

Why the Rich Stay Rich.

On dysfunctional institutions' "ability to persist" (no matter what)

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Abstract

This paper returns to the Ricardian tradition of understanding the distribution of income as the outcome of the political articulation of conflict between rentiers, capitalists, bureaucrats and labour —in which history, politics and institutions matter as much (if not more) than economic 'fundamentals'. Furthermore, as this conflict is by nature "antagonistic" it takes place in the arena of "the political"; i.e., it can never have a purely logical or rational solution. It is a story of *choice* in a world of multiple equilibria. In this tradition, in unregulated economies not only inequality but also economic underperformance arises mostly from the shift in distribution from operating profits to unproductive rents (especially "inefficient rents"; i.e., those that arise from market manipulation), affecting investment and productivity growth. The focus of the analysis is on how is it that the rich stay rich, no matter what! —confirming the iron law of oligarchies: dysfunctional institutions tend to rebuild. In the case of Latin America, its élites' "ability to persist" relates to the fact that they have been able to enforce a style of political settlement that resembles what in statistics is called a 'stationary process', whereby the unbalancing impact of shocks tends to have only limited life-spans. That is, oligarchies are able to landscape new scenarios to continue achieving their fairly immutable rent-seeking goals. When in democracy, they have used three main channels for this: they have enforced 'Buchanan'-style constitutional and legal straitjackets to restrict the scope of change and to debilitate the State; they have been able to reengineer their distributional strategies to suit the new scenarios; and they have cleverly absorbed elements of opposing ideologies (such as now accepting the need for 'social protection') to maintain their hegemony. Their trump cards are ruthlessness in the first channel, and "jogo de cintura e jeitinho" (fancy footwork) in the other two. The analysis of these channels is the main subject of this paper.

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Why the Rich Stay Rich

On dysfunctional institutions' "ability to persist" (no matter what)

José Gabriel Palma¹

The comfort of the rich depends upon
an abundant supply of the poor

Voltaire

[The national income]
is divided among three classes,
[rentiers, capitalists and labour] ...,
[in the form of] rents, profits, and wages.
To determine the laws which regulate this distribution
is the principal problem in Political Economy

David Ricardo

[Latin America] has a narcissistic tendency
to use reality as a mirror for self-contemplation. ...
[Yet] human history is the product of discontent.

José Ortega y Gasset

Domination [is so much more effective when] ...
it can delegate the ... violence on which it rests to the dominated.

Theodor Adorno

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This paper is dedicated to Diego Armando Maradona, "El Pelusa", a symbol of our Latin American culture in all its glories and flaws—in its life-producing drives and its self-destructiveness (the subject matter of this paper is no exception).

Introduction

This paper studies the complex and intriguing issue of why the rich tend to stay rich, no matter what the rest of society throws at them. To do so, I return to the Ricardian tradition of understanding the distribution of income as the outcome of the articulation of conflict of an antagonistic nature between rentiers, capitalists and labour (and now bureaucrats) —in which history, politics and institutions matter as much (if not more) than economic ‘fundamentals’. That is, I understand inequality as the outcome of a conflict in which there is a multiplicity of agents and struggles —as opposed to the traditional mainstream understanding that it is the outcome of the interaction of given ‘fundamentals’ (with an “optimal” equilibrium where everyone appropriates the value of its marginal productivity; nothing more, nothing less). It also differs from the other traditional understanding that it is the outcome of a conflict in which basically there is just one struggle (class struggle) and only two agents (capital and labour) —and where this struggle takes place in a teleological framework.

Furthermore, as in my understanding of the Ricardian tradition the distributional conflict is by nature antagonistic it belongs to the arena of “the political” —and as such, it cannot have a merely logical or rational solution.² Basically, the distributional conflict is a story of *choice* in a world of multiple equilibria.³

As in this Ricardian tradition the analytical axis is in the distinction between ‘rents’ and ‘operating profits’, when this distributive conflict is articulated in economies with deregulated markets and without a strong and intelligent State in Mazzucato’s (2018) sense, the resolution of this conflict would tend to favour the supremacy of rentiers seeking easy and unproductive rents (including those of “inefficiency”; i.e., those that retard growth as they are created by market manipulation) —leading to underperformance due to their detrimental effect on investment and productivity growth.⁴

This is particularly the case in economies rich in natural resources where rentiers (as in Latin America) have free access to those rents. In this case, markets would not only be prone to have all the well-known market failures vis-à-vis non-renewable resources but also, as rents from natural resources **are fully captured at the extractive stage**, unregulated markets would only create incentives for the mere extraction and not for the processing of those commodities.⁵ Therefore, in this scenario rent-seeking in these activities could only be growth-enhancing at an early stage of development of the extractive activities (as in Chile in the late 1980s and early 1990s), but it would soon cease to be so when the extractive model becomes exhausted (as in Chile by the turn of the century). This is the key lesson of the “Nordic Model”: further developments of the resource industry, such as the industrialization of commodities, requires a State capable of coordinating investment in this direction. Otherwise, those with preferences for “easy rents” would have the upper hand, and economies rich in resources would get stuck in the extractive stage of these industries.

This issue is particularly relevant to the analysis of resource-rich Latin America, and its abysmal productivity growth performance since their neo-liberal reforms: its average productivity level has been **stagnant since 1980** —in the meantime, China increased its own by a factor of 21, India by 5, South Korea, Taiwan and Vietnam by 4, and Malaysia, Hong-Kong, Indonesia and Singapore by

² Although not all social conflicts are of an antagonistic nature, properly political ones are, and they involve decisions between alternatives that cannot be taken just from a purely rational point of view; see Laclau y Mouffe (2011).

³ Palma (2019a).

⁴ For the contrast between “efficient” and “inefficient” rents, see Khan (2000).

⁵ See Palma (2019b).

3.⁶ This transfer of income within the capitalist elite in favour of rentiers (and against entrepreneurs earning operational profits) has had a negative impact on investment, technological absorption, innovation and economic diversification.

For Ricardo, the need to distinguish between the nature of rents and operating profits was fundamental for both the analysis of distribution and of growth. In fact, for him the main problem with economic theory at the time [except for Malthus] was that “Adam Smith, and the other able writers to whom I have alluded [Turgot, Stuart, Say and Sismondi], not having viewed correctly the principles of rent, have, it appears to me, overlooked many important truths, which can only be discovered after the subject of rent is thoroughly understood.” (1821).

The focus of the analysis will be on the persistence of dysfunctional institutions in Latin America’s recent past (closely associated with some of the issues already mentioned), in particular on the “iron law of oligarchies”, whereby these types of institutions that are the key obstacle for development tend to rebuild (with Chile as a case study).

In the US, for example, as Acemoglu and Robinson (2006) describe, the traditional landed élites were able to sustain their political control of the South for at least a century after losing the Civil War by successfully blocking economic reforms that might have undermined their power, and by using their local political supremacy to disenfranchise blacks and re-exert control over the labour force. In Latin America, likewise, dysfunctional oligarchies have been remarkably effective at crafting their own re-creation after political shocks; i.e., no matter what the rest of society has thrown at them, so far they have been able to reengineer something resembling a “Southern-style” political settlement and distributional outcome.⁷

The focal point of my analysis will be on how the Chilean élite has successfully transformed its own ‘Southern-style’ scenario into something approaching a “stationary process” —in the sense that the unbalancing impact of shocks (such as the 1982 economic collapse, or the return to democracy in 1990) have had only limited life-spans. In other words, although Latin America’s history is rife with shocks, its oligarchies have been able to landscape the new scenarios in such a way that they have been able to continue achieving their fairly immutable purely rent-seeking goals.

In the case of Chile, for example, they have done so mainly through three channels: one is by forcing straitjackets on new scenarios so as to restrict the scope of change —like when they imposed a draconian Constitution, Buchanan-style, and a series of *leyes de amarre* (or “handcuff laws”) on Chile’s young democracy, which included retaining Pinochet as head of the Armed Forces for another eight years, and then as a senator for life! The latter category was a group of pro-Pinochet appointees large enough so as to ensure the control of the Senate by right-wing parties no matter what happened at the elections. Another is by having the agility to reengineer their distributional strategies while maintaining their collective action so as to suit the new scenarios. And finally, by cleverly absorbing elements of opposing ideologies (such as now accepting the need for a much stronger system of social protection), so as to keep their ideology hegemonic in the new scenario —according to Gramsci, any ideology with that aim must be able to do this. Their trump cards are ruthlessness in the first channel, and the capacity for solving any internal problem of ‘collective action’ and fancy footwork (or what Brazilians call “jogo de cintura e jeitinho”) in the other two.⁸

⁶ Ibid.

⁷ The concept of “political settlement” is that of Khan (2018).

⁸ Or, as they say in golf, ‘It’s all in the hips!’

In distributional terms, my main hypothesis is that the Latin American capitalist elite has (so far) managed successfully to stay always on top of the distributional conflict by following a complex distributional strategy which could be associated to what in game theory is known as a “Parrondo’s paradox” —or ‘a sequence of losing strategies that wins’.⁹ In its traditional formulation, this paradox consists of two games that are played in an alternating sequence. An analysis of each game in isolation shows them to be losing games *if played indefinitely* (i.e., they have a negative expectation). However, when they are played in an alternating sequence, the resulting compound game is, paradoxically, a winning game. In other words, it is possible —as in Chile— to construct a winning strategy by playing apparently losing distributional games alternately.

It remains to be seen whether the Chilean oligarchy will succeed in doing this all over again vis-à-vis the impact of the massive political shocks of the social unrest of October 2019 and the pandemic. That is, whether they can successfully reengineer their distributional strategy for the fourth time since crashing the Popular Unity government in 1973 —this time, by trying to rebuild their Southern-style rule with their newfound European ‘new’ social democratic-style discourse.

Each of the previous three distributional strategies had a shelf-life, after which they had become counterproductive. Had the oligarchy continued to implement them, they would have become losing strategies. The secret of the oligarchy’s long-term distributional success has been making the switch on time while successfully enforcing their ‘collective action’.

If they succeed in doing this again, it will show that their Southern-style rule still remains a ‘stationary process’ —in terms of its capacity to absorb major shocks without altering its fundamental structure (i.e. by making their impact transitory). If not, it would mean that the October 2019 social uprising was a shock too far for the oligarchy, one that finally had a more **permanent effect** on the rentier structure of the oligarchy’s Southern-style rule. Namely, one that was able to reshape the Chilean political settlement and distributional outcome into something resembling a unit-root-style process, where the impact of shocks does not decay over time.

As my understanding of inequality steams from the Ricardian tradition of analysing inequality as the outcome of a conflict of an antagonistic nature —in which history, politics and institutions is what matter most— my analysis places the emphasis on Gramsci rather than Kuznets, on Hirschman rather than Solow, on Mazzucato, Amsden or Pérez rather than on neo-classical understandings of the relationship between technology and inequality. The focus is on self-construction rather than on fundamental forces of the universe. The key questions relate to issues such as what is it that helps in the formation of collective beliefs? How do spontaneous consensus types of hegemony emerge? How can they be changed? Why is it that these types of “antagonistic” conflicts are associated with the formation of such strong political identities (that is, how is it that they lead to such investments of libidinal energy in these identities)? The accent is on ideology rather than technology; on agency rather than structure (provided that agencies are able to understand structure); on the political articulation of conflict rather than economic determinism (e.g., ‘ $r > g$ ’); and on choice rather than Piketty’s historical ‘accidents’.¹⁰

⁹ See Parrondo (1996).

¹⁰ In Piketty’s original (and highly influential) work, there is no room for a ‘natural’ tendency for inequality to decline even when a country reaches economic maturity. In his neo-classical (and therefore necessarily mechanistic) model, increasing inequality is supposed to be intrinsic to a capitalist economy irrespective of its political settlement and level of development. (Piketty, 2014). For him, it took ‘accidents’ such as two world wars and a massive depression to disrupt this supposed pattern (for a discussion of this, see

And if the challenge is to reduce high inequality, the obvious way forward is fighting (with Keynesian determination) artificially created “distributional failures” **in the sphere of production** rather than just ex-post via taxes and transferences. That is, not surrendering market inequality to the likes of armchair rentiers and traders (those who live by extracting the value created by others), speculators (with more liquidity than imagination or morals), and polluters and natural resource plunderers (incapable of even understanding that at the very least, as Warren Buffett argues, climate change “bears a similarity to “Pascal’s Wager”).¹¹

All these complexities make the analysis of inequality particularly difficult due to its intricacies and overdetermination —making our modest understanding of its dynamics (despite recent progress) one of the most important analytical failings of current economic analysis.¹²

In fact, Krugman (2011) identified increasing inequality and Latin America’s perennial economic underperformance as the two greatest analytical challenges in economics today. However, from my perspective the real challenge is to understand **the interaction between the two** in both emerging and mature economies —as high-income OECD countries are now almost infatuated with a Latin-style relationship between relentless market inequality and perennial underperformance. This process, which I have labelled “the latinoamericanisation” of the OECD (as discussed in Palma, 2010 and 2014, and then expanded in 2019a), resembles a process of “reverse catching-up” of high-income economies with those of the tropics.

Basically, the high-income OECD now seems determined to mimic the Latin American distributional process in which rentiers seeking easy and unproductive rents appropriate an ever increasing share of the national income, while capitalists get less and less via operating profits —forcing them to increasingly act as rentiers in their productive activities.¹³ This includes the key role now played by financialisation¹⁴, intellectual property rights¹⁵, and all other forms of rent-seeking activities in non-financial corporations, which often lead to what the chief economist of the Bank of England now calls corporate ‘self-cannibalism’ (or how an unholy alliance between a new breed of ‘active’ —i.e.,

Palma, 2019a, Appendix 2). However, in his next (and outstanding) contribution (Piketty, 2020) he finally downplays the role of ‘accidents’ by switching his emphasis to ideology.

¹¹ As he explains, “... if there is only a 1% chance the planet is heading toward a truly major disaster and delay means passing a point of no return, inaction now is foolhardy.” (<https://www.berkshirehathaway.com/letters/2015ltr.pdf>). For an analysis of this issue, see Palma (2019a).

