the occurrence of really violent phenomena of political unrest and extreme protest movements—that stand as clear manifestations of political instability (and are not just an indication of normal patterns of social discontent).

Such a measure will be constructed through a combination of already existent and complementary indicators of democratic/political (in)stability. Specifically, I will begin with statistics of the Polity IV project. I chose this dataset for two main reasons. First, the Polity project covers a very long period of time; it covers 177 countries for the years 1800–2002. Additionally, for Latin America Polity IV appears to have fewer systematic problems than Freedom House indicators (Mainwaring, et. al, 2001). Subsequently, I will add measures of perceived country creditworthiness, plus an indicator of media coverage of major events reflecting political instability. I will scale these three measures making use of either principal components analysis or a variant of the summated rating model, and create a new index that better captures general levels of political (in)stability in the Latin American region.

Polity IV project. The Polity scale would account for those factors mainly related to the nature and stability of the political regime, and the quality of institutions.³⁸ The creators of the

36 See <http://www.freedomhouse.org/research/freeworld/FHSCORES.xls>. Every year since 1972, Freedom House has ranked all independent countries from 1 (the best score) to 7 based on both civil liberties and political rights. Freedom House evaluations have been used as measures of political regimes by combining the two scores to provide an assessment of how democratic a regime is. Its scores provide a reasonably differentiated measure of democracy and offer comprehensive scope over nearly three decades. They implicitly incorporate at least three relevant dimensions of democratic stability: free and fair competition, broad participation, and civil liberties and human rights (Mainwaring, et. al, 2001).

37 See <http://www.nd.edu/~mcoppedg/crd/datacrd.htm>. Michael Coppedge is Associate Professor in the Department of Political Science, University of Notre Dame.

38 The Polity Project created eight ordinal scales with 35 categories in order to typify patterns of participation, the constraints on executive power, the recruitment of the chief executive, and the complexity of

Polity project established three defining features of democracy and incorporated them into their classification: i) the presence of institutions and procedures through which citizens can express effective preferences about alternative political policies and leaders (this includes elections, inclusiveness, and the protection of political liberties); ii) the existence of institutionalized constraints on the exercise of executive power; and iii) the guarantee of civil liberties to all citizens (Gurr and Jagers, 1995).³⁹

Perceived country creditworthiness. Political instability considerations are a fundamental component of the perceived country creditworthiness. Notwithstanding the fact that both political and economic variables are taken into account when evaluating country risk, this measure is still useful as it reveals major trends in political (in)stability. Country creditworthiness perceptions are largely based on a country's economic performance, which is expected to reflect longer-term political stability. The frequency of changes in the regime and armed conflicts, both proxying for political instability, also affect the relevant credit ratings (Hun Lee, 1993). Specifically then, when constructing a new index of political (in)stability, I plan to use *Institutional Investor* and *Euromoney*'s credit ratings of individual countries. These ratings are based on a semiannual survey among the world's leading international bankers of their ranking of individual creditworthiness.⁴⁰

Media coverage of major events reflecting political instability. The New York Times publishes annually some statistics revealing the incidence of major violent phenomena of political unrest in several countries. In particular, these figures account for the number of news covering events of this nature that are reported in every country per year in the popular newspaper. The problem with these figures has to do with the selection criteria of the relevant news. It might also be the case that events of political instability are mixed with those manifestations of purely social discontent.

Other Determinants of Social Unrest and Political Instability

Data on alternative determinants of political instability and social unrest will be taken also from SALA (1960-2003). Actually, SALA presents several socioeconomic and development indicators that can be useful to the present analysis, such as: vital and demographic statistics;

power structures in different societies. Noting that some categories reflected traits of a democratic polity while others reflected autocracy, it selected 21 categories that correspond to five dimensions, weighed them, and integrated them in two scales (*institutionalized democracy* and *institutionalized autocracy*) ranging from 0 to 10.

39 Polity is designed to record the regime's institutionalized authority characteristics. An important research question focuses on the relationship between authority and violence. Every effort is made in coding Polity to distinguish between the qualities of regime authority and authority mitigating factors such as political violence. As such, the Polity IV Dataset Users Manual has been revised to remove all narrative references to armed conflict and violence in coding guidelines, descriptions, and explanations (Marshall and Jagers 2000).