¹² For some of the recent contributions, see Lopez-Calva and Lustig (2010); Gasparini et al. (2012); Cornia (2014); Atkinson (2015); Bourguignon (2015); Galbraith (2016); Milanovic (2016, 2018, and 2019); Ocampo (2019); Palma (2011, 2016 and 2019a); Piketty (2014 and 2020); Scheidel (2017); and Taylor (2020).

¹³ Palma (2019b).

¹⁴ By ‘financialisation’, I understand the rise in size and dominance of the financial sector relative to the non-financial sector, as well as the diversification towards financial activities in non-financial corporations.

¹⁵ Regarding intellectual property rights as currently implemented, they are counterproductive as they may well slow down (rather than the speed up) the pace of innovation. As knowledge is a (global) public good, with no marginal costs associated with its use, restricting its access would *necessarily* cause market inefficiency. Furthermore, as knowledge is the main input for the creation of further knowledge, restricting its use inevitably leads to an oligopolistic market for knowledge. The need to provide incentives to innovate is one thing; to do so by artificially restricting access to knowledge is quite another (see Stiglitz, 2007; and Palma, 2019a).

bullying— shareholders and self-seeking executives is leading companies to being dismantled, or condemned to debt, in order to increase immediate income).¹⁶

The nature of the economic activates has surely changed since Ricardo, but economic underperformance (especially in terms of productivity growth) arising from shifts in distribution from operating profits to unproductive rents has not. And let's not forget that in Ricardo's model the 'steady state' is one in which real wages remain stagnant, capitalists make no profits and rentiers get the lion-share of national income —and the more unproductive and inefficient the use of those rents, the merrier. We may be in a totally different technological paradigm as well as financial markets and institutional settings from those at Ricardo's time, but the current 'steady state' already resembles a similar scenario —one in which that distributional trilogy predominates, which is as toxic for inequality as it is for productivity growth and our democracy.

In fact, Ricardo (1817), himself a stockbroker who made most of his fortune as a result of speculation on the outcome of the Battle of Waterloo, argued that under certain conditions the above mentioned dynamic tends to dominate. For him, only technological progress and international trade could come to the rescue and help reverse the slowdown in productivity growth resulting from this shift in distribution from profits to easy rents. But in our times, even before the pandemic, neither of these two factors seemed to be able to do much about it...

Furthermore, the specificity of Latin America's political settlements and distributional outcomes —and now, increasingly so, that of high-income OECD— is not just about artificially constructed inequalities having come at the cost of economic performance, but how the region's dysfunctional oligarchies have shown a remarkable "ability to persist" despite the above. And in Latin America this has been so in spite of both massive economic shocks (such as the 1982 economic collapse), and political shocks (such as the return to democracy after prolonged periods of brutal and corrupt dictatorships). The specificity of shocks may have been different in the high-income OECD, but its dysfunctional oligarchies now have a similar "ability to persist" despite having led their market inequality and economic underperformance to Latin American depths (see Appendix 2).

What has happened so far with the pandemic is yet another example of this phenomenon: while this plague devastates economic activity and living standards —undoing in Latin America much of what had taken years to achieve in terms of reducing poverty and in some cases a bit of inequality—, most large fortunes have continued to expand boosted by lockdowns and financial markets' "perpetual manias". In Chile, for example, the assets of the seven largest billionaires jumped by 73% in the year to March 2021 —as for the billionaires in the rest of the world, this was the fastest increase ever.¹⁷

Latin America of course was not alone in this, as high-income countries also had one of the most "K-shaped" distributive drives ever during this pandemic.¹⁸ In the US, for example, while 67 million workers lost their job, nearly 100 thousand businesses had to close permanently, 12 million workers lost their employer-sponsored health insurance just at the beginning of the pandemic, 26 million adults reported that their household did not have enough food, 1 in 6 renters were behind in their rent, and so on, just 5 individuals reaped a US\$311bn boost to their wealth. In fact, one of them, the CEO and a 20% owner

¹⁶ See Palma (2020b).

¹⁷ Forbes (2021).

¹⁸ On this K-shaped phenomenon, see <https://www.ft.com/content/258b74d8-6bac-47e5-a675-8f091b25db3e>. See also <https://www.ft.com/content/f8251e5f-10a7-4f7a-9047-b438e4d7f83a>

of a tiny automaker (and space innovator), had his personal fortune increased by more than US\$140bn during 2020 —according to Forbes, this is the biggest single-year jump for a billionaire since the magazine began tracking the world's highest fortunes.

In turn, in 2020 investment banks across the world generated a record US\$125bn in fees; just 20 hedge funds made US\$64bn for their clients; US companies borrowed a record US\$2.5tn in the bond market during 2020;¹⁹ and mergers and acquisitions reached about US\$4tn.²⁰ Basically, as a CEO of a top private equity group explains, at least for some 2020 became "... another one of those acceleration moments".²¹ For a few, "accelerating" indeed! According to Forbes, the top billionaires in the world increased their collective wealth in 2020 by US \$ 5 trillion, a figure never seen before for such a short period of time.²²

The bottom line, as a top financial executive explains in an interview with the *Financial Times*, is that the FED, at the same time that than flooding financial markets with liquidity,

[It] has created an expectation of a bailout, ... it almost doesn't matter what other indicators of debt or leverage show. ... If you think about it, it is insane, ... But it's the reality.²³

In sum, (as I discuss in detail elsewhere²⁴) this toxic cocktail of a tsunami of liquidity mixed with all sorts of moral hazards has transformed finance into a "perpetual orgy". Pandemic, what pandemic?

As expected, corporate executives joined in the bonanza; in the UK, for example, while the economy had its biggest recession in three centuries, an online grocery delivery company that benefited from lockdowns ended up paying its CEO nearly £60 million in 2020 (about US\$80 million), which is no less than 2,605 times the average salary among its staff —as only executives could claim their respective hefty 'Covid-19-bonus' (workers need not apply).²⁵ And in the US, the CEO of General Electric got a US\$47m bonus after his pay package was rewritten earlier this year to reduce the risk that he would miss out on the Covid-windfall!²⁶ And as the *Financial Times* reports, this became a general trend, as "At least 20 US companies had altered their annual bonus plan ... to prop up executive pay [during the pandemic]."²⁷

One revealing aspect of this K-shaped 'pandemic economy' is that —as expected within the current technological paradigm (Pérez, 2002)— one key technological characteristic that differentiated corporate winners from losers was the levels of 'intangible capital per employee'; in fact, one study of the S&P 500 concludes that stocks in companies with high levels of intangible capital per

¹⁹ According to the *Financial Times*, "this ... borrowing binge has driven leverage [a ratio that measures debt compared with earnings] to an all-time peak ... [making] debts to balloon faster than profits can keep up" (<https://www.ft.com/content/c7bbdc4e-2fc9-424b-ab0b-a3acd8f20557>).

²⁰ <https://www.ft.com/content/1caa7059-2e4e-4b9e-b365-8944478509a4>

²¹ <https://www.ft.com/content/258b74d8-6bac-47e5-a675-8f091b25db3e>

²² Forbes (2020). See also <https://inequality.org/great-divide/updates-billionaire-pandemic/>; and (<https://americansfortaxfairness.org/wp-content/uploads/12-9-20-National-Billionaires-Report-Press-Release-1T-4T-FINAL-1.pdf>).

²³ <https://www.ft.com/content/7fa7e230-5a8f-4a65-b8b7-ecd603a2a3d1>

²⁴ Palma (2020b).

²⁵ <https://highpaycentre.org/pay-ratios-and-the-ftse-350-an-analysis-of-the-first-disclosures/>.

²⁶ This was about twice as much as his bonus the year before <https://www.ft.com/content/c84bde4b-9766-4163-8606-6a29653e1822>.

²⁷ <https://www.ft.com/content/a691145f-98d1-4b6c-afdf-36f2304bea0d>

employee have recorded the biggest gains this year, and the less intangible capital per employee companies have, the worse their stocks have performed.²⁸

Returning to Latin America's current conundrum (whether current shocks will finally have a more permanent effect on the rentier structure of its oligarchy's 'Southern-style rule'), the fundamental political economy problem is that there are not many ways to reshape the structure of a 'system' with so little entropy: there are few ways one can redesign the structure of our society and economy —so it can move 'forward' in time—, if one can't change the fundamentals of its *status quo*: that those at the top can continue to appropriate such an absurd share of national income, while doing the 'low hanging fruit'-type of activities they favour. In Darwinian language, as evolution inevitably creates uncertainties to dominant agents, the main problem with such a 'system' is that the oligarchy expends so much energy in trying to 'stop time' that there is little left for moving the system forward.

One key analytical hypothesis proposed here is that Latin America's experience shows that rather than thinking, as in neo-classical terms, of the possible **concrete effects** that well-known factors may have on inequality (e.g., technology or education), it would be more illuminating to try to understand the **concrete expressions** that these factors may find in inequality and underperformance. Some of the pieces of the puzzle may well be the same in different historical experiences, but the way they fit together may well differ —sometimes significantly.

In the case of education, for example, the (low) income-share of Chile's upper-middle, or deciles 7 to 9 (35% of national income) is identical to those of Malawi, Central African Republic, and Burkina Faso even though in Chile gross tertiary enrolment rate reaches almost 90% while in the other countries it does not even get to double digits. In fact, Burundi, DR Congo, Niger, Madagascar, Mauritania, Angola and Cote d'Ivoire, also with an enrolment-rate in single digits, have an income-share for this group which is actually higher than Chile's. The issue, of course, is not whether education impacts the value of marginal productivities (it certainly does), it is about **who appropriates** that additional output! With the topic of the growing inability of labour to get the value of its marginal social contributions (due to a lack of property rights over its energy and skills), being of paramount importance.²⁹

In other words, **the specificity** of Latin America's inequality stems from the particular ways in which distributional struggles between rentiers, capitalists, bureaucrats and workers have manifested themselves there, the different strategies that oligarchies have adopted to face and temporarily overcome these struggles (the main subject matter of this paper), how the capitalist élite has increasingly joined the ranks of the rentier class (the main subject of Palma, 2019b), and how further distributional challenges have been created by this process, and so on.

Oddly enough, some still continue to blame Latin America's inequality on colonial institutions from half a millennium ago such as *mita* (mandatory public service by the indigenous population) and the *encomienda* system that rewarded conquerors with the labour of conquered people.³⁰ Others, as in many neo-classical narratives —somehow resembling nineteenth century Newtonian physics (i.e., methodologies of mechanical determinism and simple causalities)— look at

²⁸ <https://www.bloomberg.com/news/articles/2020-08-25/stock-market-warns-workers-that-they-re-the-problem-for-business?sref=GXOWPFvK>. See also Palma (2020b).

²⁹ This also distorts incentives for labour to acquire skills: what would be the point of making the effort if the additional output is bound to be appropriated by others? (See Pagano, 1997).

³⁰ For Williamson (2009) —quite rightly— the supposed monotonous persistence of Latin America's inequality is just a myth.

the subject with tunnel vision, overstating single issues (such as education or skill-biased technological change).³¹ While others go as far as blaming the 'lack of major wars', or any such historical 'accidents'.³²

Indeed, many people's monotonous insistence on blaming Latin America's huge inequality on traditional 'exogenous' or crude path-dependency factors is akin to using a pair of scissors to cut an analytical knot they are unable to untie.

In turn, it is unfortunate that Piketty, in his first and more influential book (2014), by unnecessarily relying on the neoclassical theory of factor shares (whose 'best before date' is long gone), led the debate over increased inequality in most OECD countries since Reagan and Thatcher, and the fall of that wall, in the wrong analytical direction —like the head of a hunt leading the pack down the wrong path. Basically, in his neoclassical theory, if one has *too much of a good thing* —in fact, in his analysis (and against considerable evidence to the contrary) two good things: too much investment and too high an elasticity of substitution (production flexibilities)—, one unfortunately ends up having higher inequality. It would be hard to put a better spin on increasing inequality than this neo-classical one.³³

Instead, as Stiglitz (2012) and I have argued (Palma 2011, 2016 and 2019a), inequality **is a choice** in a world of multiple equilibria; and as I insist in my work, nothing reveals more transparently **who we truly are** than the inequality we collectively choose to construct. As Sartre has argued, *we are our choices*.³⁴ The bottom line, as the title of my 2016 paper indicates, is that **every country deserves the inequality it has**. It is just not credible to continue claiming that we are innocent bystanders of supposedly exogenous fundamentals.³⁵

In other words, one must always reject mechanical determinisms and simple causalities and insist on our ultimate freedom and responsibility. "I am my freedom", says a character in one of Sartre's plays. Every act is a self-defining one, and no act can really be blamed on so called 'external' factors. The classic quotation on this matter comes from Shakespeare, a speech in *King Lear*:

³¹ Most neoclassical analyses of Latin America's inequality crucially fail to explain why it is much higher than in many middle-income countries elsewhere, for example, in Asia, North Africa, the former Soviet Union and Eastern Europe (among others), even though some of the issues they highlight apparently point in the opposite direction. For example, the latter often have even more market failures and rigidities than Latin America; they have prices, institutions and social capital that are even less 'right'; they have property rights over physical and intellectual assets that are less well-defined and less well-enforced; they have educational systems that are even more segmented, with the poor often getting an even more dismal deal; they discriminate on gender and race even more than in Latin America; they have even greater shortages of skilled labour; their democracies are even more 'low intensity', and with more problems of 'governance'; they have an even greater dependence on political connections and corruption to achieve success in business. But, despite all of this, these countries are less unequal than Latin America (sometimes significantly so).

³² Scheidel (2018); and Piketty (2014).

³³ No wonder the mainstream, while loving his first book (Piketty, 1914), ignored his second (Piketty 2020) —where he moves away from his previous 1950s' Solow–Swan neo-classical approach. For a critique of Piketty's early neo-classical analysis, see Rowthorn, (2014); Taylor (2014 and 2019); Harcourt (2015); and Palma (2019a, especially Appendix 2).

³⁴ Sartre (2004).

³⁵ Kaldor (1956), in his analysis of the instability issue of the Harrod–Domar model, was the first to break the neo-classical mechanistic spell on the determinants of inequality —prompting Solow's wrath, who claimed that it made no sense to argue that one could achieve an efficient distribution of income that was not automatically determined by the value of marginal productivities (Solow, 1956).

This is the excellent foppery of the world, that, when we are sick in fortune, —often the surfeit of our own behaviour—, we make guilty of our disasters the sun, the moon, and the stars: as if we were villains by necessity; fools by heavenly compulsion; knaves, thieves, and treachers, by spherical predominance; drunkards, liars, and adulterers, by an enforced obedience of planetary influence; and all that we are evil in, by a divine thrusting on: an admirable evasion of whoremaster man, to lay his goatish disposition to the charge of a star!.³⁶

At least it does seem finally to be becoming “common sense” (in Gramsci’s perspective) that the ever-increasing market inequality that has characterized the global landscape since Reagan and Thatcher has been ***an artificially constructed distributional failure***. Warren Buffett famously explains this clearly and succinctly: “There’s class warfare, all right, but it’s my class, the rich class, that’s making war, and we’re winning”. Fundamentals? What fundamentals?

Basically, if Smith’s ‘invisible hand’ existed, and was what guided behaviour, this relentless increase in inequality (particularly in market inequality; see Appendix 2) could not have taken place, as market ‘compulsions’ would have put a stop to it —and to its artificially ‘tailor-made’ foundations. In fact, it feels almost ridiculous even having to state that ever-increasing market inequality has been an artificially constructed distributional failure; it’s like somebody at the circus pointing out that when the magician saws a woman in half, it’s only a trick!

1.- Some background issues

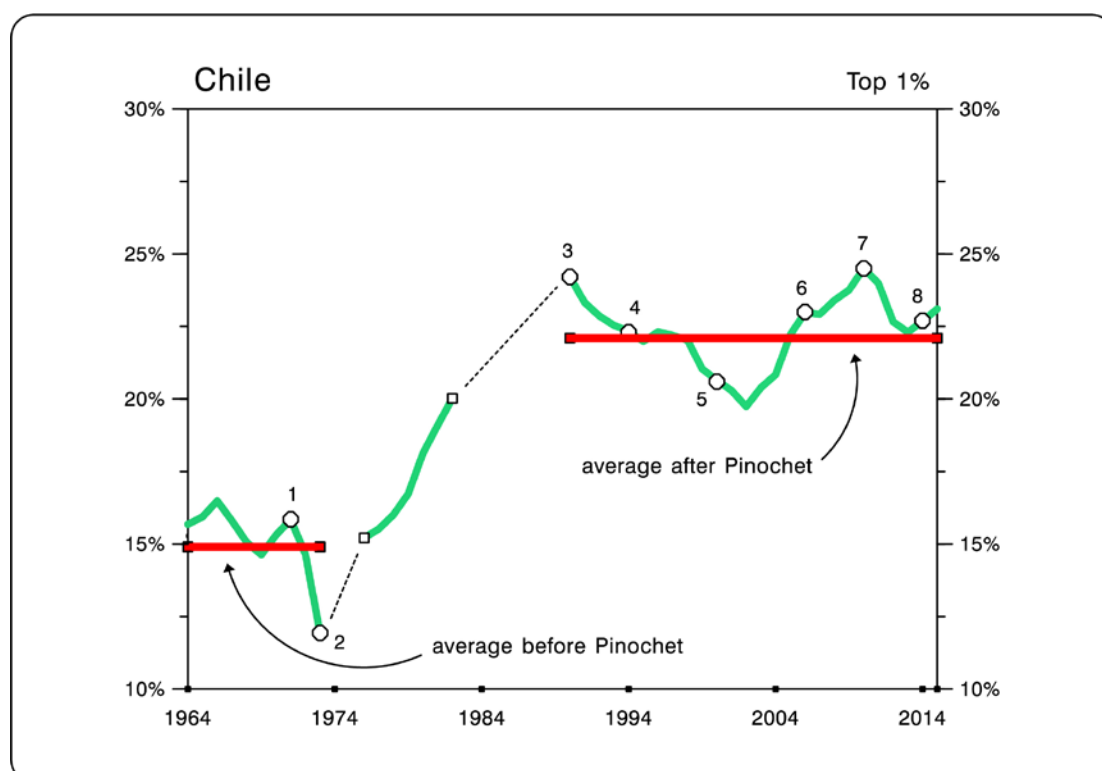
1.1.- ‘Ratchet effects’

One of the issues I shall analyse in this paper (mostly ignored so far in the literature), which has proved to be an important distributional stylised fact in post-war Latin America, is the “distributional-ratchet” effect resulting from the fact that improvements in inequality have tended to be short-lived, while deteriorations have tended to stick. That is, the well-known difficulties in human history for the reversal of social dynamics seem to apply asymmetrically to inequality: increases are hard to reverse while improvements are particularly fragile. What happened in Chile during Allende’s short presidency (and its decline in inequality) vs. with Pinochet’s massive deterioration indicates this —creating a long-term upward ratchet at the top of the income scale (Figure 1).

³⁶ Edmund, Act 1, Scene 2 (132): www.online-literature.com/shakespeare/kinglear/3/

FIGURE 1

Chile: share of pre-tax income of the top 1%, and the upwards “ratchet effect” left by the dictatorship as its distributional legacy, 1964–15



• 1=election of Allende; 2=Pinochet's *coup d'état*; 3=the year Pinochet had to call a plebiscite seeking a mandate to remain in power for another eight years, and first democratic government (centre-left coalition, the 'Concertación') after Pinochet lost his plebiscite; 4, 5 and 6=next three centre-left governments; 7=election of a right-wing government (the first in half a century); and 8=the centre-left returns to government. Averages are harmonic means (1957-73, and 1990-2015).³⁷ 3-year moving averages.

• Source: WID (2020), based on Atria et al. (2018).³⁸

What is most striking is that this ratchet at the top occurred despite the fact that Pinochet and its allies lost their plebiscite badly in 1988, and that following the return to democracy there were four consecutive 'centre-left' governments, and all with a political coalition that even included President Allende's Socialist Party.

Standing out among other regional distributional ratchets is the case of Brazil. The Brazilian oligarchy was not only able to sustain the increase in inequality brought about by the 1964 *coup de état*, but it also managed to carry on enjoying these gains long after the return to democracy—in fact, until the election of President Lula da Silva (see Figure 2).³⁹ This remarkable persistence of high inequality (subject only to minor improvements at best) also applies to other countries of the region.

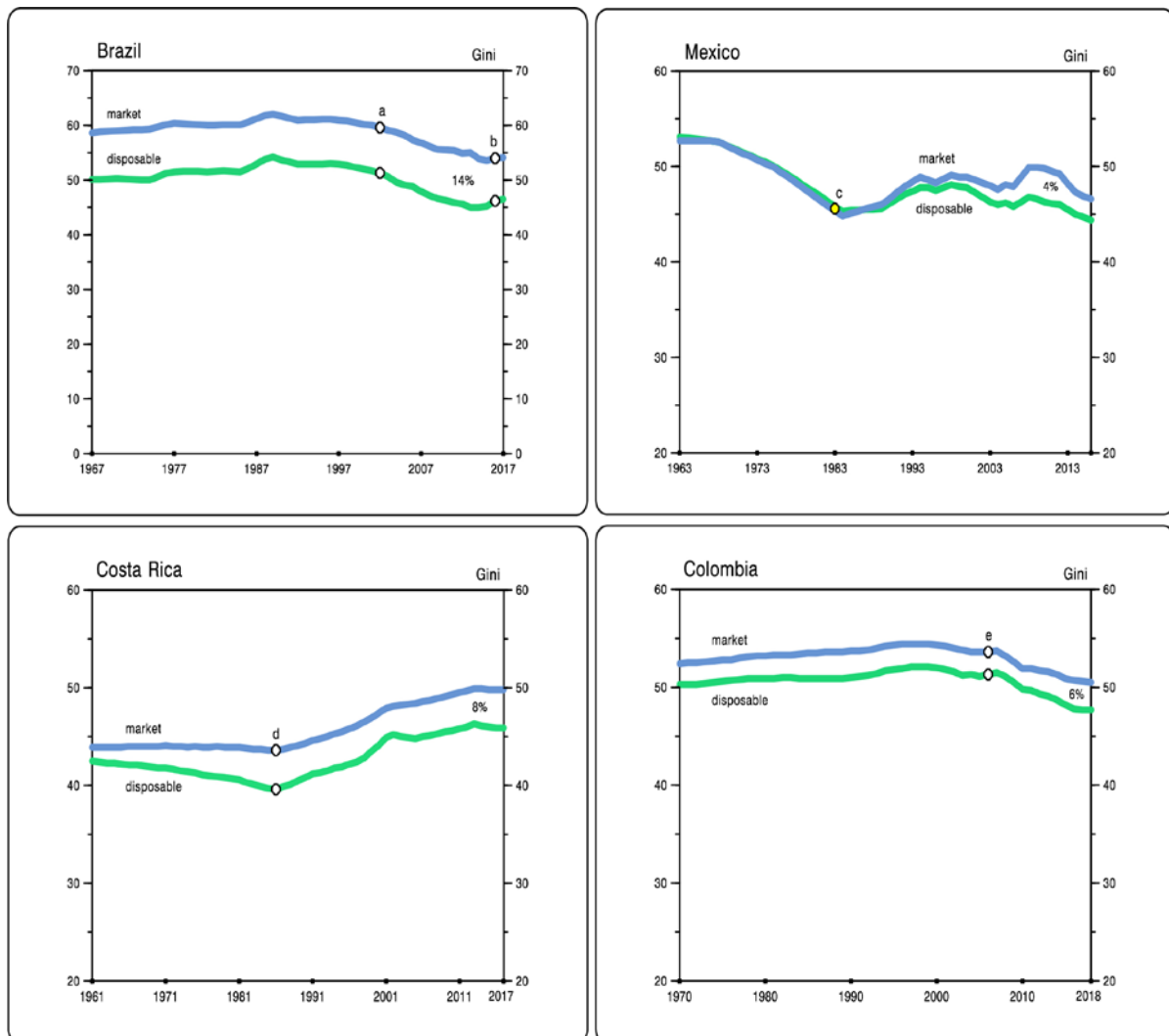
³⁷ For the non-specialist, the harmonic mean is one of the three Pythagorean means. It is more appropriate for the average of ratios as it mitigates the impact of outliers; it also contains more information than the median. It is the reciprocal of the arithmetic mean of the reciprocals.

³⁸ Broken lines refer to years for which there are no data. As in the source, pre-tax income refers to 'fiscal income' between 1964 and 1981, and 'pre-tax national income' from 1990 onwards.

³⁹ On the rapid deterioration of inequality in Brazil after the 1964 *coup*, see Fishlow (1972).

FIGURE 2

Colombia, Costa Rica Brazil and Mexico: market and disposable-income Gini, 1960–2017



• a=election of Luiz Inácio Lula da Silva; and b=parliamentary *coup d'état* against Dilma Rousseff; c=election of Miguel de la Madrid; d=election of Óscar Arias; and e=re-election of Álvaro Uribe. Percentages shown in the panels indicate the relative reduction of the market-Gini (via taxes and transferences).

• Source: WIID (2020); and Palma (2019a).

Moreover, as the figure indicates, countries of the region barely reach double figures when it comes to improving their 'market' inequality via taxes and transferences. These efforts are minimal compared to those of European countries (all the way up to 50%; see Appendix 2) —and even to that of Trump's US (25%)! How did Latin America manage to achieve so little despite so much 'progressive' talk?

And Brazil's 14% reduction in its market-Gini, like South Africa's similar figure, is a particularly modest effort, since fiscal revenues (as a share of GDP) in both countries are relatively similar to the OECD.⁴⁰ The difference between them, of course, is that South Africa, despite relatively progressive taxation, fails to

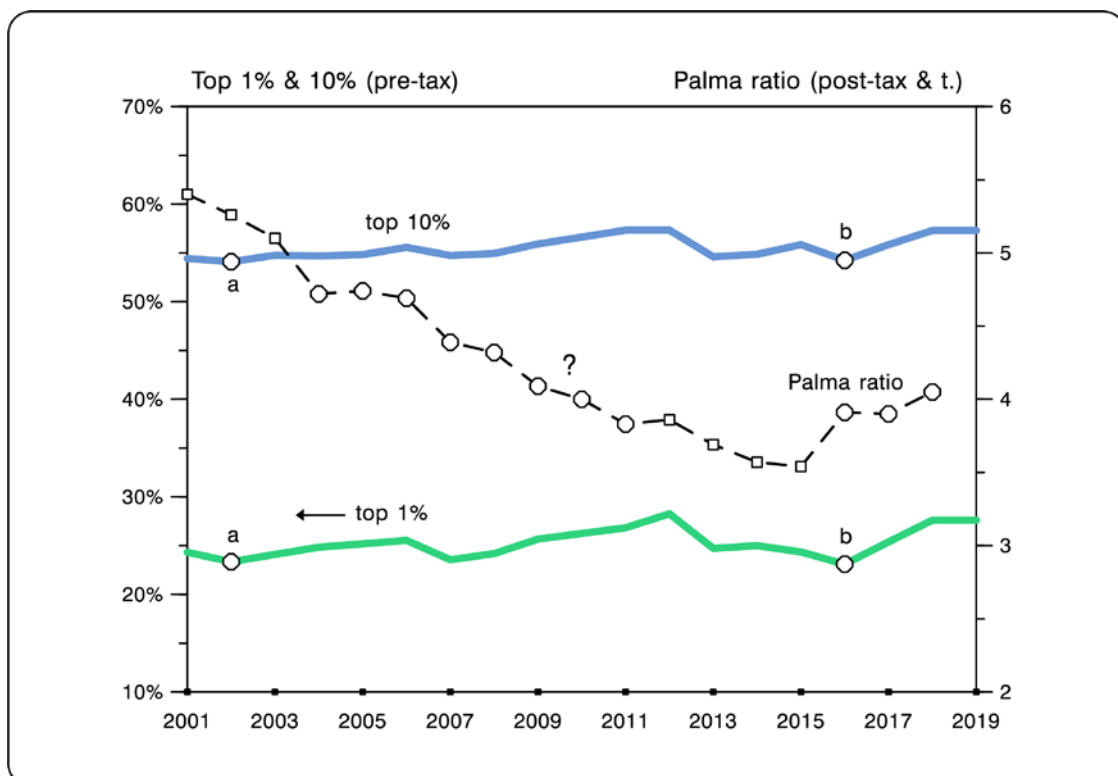
⁴⁰ Di John (2006); Lieberman (2003); and OECD (2020a).

achieve more due to an ineffective system of transfers to the poor. Brazil, by contrast, although it has (or should I now say it *had?*) a more effective programme of transfers, falls down badly on its highly regressive tax structure.