40 Bankers are asked to assign a score of 0 to 100, where 0 represents the least creditworthy country, and 100 the most creditworthy one. The main problem with this measure of political instability is its limited availability, since access to this information could be extremely costly.

health, nutrition, family planning, welfare and housing indicators; GDP; data on foreign assistance; an index of perceived corruption, among others.⁴¹

Dealing with Missing Data: Using AMELIA

It is difficult to accurately test the relationship between inequality, social unrest and political stability. Moreover, the best available datasets on these variables are still far from complete in the case of Latin America; the relevant information is limited, and, in most cases, it is available only for irregularly scattered years. I would certainly need an approach to the problem of missing data scattered through the main variables included in the proposed model. A widely applicable approach to missing data problems is based on the concept of “multiple imputation.”⁴² I propose then to use “AMELIA,” a general-purpose, multiple imputation model for missing data. AMELIA is a program that offers an “easy-to-use alternative for statistical analyses of incomplete multivariate data” (see King et al 2001a, 2001b).⁴³

41 The relevant data series will be verified and completed (when necessary) with data from alternative sources (see *Statistical Sources*: pp. xii-xiii).

42 On multiple imputation see King et al 2001a, 2001b.

43 AMELIA can be accessed through Gary King’s homepage: <http://gking.harvard.edu>.

A2. INCOME DISTRIBUTION IN LATIN AMERICA

**TABLE 1. Distribution of Income in Urban Households
By Quintile (percentages)^{a/}**

Country	Year	Quintile 1 (poorest)		Quintile 2	Quintile 3	Quintile 4	Quintile 5 (richest)	
		Decile 1	Decile 2				Decile 9	Decile 10
Argentina ^{b/}	1980	2.8	4.0	10.6	15.7	21.7	14.4	30.9
	1990	2.3	3.9	8.7	14.2	20.9	15.2	34.8
	1994	2.1	2.9	8.8	14.1	21.0	16.9	34.2
	1997	2.1	3.3	9.5	13.4	19.9	16.1	35.8
Bolivia	1989	0.7	2.7	8.7	13.1	20.6	16.1	38.2
	1994	2.0	3.4	9.8	13.5	19.8	15.9	35.6
	1997	1.6	3.1	9.0	13.6	20.5	15.3	37.0
Brazil	1979	1.3	2.6	7.9	12.2	20.0	16.9	39.1
	1990	1.1	2.2	7.0	11.1	19.4	17.4	41.8
	1993	1.2	2.6	7.8	10.9	18.2	16.1	43.2
	1996	1.1	2.3	7.2	10.4	18.2	16.6	44.3
Chile	1987	1.6	2.8	8.3	12.8	19.4	16.5	39.6
	1990	1.7	3.0	8.7	12.1	18.7	15.8	39.2
	1994	1.7	3.0	8.7	12.4	18.7	15.2	40.4
	1998	1.7	3.0	8.7	12.4	19.4	15.8	39.1
Colombia	1980	0.9	2.5	7.6	11.3	18.9	17.5	41.3
	1991	2.0	3.6	10.4	14.9	21.6	15.6	31.9
	1994	1.1	2.6	7.9	12.4	18.9	15.3	41.9
	1997	1.4	2.9	8.6	13.0	19.3	15.2	39.5
Costa Rica	1981	2.3	4.5	12.1	16.7	24.5	16.9	23.2
	1990	1.6	4.1	12.1	17.0	24.5	16.1	24.6
	1994	1.9	3.9	11.6	16.4	22.7	16.0	27.5
	1997	1.9	4.2	11.3	16.8	23.7	15.4	26.8
Ecuador	1990	2.1	3.8	11.3	15.5	21.5	15.3	30.5
	1994	1.5	3.5	10.6	15.8	22.2	14.7	31.7
	1997	2.3	3.5	11.2	15.1	21.6	14.4	31.9
Mexico	1984	3.2	4.7	12.3	16.8	21.9	15.4	25.8
	1989	2.5	3.7	10.1	13.4	19.0	14.4	36.9
	1994	2.9	3.9	10.0	13.9	19.7	15.3	34.3
	1998	2.8	4.0	10.5	13.6	19.3	15.1	34.8
Venezuela	1981	2.5	4.4	13.2	17.1	24.9	16.0	21.8
	1990	2.0	3.7	11.1	15.9	22.8	16.2	28.4
	1994	2.5	3.7	10.5	15.6	21.3	15.0	31.4
	1997 ^{c/}	1.8	3.2	9.7	14.4	21.4	16.8	32.8

Source: ECLAC (2002), *Statistical Yearbook for Latin America and the Caribbean*.

a/ Classified according to per capita income.

b/ Refers to the Metropolitan area.

c/ Refers to national total.