Indeed, another source (WID, 2020), even calls into question Brazil's relative improvement in inequality (as shown in household surveys) during the four successive governments of the PT (Partido dos Trabalhadores, or The 'Workers' Party'). Although there is little doubt that the income-share of the poor did benefit from a small but effective system of transfers, it seems that the Brazilian inequalising 'ratchet' at the top has really continued unyielding until today! (Figure 3.)

FIGURE 3

Brazil: pre-tax shares of income of the top 1% and top 10%, and post-tax and transference Palma ratio, 2001-2019



• **a**=election of President Luiz Inácio Lula da Silva; and **b**=parliamentary *coup* against President Dilma Rousseff. The question mark indicates that there is plenty of room for scepticism regarding the much publicised supposed decline in Brazil's inequality (as reported in household surveys; see below).

• Source: WID (2020) for income-shares of the top 1% and 10% based on De la Rosa (2020) as shown in tax-return data; and World Bank (2020) and Palma (2019a) for Palma ratios (calculated from household surveys).⁴¹

⁴¹ For a video explaining the Palma ratio as a new inequality index (published online by the Washington Post), see <http://uncounted.org/palma/>. For a full analysis, see Palma (2019a) and <https://www.youtube.com/watch?v=wY9XFQA-McA&feature=youtu.be>. Following the logic of the Palma ratio, the World Bank (2016) coined a related statistic, the "Palma premium" —an index resembling the first derivative of the Palma ratio (as this primarily tells us about its direction of change in inequality). Also, as in econometrics the use of the Gini as dependent variable leads to misspecification and endogeneity, some new econometric work has substituted this index for the Palma ratio. The main problem of using the Gini as dependent variable is that a regression would then attempt to explain with the same set of explanatory variables two very different distributive dynamics —the homogeneity in the middle and upper-middle and the heterogeneity at the tails—, and this

There's little indication here that the supposed minor decline of the income share of those at the top in household surveys during the PT era did actually take place (other than on paper). As ex-President Cardoso famously said, "Lula knows how to please the elite".⁴² Even successful policies during the PT period, such as for poverty reduction, for the formalisation of labour contracts, and for the increase of the minimum wage (as well as for slowing-down the destruction of the Amazon) are now at risk not just because of the economic impact of the pandemic, but also due to its current government's "peripheral-fascist" ideology, its negationist politics on pandemics, its petty Amazonian-nationalism, and early Washington Consensus/Chicago-style neo-liberalism in economic policies.⁴³

The same scepticism is called for Chile's much-heralded minor improvements on inequality (see Figure 1 above and 9 below). For those 'progressives' in Latin America wanting to change the oligarchy's "Southern-style" distributional equilibrium, it has proved much easier to 'talk the talk' than 'walk the walk'!

1.2.- How dysfunctional institutions are rather effective at their own re-creation when shocked out of balance

As suggested above, all this brings us back to the complex issue of 'persistence and change in institutions', and in particular how dysfunctional institutions are so effective at recreating themselves —as the landed elite did in the South of the US after losing the Civil War. Likewise, the Chilean oligarchy was able to do the same, despite losing badly the 1988 plebiscite and then four presidential and parliamentary elections thereafter. As times have changed, rather than lynching their object of hate, it's now more effective to co-opt them. However, as times have not changed that much, the oligarchy managed to sustain its political control by imposing on the majority a straitjacket Constitution, littered with institutions above democratic control. In turn, changing the Constitution was practically impossible due to supramajorities being required in a Parliament packed with 'appointed' and life Senators (a body that lasted for 16 years after the return to democracy), and the obstacles put forward by those institutions above democratic control (like the Constitutional Tribunal). It took a social explosion of the magnitude of that of October 2019 to shock Chile's "Southern equilibrium" out of balance enough to force business leaders to convince the powers that be to start constitutional change. When the referendum on this possibility took place exactly a year after the social unrest (and 30 years after the return to democracy), it attracted an 80% positive response (on a high turnout)!

As to the role played by the 'new' left in helping sustain Chile's "Southern equilibrium" (see Appendix 1), according to Gramsci, any ideology that wants to remain hegemonic must be able to absorb elements of opposing ideologies; but it must do so in an *imaginative way*, articulating them with the essence of its own ideology. That is, for a consensus to remain hegemonic, dominant groups have to make ideological concessions to subordinate groups, but without endangering

would necessarily be a specification error (Palma, 2019a). For other critique of the Gini, see Atkinson (1970); De Maio (2007); and Martin-Legendre (2018).

⁴² <https://politica.estadao.com.br/noticias/geral,fhc-na-hora-de-governar-lula-sabe-como-agradar-a-elite,108576>

⁴³ In terms of the current pandemics, if we continue to destroy habitats and ruin ecosystems, other viruses will be waiting to jump from animals to humans; it's likely that the continued destruction of the Amazon is the next health crisis awaiting its big break. At the moment of writing, even areas outside the Amazon, such as Pantanal, are now being burnt to the ground —more than a quarter of it has already been destroyed. As Einstein once said, "Two things are infinite: the universe and human stupidity" (to then add, "although I'm not sure about the universe").

their domination. This was what the centre-left parties did so badly after the 1988 Plebiscite, while the right-wing forces did so well after their bad electoral defeat, helping the business élite to retain *de facto* political power. The centre-left parties, meanwhile, inspired by the “Third Way” of the Western European ‘new’ social democracy, made that Gramscian ideological integrative effort in a lazy, often opportunistic way, letting the new neo-liberal economic ideology simply replace its previous (‘post-war-type’) social democratic ideology. And apparently they did it so innocently (‘as if’ they didn’t know what was going on) that it reminds me of that David Foster Wallace parable “Two young fish swim through the ocean, passing an older fish, who says: “Hey boys, how’s the water?” The two younger fish swim on, until one turns to the other and asks: “What the hell is water?” (Just swoop the word ‘water’ for ‘neo-liberalism’).⁴⁴

Here the similarities to what happened in South Africa (Africa’s honorary Latin American country) after the beginning of democracy in 1994, is also more than superficial: the battle lost by the Afrikaner political élite may be as big as they come, but the white capitalist élite (helped by the co-option of a critical mass of the ANC élite) is still appropriating the highest share of income in the world today!⁴⁵

From this perspective, as Acemoglu and Robinson (2006) point out, one should never lose sight of the distinction between the two components of political power, the *de jure* and *de facto* political power. Latin America’s political misfortune is that the oligarchy’s *de facto* political power is such that dysfunctional institutions have been able to survive democratic ‘shocks’ relatively unscathed. The Latin American ‘new’ left has proved to be just one casualty in that history (see Appendix 1).

1.3.- Inequality as an anti-coordination ‘chicken game’

In game theory, a ‘chicken game’ is a model of conflict associated with a diverse range of social conflicts. It’s a question of which player yields first, as in the 1955 film *Rebel Without a Cause*; stolen cars are raced towards an abyss, and whoever jumps out first will be deemed a ‘chicken’. Bertrand Russell (1959) also famously used it as a metaphor for the psychotically dangerous game of nuclear brinkmanship.

This is an ‘anti-coordination’ game because the shared resource is rivalrous (although non-excludable). Namely, sharing comes at a cost; i.e., it is subject to a negative externality. This, of course, does not have to be the case in distributional games if the players are involved in a Marshallian ‘efficiency wage’ scenario because of the positive feedback between wages and productivity growth. However, try explaining that to a neo-liberal oligarchy whose (easy rentier) income depends on not understanding.

The unstable state of affairs that characterises a game of chicken (sometimes also called a ‘hawk/dove’ game) leads to a situation in which there are only two possible (and opposite) Nash equilibria —corresponding to each player’s ‘preferred’ strategy.⁴⁶ Anything in between is an unstable mixed

⁴⁴ Once I wrote a chapter for a book, and the editor sent it back asking not to use the word ‘neo-liberal’, ‘as these days it really doesn’t mean anything’... (I suggested reading Foucault).

⁴⁵ Palma (2011, Appendix 3).

⁴⁶ In this game, the strategic space for both players would be ‘demand redistribution’ and ‘not demand redistribution’ for the majority player, and ‘yield to redistribution’ and ‘not yield to redistribution’ for the capitalist élite. This is a multiple equilibria story. In turn, the Nash equilibria would be ‘demand redistribution’, ‘yield to redistribution’, and ‘do not demand redistribution’, ‘do not yield to redistribution’ for the majority player and élite

outcome, always subject to being challenged; an outcome that results from the temporary and precarious articulation of contingent practices —that is, (as in other antagonistic conflicts), the product of practices that seek to institute an order in a context of contingency.⁴⁷

In this context, one effective tactic (particularly relevant for this story) would be for one party to signal his or her intentions convincingly enough—in other words, it could easily become a game of ‘brinkmanship’: a strategic move designed to avert the possibility of the opponent switching to aggressive behaviour by threatening to transform the game into one of extremes. This is one reason why in an antagonistic distributional conflict **an ‘irrational’ player tends to have the upper hand**. And since credible threats—no matter how irrational—can be very effective, the set of institutions and rules within which a distributional struggle is played out becomes crucial as it helps promote the credibility of one or another party.

In fact, one way of understanding the post-1980 neo-liberal transformations is in terms of the creation of an **artificially constructed** institutional scenario where the brinkmanship of the top—irrational though it may be—should be taken extremely seriously by workers and the state. It now seems clear that these reforms had little to do (in both mature and emerging economies) with increased efficiency, and a lot to do with helping capital to regain its legitimacy and recover the upper hand—a legitimacy it had lost in the depths of the 1930s recession and to Roosevelt’s determination in implementing the institutional transformation of the *New Deal*, the horror of war, the increasing organisation of the working class, and the genius of Keynes. Even in the US, the income of the bottom 40% grew faster than that of the richest 1% during the three decades from the end of the war until Reagan.⁴⁸

One of the aims of the 1980s neo-liberal reforms was precisely to reverse all this. From Walter Benjamin’s perspective (1966), all class society is in a permanent state of emergency because rulers are always under threat;⁴⁹ so neo-liberalism aimed at building a consensus and a praxis—and a “common sense”—that would help to create a class society in which rulers escape this threat by their ability **to debilitate** the rest of society enough by imposing on them a continuously insecure life. In this scenario, a mobile and malleable agent might achieve an unrivalled dominance. In the jungle, big capital (especially a rentier financial one) is king! And in this context, any progressive nationalist development agenda runs the risk of becoming a collective suicide pact.

This brings to mind Foucault’s (2004) proposition that neo-liberalism is not really a set of economic policies but a new, more effective *technology of power*.⁵⁰ So workers are now back to old-fashioned precarious jobs; safety nets are being deliberately made increasingly porous; and easy access to persecutory debt is leading to what Krugman (2005) calls “the return to a debt-peonage society”. Surely, what Thatcher had in mind was not so much a property-owning democracy as a ‘mortgage-owning’ one! In turn, ‘subsidiary states’ allow little or no space for policy options or agencies, other than those that are meant to keep capital sweet.

And the uncertainties of a new technological paradigm have not helped either, giving massive opportunities to financial capital and a few particular skills

player, respectively. In the first, the majority player has the upper hand, while in the second it is the élite one.

⁴⁷ See Laclau and Mouffe (2011).

⁴⁸ Saez and Zucman (2016); and Palma (2019a).

⁴⁹ On ‘states of emergency’, see Arantes (2007).

⁵⁰ Frangie (2008); Palma (2014).

and innovators, while bringing further uncertainties to the majority of workers and the state.⁵¹

The bottom line for neo-liberalism is how to reconstruct an economic and institutional scenario in which everybody knows that capital can pull the plug whenever it wants to. Under these circumstances, the ideological acceptance by the majority of the preferred strategy of the rich could be considered 'smart', rather than 'chicken', making such an unfavourable position more bearable. Shared pain can even feel reassuring. After all, as Benjamin also reminds us, before all philosophy comes the struggle for material existence.

In developing countries, the challenge for capital to develop more effective forms of legitimacy, and more sophisticated technologies of dispossession, has been even greater. In the new complexities of a post-Cold War scenario, just having a tropical Mussolini or two, such as Pinochet, was no longer enough.

The neo-liberal discourse may have burst onto the world stage during the thirst for new ideas in the 1970s, promoting 'order', market efficiency, individual initiative, non-paternalism, sound macroeconomics and a new concept of the state. However, what was ultimately on offer for workers and the state was a permanent life on the edge and a high-risk and unstable 'order' in which only mobile capital can really thrive, with the state mostly reduced to a 'fire-fighting' role in an endless state of emergency.

In a way, Keynes' ideas were mostly about fighting these types of inefficient and old-fashioned 'anti-coordination' games, searching for more efficient and stable cooperative outcomes. The 'mass production for mass consumption' technological paradigm also helped this type of scenario, especially as it was in its 'mature stage'.⁵² However, if capital or labour pushed things towards brinkmanship scenarios, what was imperative for Keynes was to prevent a player prone to 'irrational' behaviour —such as financial capital— from getting the upper hand.

2.- Why the rich remain rich: on the Chilean capitalist élite "ability to persist"

As already suggested, one possible explanation of Chile's stubbornly stable inequalising scenario is that it somehow resembles a 'Parrondo's paradox': it has been possible to construct a winning strategy by playing losing games alternately, switching between them when the game could become counterproductive (when it has passed its 'sell-by' date).

There are many examples of these counter-intuitive reversals; in financial markets, for example, one can think of games that would guarantee that a player would lose all his money (it usually is a he), but could generate a winning streak if played alternately.⁵³

In the case of Chile, this specific political scenario is rather transparent — although the oligarchy's 'winning strategy' has involved more than two games, so its mathematical solution would imply a more complex convex scenario than the usual linear combination of two games.⁵⁴

The basic political dilemma for any oligarchy determined to hold on to such degrees of inequality is how to construct a winning strategy that is sustainable **when in a democracy**, given the fact that the oligarchy forms such

⁵¹ Pérez (2002).

⁵² Mazzucato (2013 and 2018; Pérez (2002).

⁵³ See, for example, <http://www.nytimes.com/2000/01/25/science/paradox-in-game-theory-losing-strategy-that-wins.html>

⁵⁴ For an example of a 3-periodic game, see Key, et al, 2002.

a tiny minority and that the distributional outcome that it seeks is so remarkably unequal.

What is needed to build a long term winning strategy of this type is to have the power to narrow down the range for change, to have the flexibility to switch between distributional strategies, and the capacity to keep one's ideology hegemonic while ensuring cohesion (so that members act together even when individuals may have incentives to free-ride), a phenomenon that is sometimes associated with the concept of "élite closure".⁵⁵ In fact, the role of the élite's capacity for collective action in helping them to get the upper hand is a subject highlighted by Adam Smith; when discussing the institutional and political scenario in which wages are settled, he says:

It is not, however, difficult to foresee which of the two parties [capitalist or workers] must, upon all ordinary occasions, have the advantage in the dispute, and force the other into a compliance with their terms. The masters, ... can combine much more easily; and the law, besides, [is on their side] (Smith 1776, Book 1, Chapter 5)

These are crucial components for the oligarchy's ***ability to persist***. From this perspective, Douglas North was surely right when he developed his 'limited access order' hypothesis: how political elites able to maintain cohesion can divide up the control of rents and block the access of others.⁵⁶

3.- 'Strategy 1': how to convert the probabilistic outcome of a distributional chicken-game into a deterministic 'winner-takes-all' scenario using terror

When Chile elected a left-wing government in 1970 —and that government (unusually enough) was prepared to implement the radical distributional programme for which it had been democratically elected (see Figure 1 above, and 5 and 6 below)— the Chilean oligarchy switched to the nuclear option of a *coup de état* (in a country with a long democratic tradition).

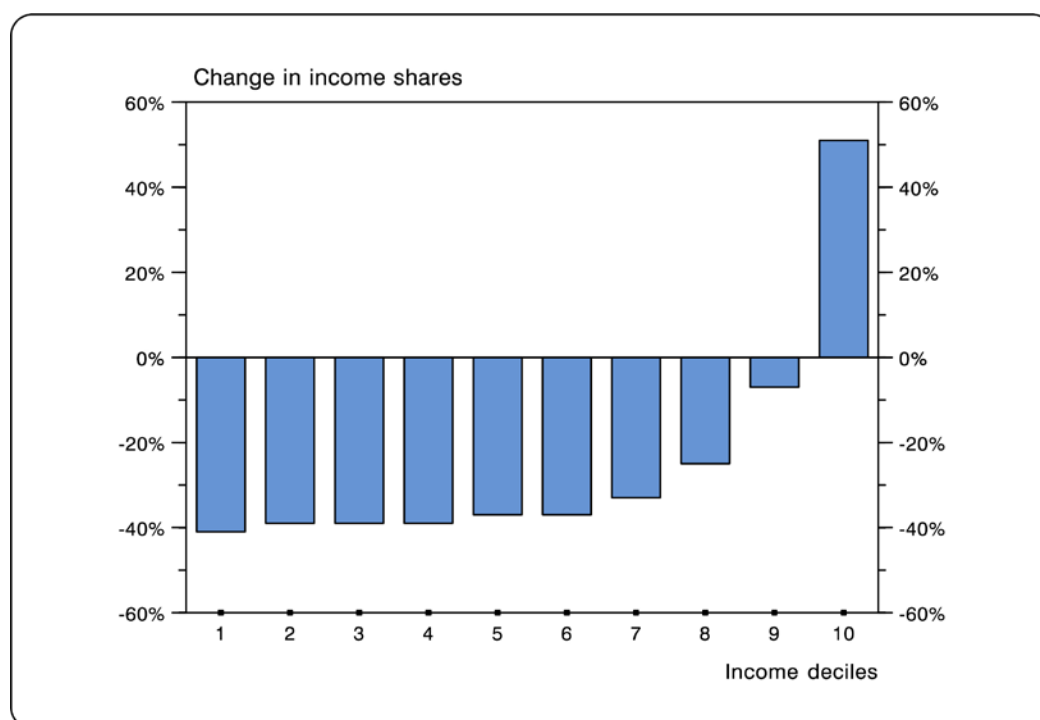
In game theory language, the oligarchy succeeded in switching the traditional 'game of chicken' distributional scenario from one in which the poor were getting the upper hand (see movement from '1' to '2' in Figure 6), to one in which the oligarchy could implement its own "preferred" distributional strategy unimpeded —i.e., a 'winner takes all' scenario. The distributional outcome of this new 'insatiable appetite' distributional strategy —the oligarchy's 'strategy 1' in this narrative— is evident in Figure 4.

⁵⁵ In the recent plebiscite to change the Pinochet Constitution, in Santiago there was a majority against change only in three upper class districts.

⁵⁶ North et al. (2007).

FIGURE 4

Chile: changes in income shares between 1973 and 1987



• **Source:** calculations done by Pamela Jervis and the author using the FACEA (2019) database.⁵⁷ Data refer to household per capita (pc) income in 'Greater Santiago' (where about 40% of the population lives). It excludes from family incomes those of lodgers and domestic servants living in the house, those declared as 'zero', 'does not know', and 'does not answer'.

The key component of this new "Nash equilibrium", with its particularly asymmetric set of distributive strategic choices, and the corresponding payoffs, was that the all-too-powerful top income player could now easily convince the majority that there was no point in trying to challenge this scenario while it had the whole apparatus of state terror at its disposal.

In fact, the share of D10 increased from 34% of national income to no less than 52% during this fourteen-year period (1973-1987) —for which even the share of D9 had to be squeezed! This scenario resembles a reverse Robin Hood who not only robs the poor to give to the rich, but also robs the rich to give to the very rich!

⁵⁷ In Chile, there are two household surveys. One is this, and the other is a national one (CASEN), which started in 1987, and is carried out every two or three years (see <http://www.mideplan.cl/casen>). The data in WB (2020) and SEDLAC (2020) correspond to the latter survey.

4.- 'Strategy 2'. The new challenge for the élite: how to reconstruct a more sophisticated form of legitimacy via a more refined technology of power

No matter how vicious the dictatorship might be, the oligarchy was not able to play its 'strategy 1' indefinitely. Inevitably, towards the end of the 1980s, the distributional game began to move away from its (terror-based) Nash 'equilibrium' as new generations began to lose their fear of challenging the political settlement and distributional outcome associated with the oligarchy's 'preferred' strategy.

The only way out of this conundrum was for Pinochet to try to legitimise his rule by calling a plebiscite in 1988 that would allow him to remain as Head of State for another 8 years —one that he lost badly, even though the previous year he had tried to reverse some of the worse aspects of his distributional policy (see movement from 3 to 4 in Figure 7 below).⁵⁸

In fact, as he tried to improve his 'democratic credentials', he shot himself in the foot badly: just weeks before the plebiscite, he signed the UN Convention on Human Rights, an action he would live to regret as it was his ratification of this convention that allowed Juez Garzón from Spain to ask the British government for his extradition in 1998. This was the first time that a former head of government was arrested on the principle of 'universal jurisdiction'. Also, and again for the first time, this led to the principle of the immunity of Head of States (or former ones) not applying to crimes against humanity being enshrined in international law.

As Pinochet lost his plebiscite, and his supporters also lost the subsequent presidential and parliamentary elections badly, the élite had little choice but to switch its distributional strategy (to 'strategy 2'). This they did rather effectively.

Essentially, this 'strategy 2' resembled the ancient Roman Catholic practice of buying 'indulgences', by which sinners (in this case the oligarchy misbehaving during the dictatorship) could pay for certificates that recognised that their penance had washed them free of sin.

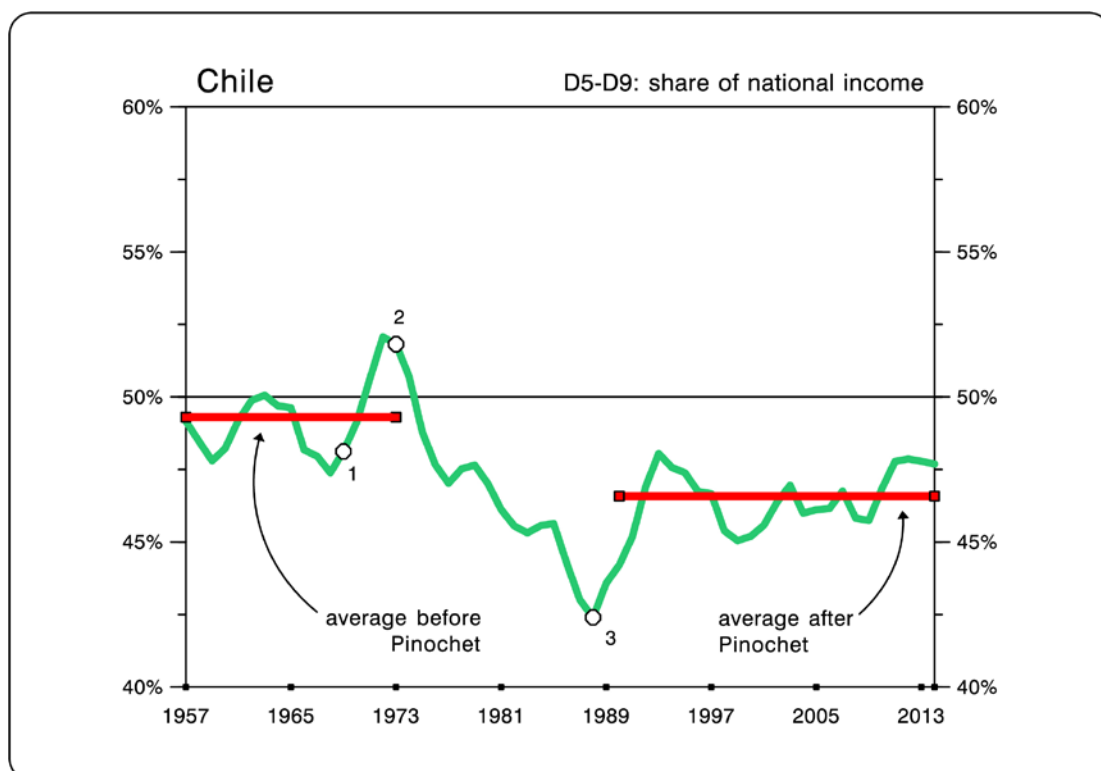
Suddenly, those at the top became 'born-again democrats', even supporting some progressive distributional policies of the new centre-left democratic government. They even turned out to be in favour of more progressive tax reform, although (with the help of Pinochet's 'appointed Senators') they succeeded in imposing the condition that this would be only a temporary measure. They also supported an increase in the minimum wage and other policies for poverty reduction, a mild reform of labour legislation, and so on.

A crucial component of 'strategy 2' was the need for the oligarchy to rebuild its traditional distributional alliance with the middle and upper-middle since, as Figures 4 above and 5 below indicate, they too had been squeezed during the top's 'winner-takes-all' distributional strategy. Therefore, it also supported (and pressured) the centre-left government towards different measures to benefit this sector. So, the share of deciles 5 to 9 recovered some of the ground it had lost during the dictatorship, but then stabilised at a level below 50% of the national income —well below what it had enjoyed before 1973, indicating a downward ratchet for the middle and upper-middle. (Figure 5.)

⁵⁸ In the other household survey (CASEN), this movement from 3 to 4 is less pronounced.

FIGURE 5

Chile: share of income of the middle and upper-middle (D5-D9), 1957-2014



• **1**=election of President Allende; **2**=Pinochet's *coup d'état*; **3**=election in 1989 of the first of four consecutive centre-left governments after Pinochet lost his 1988 plebiscite; after **3**=next three centre-left governments and one right-wing one.⁵⁹ Averages are harmonic means (1957-73, and 1990-2014). 3-year moving averages.

• *Source:* as in Figure 4.

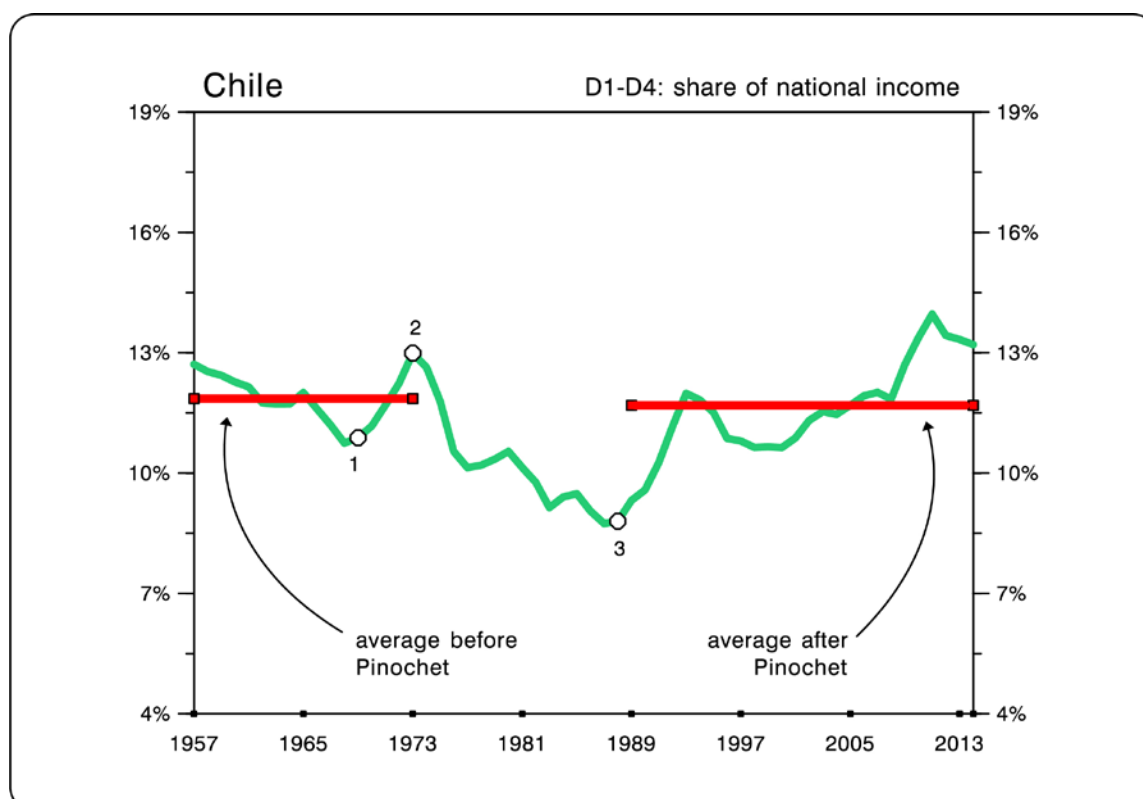
The key message of this figure is that Chile is one of the very few countries in the world where deciles 5 to 9 are unable to defend their half of national income (Palma, 2019a). Also, this picture does not really fit within a 'public choice' perspective where the process of rational decision making favours logic, objectivity, and analysis over subjectivity and intuition, and where the agent chooses actions based on their outcomes. In Chile, instead, the middle and upper-middle (deciles 5 to 9) seem to make choices rather independently from their outcome... Perhaps identity, subjectivity and intuition (let's call it ideology for short) play a greater role in life than Buchanan's primitive economicism realised. In fact, the income-share of this half of the population has never increased so much as during President Allende's short period of office (from 1 to 2 in the figure), even though the majority of its opponents (and certainly the most vociferous) came from this group; in turn, its income-share has never lost so much ground as during the Pinochet dictatorship (from 2 to 3), despite this group being made of some of his most ardent supporters.