TABLE 2. Gini Indexes: Latin America
(selected countries)^{a/}

Country	Year	Gini ^{1/}	Country	Year	Gini ^{1/}
Argentina ^{2/}	1963	35.8	Costa Rica	1971	44.4
	1970	36.1		1977	50.0
	1975	36.6		1981	47.5
	1980	41.0		1986	42.0
	1989	47.6		1989	46.1
	1990	50.1		1990	43.8
	1997	53.0		1997	45.0
	1999	54.2		1999	47.3
Bolivia	1968	46.2	Ecuador	1965	67.8
	1986	51.6		1968	52.6
	1989	52.5		1990	46.1
	1997	59.5		1994	43.0
	1999	58.6		1997	46.9
Brazil	1970	57.6	Mexico	1963	55.5
	1976	60.3		1968	57.7
	1980	57.8		1975	57.9
	1985	61.8		1984	50.6
	1989	59.6		1989	55.0
	1990	62.7		1992	50.3
	1996	63.8		1994	53.9
	1998	64.0		2000	54.2
Chile	1968	45.6	Peru	1971	55.0
	1971	46.0		1981	49.3
	1980	53.2		1986	42.8
	1989	57.9		1994	44.9
	1990	55.4		1997	53.2
	1994	56.5		1999	54.5
	1996	55.3			
	2000	55.9			
Colombia	1970	52.0	Venezuela	1971	47.7
	1974	46.0		1976	43.6
	1978	54.5		1978	40.7
	1988	51.2		1981	42.8
	1991	51.3		1987	45.2
	1994	60.1		1990	47.1
	1997	56.9		1997	50.7
	1999	57.2		1999	49.8

Sources:

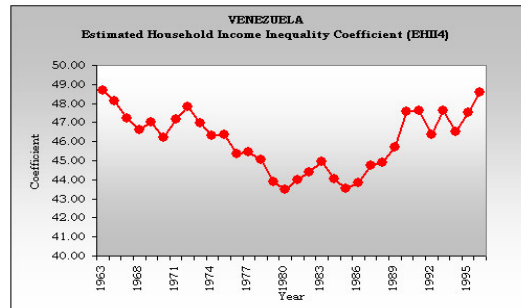
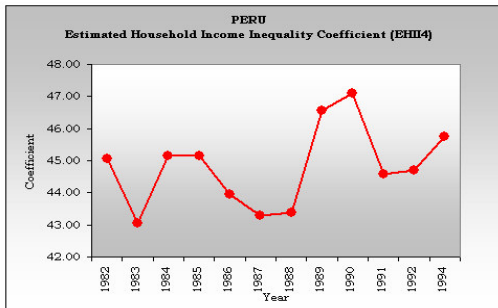
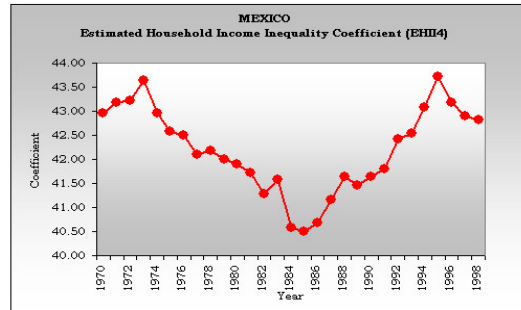
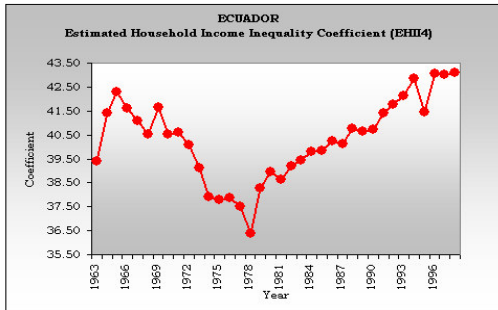
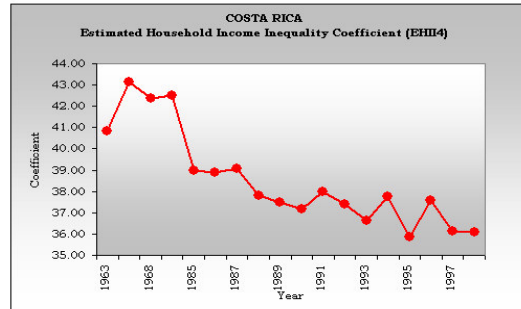
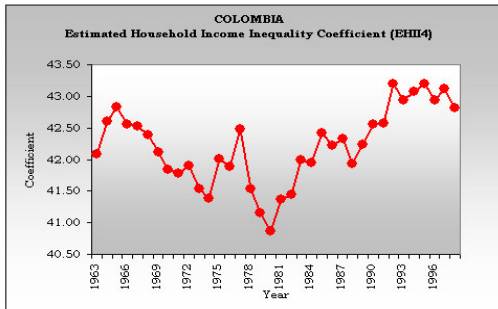
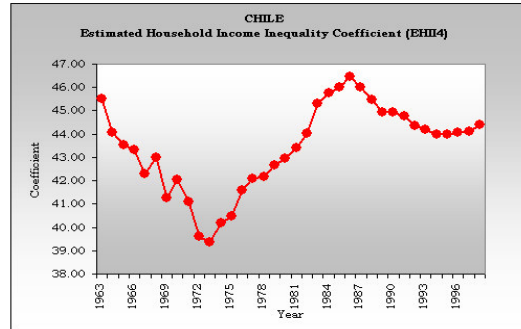
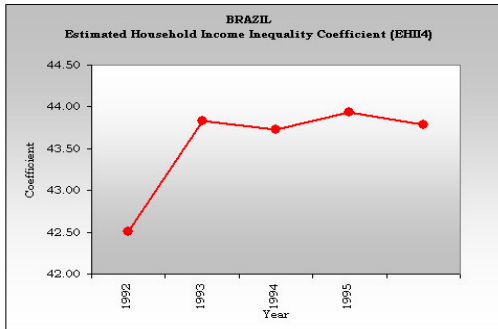
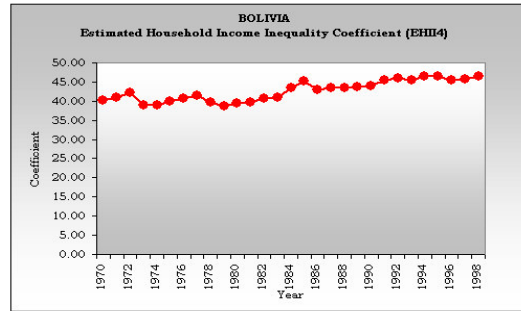
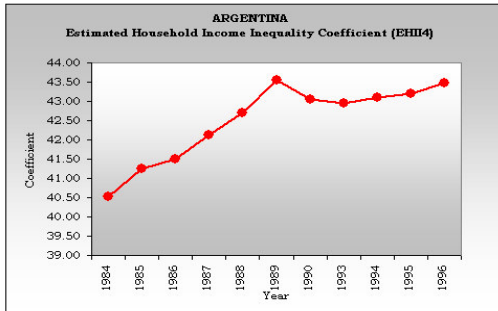
From 1963 to 1989: Klaus Deininger and Lyn Squire (1996), *Measuring Income Inequality: a New Database*. The World Bank.

From 1990 to 2000: ECLAC (2002), *Social Panorama of Latin America, 2001-2002*.

1/ Includes persons with no source of income

2/ Refers to the Metropolitan area.

A3. U.T.I.P. MEASURES OF INEQUALITY



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INTERNET RESOURCES

- a) Data on democracy and democratization used in publications by Michael Coppedge:
<http://www.nd.edu/~mcoppedg/crd/datacrd.htm>.
- b) Deininger and Squire's Income Inequality Database:
<http://www.worldbank.org/research/growth/absineq.htm>.
- c) Gary King's homepage:
<http://gking.harvard.edu>.
- d) *Institutional Investor*; Country Credit Ratings:
<http://www.institutionalinvestor.com/premium/rr/index.asp>.
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<http://www.euromoney.com/index.html>.
- f) *Freedom in the World Country Ratings, 1972 to 2001-2002*; Freedom House Country Ratings:
<http://www.freedomhouse.org/research/freeworld/FHSCORES.xls>.
- g) *Latino Barometer*; Latin American Public Opinion:
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- h) *The New York Times* on the Web:
<http://www.nytimes.com>.
- i) *Political Regime Characteristics and Transitions, 1800-2002*; Polity IV Project:
<http://www.cidcm.umd.edu/inscr/polity/index.htm>.
- j) The PRS Group, *Political Risk Services*; Country Reports:
http://www.prsonline.com/prs_default.asp.
- k) *An Estimated Household Income Inequality Data Set for the Global Economy*; University of Texas Inequality Project (U.T.I.P.):
<http://utip.gov.utexas.edu>.