In turn, Figure 6 indicates changes in the income-share of the bottom 40%.

⁵⁹ In the CASEN survey, the cycles after '3' are far less sharp.

FIGURE 6

Chile: share of income of the bottom 40%, 1957-2014



- Periods and averages as Figure 5. 3-year moving averages.
- Source: as in Figure 4.

As with the income share of the middle and upper-middle strata, that of the bottom 40% did recover after the return to democracy; however, and as opposed to the downwards ratchet of D5-D9 shown in Figure 5, during the period covered by the oligarchy's 'strategy 2' this share did return to its pre-1973 levels —thanks to successful distributional policies targeted at the bottom of the income scale. In fact, it was even in an ascendant trend when the centre-left lost its fourth attempt at re-election in 2010.

All in all, 'strategy 2' was a great success for the élite; it may well have lost some of its Pinochet-share in national income, but these elements of 'strategy 2' were like a sacrifice in a game of chess, where deliberately losing one piece might help to win the game. However, as the oligarchy obviously had no intention of wearing its progressive mask indefinitely, as soon as it had succeeded in recovering a minimum of democratic legitimacy (i.e., when it finally obtained its certificate as 'born-again' democrats), it was ready to move *credibly* to a new (more distributionally aggressive) strategy —'strategy 3'.

Therefore, and despite being a political minority (but greatly helped by the ability to leverage the tailor-made political and economic scenario built by Pinochet's Constitution and his "handcuff laws"), it began its switch into a more aggressive strategy by doing things such as defeating further labour and tax reforms in parliament (with the help of Pinochet's 'appointed' senators).⁶⁰

⁶⁰ And this in a country where fiscal revenues were still just about 20% of GDP (OECD, 2020a and 2020b); and a country in which the higher the income decile, the lower the proportion of income paid in taxes (see Engel et al., 1999; and López and Miller, 2008). Also, as in the rest of Latin America, income tax evasion was rampant —ECLAC calculated

What is remarkable is that the oligarchy and its military allies managed to regain the upper hand to such an extent that it once again began resembling their preferred scenario —**but now in a democracy**. But how were they able to do so? How did they succeed in helping create a ‘spontaneous-type hegemonic consensus’ around their ‘unfettered-markets-supremacy-cum-(supposed) trickledown’ discourse? And why was the ‘new’ left by then not just ideologically neutralised, but also seduced into cheerleading this transformation? (If you can’t beat them, join them, perhaps?)

5.- From ‘2’ to ‘3’: the switch back towards something resembling a ‘Nash equilibrium’ around the élite’s preferred distributive strategy, and corresponding unilateral payoffs —but now in a democracy

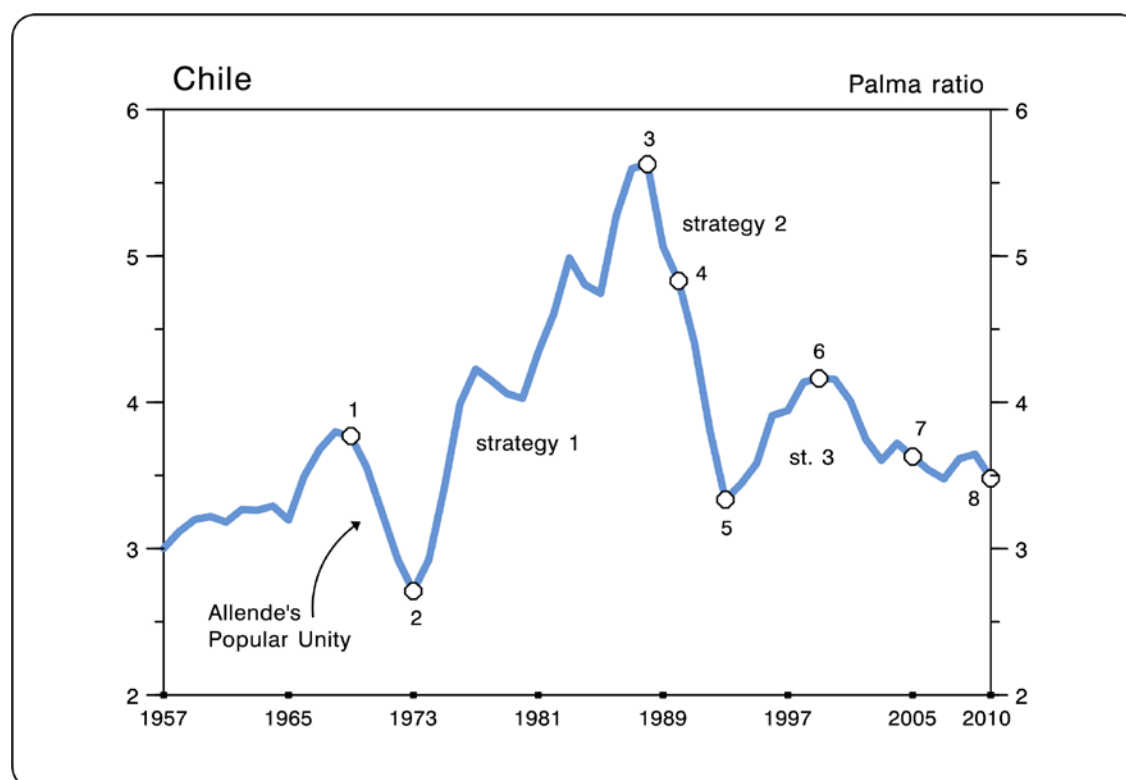
The first key aim of ‘strategy 3’ consisted of trying to stabilise the changing distributional outcome of ‘strategy 2’ —for the oligarchy *enough was enough*, as far as concessions were concerned! The second was to entrench their ideology as hegemonic. As Keynes (1936) emphasises in the General Theory, this is crucial as “... the power of vested interests is [often] vastly exaggerated compared with the gradual encroachment of ideas.”

When both objectives were achieved, which coincided with the early stages of the second presidency of the centre-left, the oligarchy could finally abandon all pretence and return to use all its political and economic power to attempt again to distort resource allocation and inequality in its favour as much as possible (now within a democracy). Figure 7 summarises the outcome of the oligarchy’s changing distributional strategies: ‘strategy 1’ (inequalising-terror), ‘strategy 2’ (re-legitimisation of capital), and ‘strategy 3’ (the stabilising “enough is enough”; see also Figure 9 below).

that in 2016, tax evasion represented 7% of the regional GDP (<https://www.cepal.org/en/news/tax-evasion-latin-america-totals-340-billion-dollars-and-represents-67-regional-gdp>). In Chile, in turn, it is estimated that only in the value added tax (VAT) and in income tax this figure reaches almost 8% of GDP (Fairfield and Jorratt, 2015) —half again as much as the entire education budget.

FIGURE 7

Chile: from 1 to 3. Changing levels of inequality associated with the élite's changing distributional strategies, 1957-2010



• 1=election of President Allende; 2=Pinochet's *coup d'état*; 3=Pinochet's calling (and losing) the 1988 plebiscite; 4=first democratic government (centre-left coalition); 5, 6 and 7=next three centre-left governments; and 8=first right-wing government since the 1950s. st.=strategy. 3-year moving averages.

• Source: as in Figure 4.

The oligarchy's remarkable success during the early stages 'of strategy 3' tends to confirm my hypothesis that neo-liberalism may well have become one of the most effective technologies of power ever. In Latin America, the neo-liberal ideology—with its extremely successful process of 're-legitimisation' of capital—became just shorthand for "the art of getting away with extremely unequal (and highly inefficient) distributional outcomes within democracies". Or, in the language of game theory, it became a technology of power capable of transforming a particularly asymmetric set of distributive strategic choices, and the corresponding unilateral payoffs, into a Nash equilibrium by convincing the majority—and in a democracy (albeit a low-intensity one)—that it was futile trying to challenge this while the all-too-powerful top income players keep their strategy unchanged.

And there was no point in challenging it not just because the chances of doing this successfully were minimal (given the artificial nature of the setting in which the game was being played, one that had been tailor-made to help the oligarchy getting the upper hand), but also because a substantial majority became ideologically convinced that their meagre payoff was just their fate in life! And that, in any case, under the current international and domestic scenarios this type of neo-liberalism *was the only workable game in town*.

As a result, the distributional game (slowly but surely) ceased to be one of "chicken", and became one in which it was possible to achieve this most unlikely

Nash equilibrium around the élite's 'preferred strategy' **mostly by ideological conviction**. This is what is most remarkable about neo-liberalism as a technology of power, as in Chile at the time it could do this by means other than the old-fashioned forms of social conflict resolution. In other words, it was finally capable of achieving in democracy what it had previously only managed to do in a dictatorship!

A crucial element in this was the ideological transformation of the "new" left. When Mrs Thatcher was asked in one of her last interviews what her greatest political achievement had been, her answer was clear-cut: the transformation of the traditional Labour party into the 'New Labour' of Blair and Brown. If Pinochet had had the brains to understand this, he might have said the exact same thing about the 'new' left in Chile. In other words, the (temporary) remarkable success of 'strategy 3' is a good example of how neo-liberals succeeded in "manufacturing consent" —even to the point of managing to achieve their preferred Nash equilibrium by ideological conviction!

This was a real achievement, as by then in many parts of the world (including in most of Latin America) business élites had to adjust their 'preferred' distributional strategies to ally themselves with ancillary causes such as culture wars, racism, misogyny, nativism, xenophobia, nationalism, moralistic religious agendas, and any possible right-wing populist cause —and sometimes organised crime will also do. The support of the corporate and financial élites even for sinister characters such as Trump and Bolsonaro are paradigmatic.

In Chile, however, it was different not only because none of those ancillary causes was able to generate much traction, but also because a slightly more sophisticated élite could still manage to get closer to their preferred distributional scenario using more traditional (neo-liberal) technologies of power. That is, it could still debilitate the rest of society enough by imposing an increasingly insecure life on workers and the State. These actions represented the stick, while the carrot was the promise that the payoff for the majority would eventually improve thanks to trickle-down effects, and that they should be reasonable because there was no better alternative —theirs was the only game in town. That is, Chile's élite was still able to maintain its ideology as truly hegemonic (needing to make just minor concessions to some of those ancillary causes).

Finally, the elite intelligently did not oppose the new progressive social agenda of the centre-left governments in areas such as the right to abortion and legal equality for gay people, despite being totally antagonistic to their moral values. In fact, during the fourth centre-left government, the right-wing opposition fought much more tenaciously a minor tax reform than the bill that legalised abortion on three grounds.

So Chile could move from a banana-republic scenario in which the oligarchy needed an embarrassing dictator and a bunch of economists who mistook arrogance for knowledge to achieve its aims, to a more sophisticated one in which military regimes and confidence tricksters in policy making —the traditional hedges against a progressive distributional challenge by the majority— could become obsolete. In short, (at least while it could last) neo-liberalism at its best!

The fast economic growth during 'strategy 2' and the early stages of 'strategy 3' (see Figure 8 below) supports Díaz-Alejandro's (1983) critical proposition —perhaps the greatest insight of any Latin American economist ever: in terms of policy success, what matters is not just the nature of the policies implemented, but also **their degree of support**.

From this perspective, the real challenge for the capitalist élite was how to sustain the initial success of 'strategy 3' —and maintain that degree of support and ideological consensus. The bottom line, of course, was that they had to keep delivering high levels of economic growth and trickle-down. This was the only

way to resist the natural tendency of a democracy to stubbornly revert towards a mixed and unstable distributional outcome —one that is constantly under challenge. In other words, in order to keep manufacturing sufficient consent (in Chomsky's sense), the élite needed to show that its economic model could keep delivering progress and wellbeing.⁶¹

However, and inevitably, reality caught up with this 'cosy strategy 3' (cosy for the élite, that is); and inevitably so because in a deregulated capitalist economy **with such few compulsions** (including lack of market compulsions), and such asymmetric power structure, growth was bound to decelerate.⁶² In turn, in this type of scenario instead of 'trickle-down' what was bound to emerge was a 'build-up' surge —as a critical rent for the élite in this scenario becomes its capacity to extract the value created by others.

Furthermore, and also unsurprisingly, in this type of 'cosy' capitalism the distributional shift from profits to unproductive "easy rents" is bound to accelerate, not least because that scenario would facilitate sheer market manipulation to artificially construct new rents (those that here are called "inefficient rents"). This shift from profits to rents was bound to hit investment badly —this fell from close to 30% of GDP in the early 1990s to just over 20% in the late 2010s. And this collapse of investment brought down productivity growth with it —which crumpled from an average of 3.9% p.a. between 1986 and 1998 **to just 0.4%** during the 12 years before the explosion of discontent at end of 2019 (see Figure 8 below).⁶³

There is also little doubt that in terms of the trickle-down effect and the well-being of the majority, 'strategy 3' failed miserably: in a country that had achieved a per capita GDP of US\$ 15,000 (US\$ 25,000 at purchasing power parity)⁶⁴, such a degree of inequality meant that even in the final stages of 'strategy 3' the median net wage of Chilean workers was not high enough even to bring a family of four above the poverty line. Furthermore, not surprisingly, this median hides a huge gender gap (on average, women earned 28% less than men) —which means that female workers were much more likely to fall into position.⁶⁵

And all this happened in a country that likes to think of itself *ad portas* of becoming a 'developed' one —a good example of wishful thinking becoming delusional.

Bearing this in mind, the most surprising aspect of this most unlikely of Nash equilibria achieved in 'strategy 3' is that while it was taking place, there was an obvious 'collective action' challenge for the majority: it might well improve its payoff if only it could somehow agree on a strategy different from its current (acquiescent) one. But the centre-left political parties, while still commanding the support of about half of the population, did not face up even to this challenge. All they did was keep singing the praises of the mode of accumulation ingrained in 'strategy 3', while taking a bit more seriously the task of helping those at the bottom who had become 'surplus to requirements'.

⁶¹ Herman and Chomsky (1988).

⁶² On why markets need to generate 'compulsions', such as proper competition, for its dynamic, see especially Wood (2002), and Khan (2005).

⁶³ World Bank (2020).

⁶⁴ Ibid.

⁶⁵ Durán and Kremerman (2020). In a recent study almost half of workers in Chile have felt discriminated against at work and the main reason is to be a woman (<https://fielchile.cl/v2/2020/12/29/barometro-del-trabajo-noviembre-2020-casi-la-mitad-de-los-chilenos-se-han-sentido-discriminados-en-el-trabajo-y-mujeres-son-las-que-están-en-primer-lugar-en-la-discriminación/>).

And regarding the poor, it's really difficult to understand why élites in high middle-income countries are so reluctant to try to eradicate poverty properly, as this would be so remarkably cheap.⁶⁶ From this perspective, for example, it is hard to understand why in Brazil the PT gave priority to subsidising (clientelistically) overblown pensions of middle-class bureaucrats instead of making a greater effort to eradicate poverty; these bureaucrats retired on average at 56 (men) and 53 (women), with at least 70% of their final salary (and many got up to 100%). To finance this, the government had to spend an amount larger than overall public spending in health and education).⁶⁷ In turn, its successful 'Bolsa Familia' programme cost a meagre half a percentage point of GDP⁶⁸, in an economy in which its 'general government revenue' became the highest of all countries reported by the OECD.⁶⁹ Surely there was room for expanding this highly effective programme for poverty-reduction to many more families.

Perhaps Hirschman's (1990) "exit, voice and loyalty" conceptual ultimatum helps explain this: in this type of scenario bureaucrats have a much louder 'voice' than the poor, and surely they have more shifting 'loyalties'... (They voted *en masse* for Bolsonaro, despite the PT's niceness to them while in government).

Returning to Chile, the idea that 'there was no alternative' was really embedded in the spontaneous consensus around 'strategy 3'; in fact, it synthesised the fundamental core belief of the "Anglo-Iberian"-style neo-liberal discourse. And this 'taboo' had an amazing paralysing effect on the majority of the population (and on most of the political parties that represented them).

In Freudian parlance, the 'totem' built around the power of 'unfettered markets', giving them an almost supernatural significance —as a symbol that was erected as the emblem of the neo-liberal tribe, one that has been converted to a kind of animistic pagan religion—, coupled with the taboo against even daring to think of alternatives (it was the end of history, after all...) became one of the most brilliant of ideological tricks ever.

However, as suggested, 'strategy 3' had its Achilles heel: economic performance —as the supremacy of rentiers seeking easy and unproductive rents led to a rapid deceleration of investment and productivity growth— and when in government, the oligarchy had to take responsibility for it! In fact, rather soon they realised that they never have had it so good as when Chile had such considerate centre-left governments. This is in line with Adorno (1951) proposition (see epigraph): domination is so much more effective when "... it can delegate the ... violence on which it rests to the dominated".

Furthermore, when in government the logic of their unproductive rentier accumulation made them even waste the unique opportunity given to them by the twin manna of an export bonanza (the "super-cycle" of commodity prices), and the easy access to an almost unlimited amount of cheap borrowing. Together they provided the greatest opening in a generation for a sustained drive of economic diversification, technological absorption, and productivity growth.

As my friend Carlos Díaz Alejandro used to say in the early 1980s (when Latin America had to face the collapse of commodity prices and exclusion from foreign finance), he could only dream of a time when the region could have again favourable terms of trade and easy access to cheap foreign borrowing. When

⁶⁶ ECLAC (2010) calculates that in six Latin American countries (including Chile), the cost of a 'one poverty line' monetary transfer to all the unemployed, all people over 64, and all children under 15 of vulnerable households would be equivalent to between 1.8 and 2.7 per cent of GDP —not such an insurmountable task!

⁶⁷ For Brazilian pensions, see OECD (2017); for its public expenditure, IPEA (2019).

⁶⁸ Holmes et al. (2011).

⁶⁹ <https://data.oecd.org/gga/general-government-revenue.htm#indicator-chart>

that actually happened in the 2000s, 'cosy-capitalism' could only leave as a legacy a massive consumption boom: in Chile, for example, consumption grew from 65% of GDP in 2007, to 76% at the end of the "super-cycle" in 2014 (and of the first right-wing presidential term).⁷⁰ In fact, even in the middle of this export bonanza this consumption extravaganza led to the current account balance to switch from a surplus of nearly 5% of GDP in 2006 to a deficit of over 4% in 2013.⁷¹ A twin boom of this kind can provide a lot of 'hot cheques' —populism on steroids!⁷²

6.- From '3' to '4'

The key question regarding this period is why 'strategy 3' was not sustainable for the élite. Starting with some ideological issues, during this period the strength and weakness of the neo-liberal discourse became more transparent, and in many respects resembled Callicles' dialogue (he is a character in Plato's *Gorgias*):

It is natural and just for the strong to dominate the weak, and ... it is unfair for the weak to resist such oppression by establishing laws to limit the power of the strong.⁷³

In Callicles' opinion —as in the (not-so-original) neo-liberal critique of the post-war social democratic welfare state—, the problem (and what had to be reversed) had been that

The stronger, more aggressive and domineering by nature, had been defanged and domesticated by the new legal institutions of the weak *demos*.⁷⁴

And this is Callicles again, here trying to talk Socrates out of philosophising:

[...] for philosophy, Socrates, if pursued in moderation and at the proper age, is an elegant accomplishment, but too much philosophy is the ruin of human life. [...] Take my advice, abandon argument. Learn the philosophy of business, and acquire the reputation of wisdom. [...] Cease, then, emulating these paltry splitters of words, and emulate only the man of substance and honour, who is well to do".⁷⁵

In sum, as the capitalist élite liked to preach to the 'new' left after the return to democracy, 'quit philosophising', 'abandon argument', get real, do an MBA!⁷⁶ It would also help if one could convince the rest of society that the 'dissident' camp was solely made up of pedantic doctrinaires.

The debilitating component of this discourse is that 'quitting philosophising' and 'abandoning argument' really meant quitting **critical**

⁷⁰ World Bank (2020).

⁷¹ Ibid.

⁷² If at the end of this period the price of copper had abruptly returned to its pre-boom level (the one it had in 2003), the current account would have jumped to a deficit close to 20% of GDP; that is, one even greater than the one that led to the 1982 collapse. For a critical analysis of how this right-wing government wasted such a unique opportunity, one written at the time, see <https://www.ciperchile.cl/2013/03/25/la-economia-chilena-como-el-elefante-se-balancea-sobre-la-tela-de-una-arana/>.

⁷³ See <https://www.gutenberg.org/files/1672/1672-h/1672-h.htm>

⁷⁴ Ibid.

⁷⁵ Ibid.

⁷⁶ When one of the main ideologues of the Chicago School was asked at the time about Latin America, he replied that finally the left had learnt economics...

thinking —and the ‘new’ left fell into this trap a bit too eagerly.⁷⁷ The problem with critical thinking, of course, is that it is a distancing, even debilitating, activity. It distances us from conventions, from established assumptions and from settled beliefs. It takes what we know from familiar, unquestioned settings and makes it strange. And it does so not by just supplying new information, but by inviting and provoking **a new way of seeing**.

The risk is that once the familiar becomes strange, it is never quite the same again. However unsettling, the change can never be undone —it can never be un-thought or un-known. And as many in the Latin American left know only too well, there are also huge risks involved, both political and personal. One way of avoiding those risks (particularly after so many disappointments, so much vulgarity and terror) is through a characteristic evasion: evasion as *scepticism*. Although, as Immanuel Kant (1787) reminds us, a period of scepticism can be a welcome resting place to reflect upon dogmatic wanderings, to remain there is simply to give up on moral reflection.

The point here, of course, is that despite delusional fantasies of ‘oligarchic supremacy by some deserving moral right’, the stronger are not so by ‘nature’ **but by environment**. This is the core issue of the Darwinian insight that a subset of members of a population may come to flourish relative to other members simply because they possess a feature, which others do not, that renders them relatively suited to some **local environment**. The question of the intrinsic worth of those who flourish most is not relevant to the story.⁷⁸

This is what leads to a crucial component of my explanation of what neo-liberalism is really about: it is a conscious and deliberate attempt to create a specific, **and artificially constructed** economic environment that is most suited to those features that capital possesses and others do not —one in which a mobile and malleable agent could achieve an unrivalled dominance, which then creates the seductive force of absolute power that feeds this ideology with narcissistic gratification.

From the perspective of the dilemma presented by Hirschman (1990) between “exit, voice, and loyalty”, one reason for this dominance is that in this scenario, capital has easy access to mobile financial assets that provide an expedient ‘exit strategy’. Hence, its threats in the distributional game in that scenario are surely credible. It is like a kid telling the other players in a street football match that either he plays centre-forward or he goes home and takes the ball with him. Surely not the best scenario for building an effective team!

Another metaphor would be like having a puzzle made of (say) 100 pieces, but a few large ones have the option to decide what shape they would like to take, and then all the rest has to reshape to accommodate. Or, according to the great Argentinean cartoonist Quino, it is like a game of chess in which the oligarchy can checkmate its opponents whenever it likes, whatever its position on the board —which would make the game rather boring and predictable.

However, on the positive side, having an expedient ‘exit strategy’ is precisely what helps the Latin American oligarchies to become more democratic —i.e., it is easier to take the risk if one is no longer geographically tied by ‘fixed’ investments (such as land in the past).⁷⁹

Although the core of their accumulation will always be their home country (where else could they hope for the kind of returns they get there in the purely extractive side of commodities and some non-tradable and finance), they can now conveniently operate in a geographically wide portfolio.

⁷⁷ See Palma (2014).

⁷⁸ Lawson (2003).

⁷⁹ On this issue, see Boix (2003); and Palma (2019a).

The beginning of this geographical diversification also coincided with the time in which Chile's 'dual-extractive' model began to falter (as it had already delivered all that it could). In fact, this was the 'early warning system' indicating that those niches for productivity growth had been exhausted, and that the development strategy was in urgent need of a major update (which never came). Therefore, the 'more of the same' could only continue in neighbouring countries where some of those niches (mere extraction of commodities and uncomplicated services and finance) were still available —as well as the required 'friendly' governments and the plentiful supply of cheap labour.

Furthermore, the early warning system was also signalling that 'strategy 3' was beginning to crumble politically due to rising levels of discontent (despite the commodity-boom led trickle-down). In fact, in 2014 the candidate to succeed this first right-wing president for a generation hardly managed to get one-third of support in the second round of the presidential election. So, what for the oligarchy was initially just a tentative experiment of geographical diversification, it soon became a tsunami of capital flight. Returning to Hirschman's "exit, voice and loyalty" ultimatum, the capitalist elite, as opposed to the majority, certainly has a handy "exit" route; so, when they saw the writing on the wall (that their economic and political agendas were faltering) —i.e., when their 'voice' began to be deafened by the surging discontent, and the 'loyalty' of the new left began to falter—, their 'exit' option became rather handy. Thus, the more money they have in tax havens, the more expensive the mansions in Palm Beach (hopefully as close to Mar-a-Lago as possible), and the more investments in neighbouring countries, the more credible became their threats in the distributional game at home.

This is confirmed by balance of payment statistics showing that the assets of the 'international investment position' of the financial and non-financial private sector (not counting private pension funds) reached US\$383 billion in 2018 — about a third larger than that year's GDP.⁸⁰ And the foreign currency component of overall debt by non-financial corporations reached one third of GDP (about US\$100 billion) —as a share of GDP, *the largest among all emerging economies* with the exception of China.⁸¹ And unlike China, with little to show for it in terms of domestic investment, technological absorption, product diversification and productivity growth as instead of investing them at home, most of these funds were used to finance capital flight and the transfer of productive capacities to neighbouring countries.

In fact, while in Chile the average investment per worker increased by a factor of just 2.6 times in the nearly half a century between just before the beginning of the neo-liberal reforms and 2018, in China it did so by more than 20 times in a much shorter period (between 1980 and 2018) —and according to some sources by nearly 30; perhaps one can have too much of a good thing!

Indeed, in Latin America (with the sole exception of Chile, but only during the 1990s), the rate of investment has struggled to reach 20% of GDP since the beginning of economic reforms —less than half China's; meanwhile, its GDP-share of household consumption, mostly the result of the exuberance of the few and the ever-increasing levels of debt of the many, is currently twice that of China. Needless to say, both China and Latin America (and none more than Brazil and Chile) now urgently need to rebalance their growth, but in opposite directions.

In the case of China, with these levels of investment, productivity growth and product diversification, it quickly turned the tables on the European Union and the US. And this led wages to grow at such speed that the share of labour in national income has grown by more than 14 percentage points since 2007 (to

⁸⁰ Chile, Banco Central (2020).

⁸¹ Avdjiev et al. (2020).

over 60%), with the minimum wage growing in parts of China up to 20% p.a. In Chile, instead, the labour share in national income has fallen during this period no matter how one calculates this share.⁸²

In Chile, the bottom line is that most of these funds, rather than being invested at home, were used by the capitalist élite for its 'exit strategy'; i.e., either for boosting reserves in fiscal paradises, or to finance shifting productive capacities to neighbouring countries —where it was easier to continue with its perennial rent-seeking drive. So the assets emerged abroad, while the debts were kept nicely at home —and with the implicit government guarantees to which they have become accustomed. No matter how much they tried to put a positive spin on this widening of their international portfolio, it was basically an essential component of their 'exit strategy'. In turn, this helps make their distributional threats at home more credible, while allowing them to leave an economy that had exhausted its traditional engines of productivity growth (as they were unwilling to make the effort needed for the 'upgrade'). They were in a win-win situation, and the majority was supposed to put up with it in the same passive way that had characterised 'strategy 3' up to that point.

This new 'development' strategy did certainly help deliver an odd political settlement during most of 'strategy 3', characterised by a combination of an insatiable capitalist élite, a captured progressive intelligentsia, passive citizens (at least until this wakening up of the majority led to the most remarkable of social explosions in October 2019, led by new generations and the feminist movement), and a stalled social imagination, which was spellbound with the "absolute certainties" of the new hegemonic ideology.⁸³

One helpful component in all this for the élite has been that in the Ibero-American tradition, societies are often run by huge state apparatuses of faceless bureaucrats prepared to passively sleepwalk into whatever ideology is the order of the day —no matter how economically inefficient these ideologies may be. No South Korean, Taiwanese or Singaporean (Weberian-type) civil service here!

In fact, a paradigmatic example in Chile of this Ibero-American "faceless bureaucrat compliance syndrome" is the way in which the 'TPP-11' treaty was negotiated by the relevant bureaucrats.⁸⁴ In fact, they seem to be convinced that their professional duty is just to be the compliant mandarins of the politicians on duty. Try explaining to those bureaucrats involved in the TPP-11 negotiations —who were happy not only to concede unprecedented new "corporate rights" to multinationals and large domestic corporations that could claim to be 'international' (and, of course, without **any** reciprocal obligation), and also happy to accept taking the resolution of conflicts away from Chilean courts to newly created international Mickey Mouse-style courts—, that for a nation **freedom is the achievement of autonomy**. As Primo Levi wrote, the truly dangerous people are "...the functionaries ready to believe and to act without asking questions".⁸⁵

In short, although in 'strategy 3' there could be only one real distributional winner, a rapid (although decelerating) rate of economic growth, gains from multiple asset bubbles (including the residential one) and easy access to an almost unlimited amount of credit initially helped confirm the 'trickle-down potentials' aspect of the story in 'strategy 3' (including higher levels of social protection), and facilitated popular support for the unfettered-market-supremacy

⁸² <https://www.stlouisfed.org/on-the-economy/2017/november/measuring-labor-share-latin-american-countries>

⁸³ Palma (2014).

⁸⁴ See <https://ciperchile.cl/2018/03/09/el-tpp-11-el-gobierno-saliente-y-la-utopia-invertida/>. See also Palma (2020d).

⁸⁵ <https://newrepublic.com/article/119959/interview-primo-levi-survival-auschwitz>.

discourse. So much so that in this scenario right-wing parties were at last even able to win a democratic presidential election.

However, the élite did not have a high probability of winning indefinitely in 'strategy 3', any more than it had in any of the other distributional games it played in Chile during this period. The military dictatorship was not sustainable in the long run; and the oligarchy's support for the post-dictatorship progressive distributional policies was, by definition, temporary.

In turn, 'strategy 3' was no different —and not just because 'you can fool some of the people all of the time, but you can't fool all of the people (that there is no alternative) all of the time'. Also, the inevitable deceleration of growth (particularly productivity growth) in a 'cosy scenario', such as 'strategy 3', and the excessive-greed-at-the-top that restricted the trickle-down played a crucial role in this. The social burst of discontent in October 2019 finally sent 'strategy 3' to its resting-place. It had achieved its goals (for the élite), but it had eventually become counterproductive, and the tsunami of discontent drowned it.

The fundamental question is why the very success of 'strategy 3' was its worst enemy as the capitalist elite started to take "cosiness" for granted. The supremacy of "easy" rents led to productive diversification to become an optional extra as the oligarchy's huge share of national income became a source of enjoyment (which includes the financial casino and capital flight) rather than the fuel that powers new engines of productivity growth.

Keynes (1919), for example, explains the contrast at the end of the 19th Century between the 'emerging' economies of the time, Germany and the US, vs. 'mature' Britain during the (investment-intensive) Third Technological Revolution, or third great surge of industrialization — that of the 'Age of Steel, Electricity and Heavy Engineering'⁸⁶:

The new rich of the nineteenth century ...preferred the power which investment gave them to the pleasures of immediate consumption.... Herein lay, in fact, the main justification of the capitalist system. If the rich had spent their new wealth on their own enjoyments, the world would long ago have found such a régime intolerable.

Intolerable indeed! As there is little danger of finding these enlightened attributes in the newly rich anymore. In fact, this is precisely the real challenge of neo-liberalism as a technology of power: how to transform something that becomes intrinsically intolerable into tolerable —and in a democracy! What's remarkable is that it did work for a while during 'strategy 3', but it had the seeds of its own undoing inbuilt in it. At least this is the main message from Chile's 2019 social unrest: eventually, 'strategy 3' had also become 'intolerable'.

Figure 8 shows the consequences of the already mentioned Achilles heel of 'cosy' capitalism: cosiness for the elite and dynamic markets does not mix well! As a former head of the main business association and CEO of one of the main conglomerates explains, "Chile was transformed into a market economy in name only."⁸⁷ In such a cosy-capitalism —easy rents for the elite, capitalism for the rest—, productivity growth was bound to collapse. Neither did 'cronyism' help —i.e., the ever closer and mutually advantageous relationships between business leaders and 'new' left government officials, transforming 'strategy 3' into an extreme version of North's 'limited access order' capitalism.⁸⁸

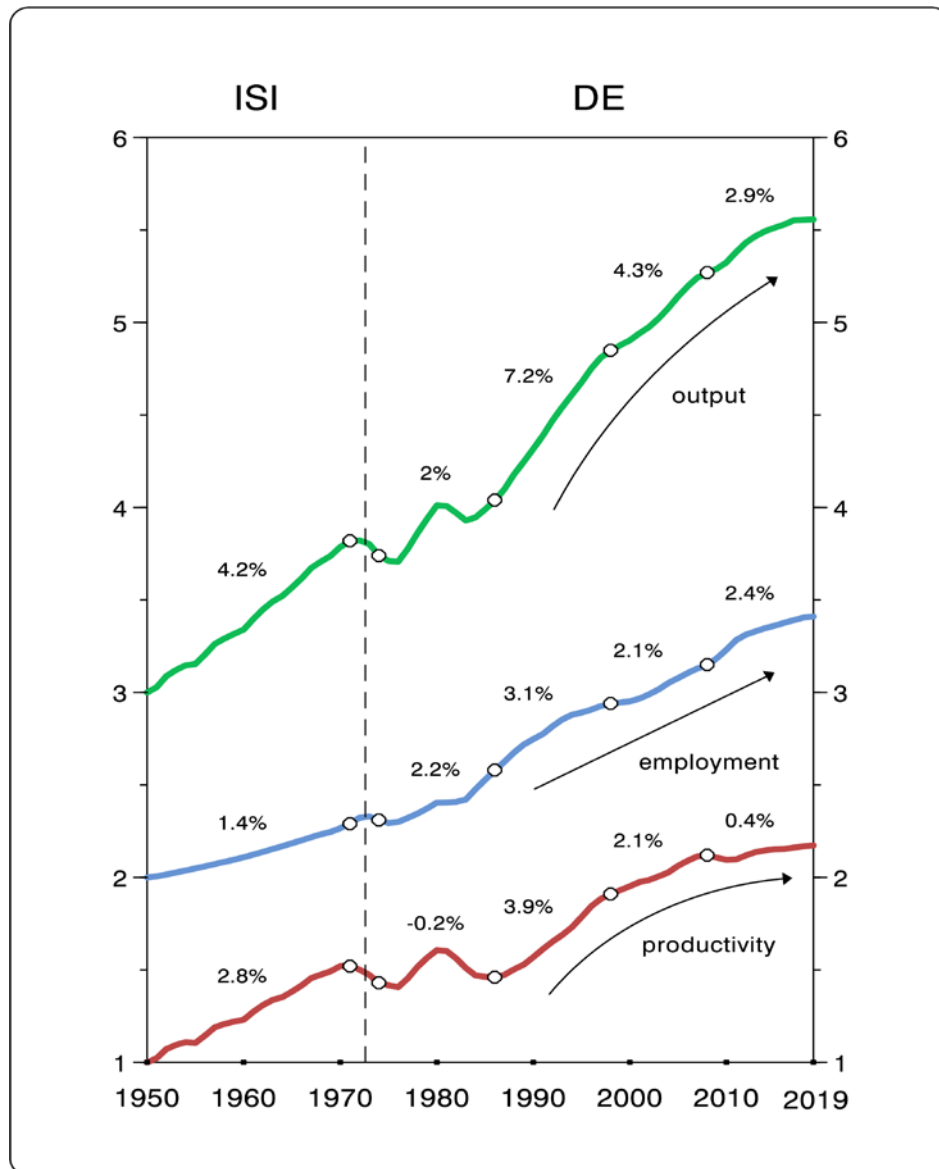
⁸⁶ For a comprehensive analysis of this period, see Pérez (2002).

⁸⁷ Lamarca (2009).

⁸⁸ North et al. (2007).

FIGURE 8

Chile: GDP, employment and productivity, 1950-2019



- Each series is an index number (in log-scale), with base **1** in 1950 for productivity, **2** for employment, and **3** for GDP. **DE**=“dual-extractive” model (as I call the development strategy followed by Chile since its neo-liberal economic reforms of the 1970s)⁸⁹; **ISI**=import substituting (or state-led industrialisation); **Productivity**=output per worker. 3-year moving averages.

- Source: The Conference Board (2021; US\$2018, PPP).

Figure 8 confirms the idea that although neo-liberalism may well have become one of the most effective technologies of power ever, it had inbuilt in it the seeds of its own undoing: its preference for both an economic scenario in which there were few market ‘compulsions’, and an emasculated State.

If capitalism is what you want, as Keynes insisted, you must save it from this type of merely rentier capitalists —those who like to appropriate an artificially high share of national income, and like to do this by harvesting only low-hanging-

⁸⁹ See Palma (2019b).

fruits-type activities, while believing that this huge share is for their own enjoyment— by implementing a progressive nationalist development agenda that seeks to inject dynamism by exercising different forms of state agencies to “discipline” the capitalist élite into both appropriating a share of national income that actually reflect *their marginal social contribution*, and that it should invest a high proportion of this share **productively**.⁹⁰ This is the key to emerging Asia’s success: in order to make money, their capitalist élites had to do something *socially useful*, for which they have to invest a large proportion of the share in national income.

But in Chile there was no progressive nationalist development agenda in sight! Just a mild and short-lived attempt at the beginning of the second presidential term of Michelle Bachelet, nicknamed “la retroexcavadora” (the ‘backhoe’), which proved almost as short-lived as a mayfly...

The key message of Figure 8 is that the deceleration of GDP growth during ‘strategy 3’ was almost entirely due to the collapse of productivity growth (from an average of 3.9% per annum to just 0.4%); that is, to the point that (low-wage) employment creation (mostly in traditional service sectors and construction, which accounted for 80% of the labour force, and with their traditionally low potentials for long-term productivity growth) became ‘cosy’ capitalism’s only driver of GDP growth.

The political and economic impact of this was overwhelming, proving Krugman (1994) right: although “productivity isn’t everything, in the long run it is almost everything”. So much so that when the country inevitably ran out of cheap labour (as traditional services and construction had demanded cheap labour at a rate between two to three times higher than Chile’s low rate of population growth), the capitalist élite faced a historic crossroad, which was exactly the same as the one that every current developed country had faced at a similar level of development: it could confront the lack of cheap labour by updating its development strategy —in the case of Chile, by updating its dual-extractive model by searching for new engines of productivity growth, such as the industrialisation of commodities or a green new deal. Or it could just search for ‘more of the same’ by lobbying for ‘a refill’ of Chile’s unskilled labour mark —i.e., a new policy of mass immigration of cheap labour from neighbouring countries. No prizes for guessing what happen next...

The point here is that the mass influx of immigrants that followed (so far equivalent to about 10% of the labour force) was generated by a Chilean “pull”, not by an external “push” —i.e., it started with deliberate changes in immigration policy, not with political disturbances in neighbouring countries (this would only be the case much later, with the political crisis in Venezuela). And most immigrants came legally, by plane into Santiago’s main airport (often on specially chartered flights), in a way that ended up being a paradise for human trafficking gangs, who organised the logistics, the transport, the paperwork, and then profited from the horrific conditions in which many of these immigrants ended up living in Chile. All that immigrants needed to become residents was to get a tourist visa when arriving in Chile (for which they only had to have a return plane ticket, an identity document, and a little bit of cash to falsely prove that they were ‘tourist’ —all of which were often provided by the trafficking gangs); and then, when already in Chile, a letter from an employer offering a job would suffice for exchanging the tourist visa for a work permit and a temporary resident visa —again, this letter was often provided by the same gangs.

Moreover, no one pushing for the new immigration policy seemed to have worried about the complete lack of spare capacity in housing, health service, public education, transport, and all those basic services that would be desperately

⁹⁰ On how Korea did this during its process of industrialisation, see Chang (1993); for the case of Taiwan, see Wade (2003). For a summary, see Palma (2019a, figure 22).

needed by these immigrants.⁹¹ Cheap labour has to be cheap. That's the point! So, with the cheap-labour-intensive dual model with (practically) no productivity-growth being given a new lease of life, 'more of the same' growth via just employment creation was again on the cards. As Voltaire had emphasised (see epigraph), the comfort of the rich depends upon an abundant supply of the poor—including, of course, *in the production sphere*.

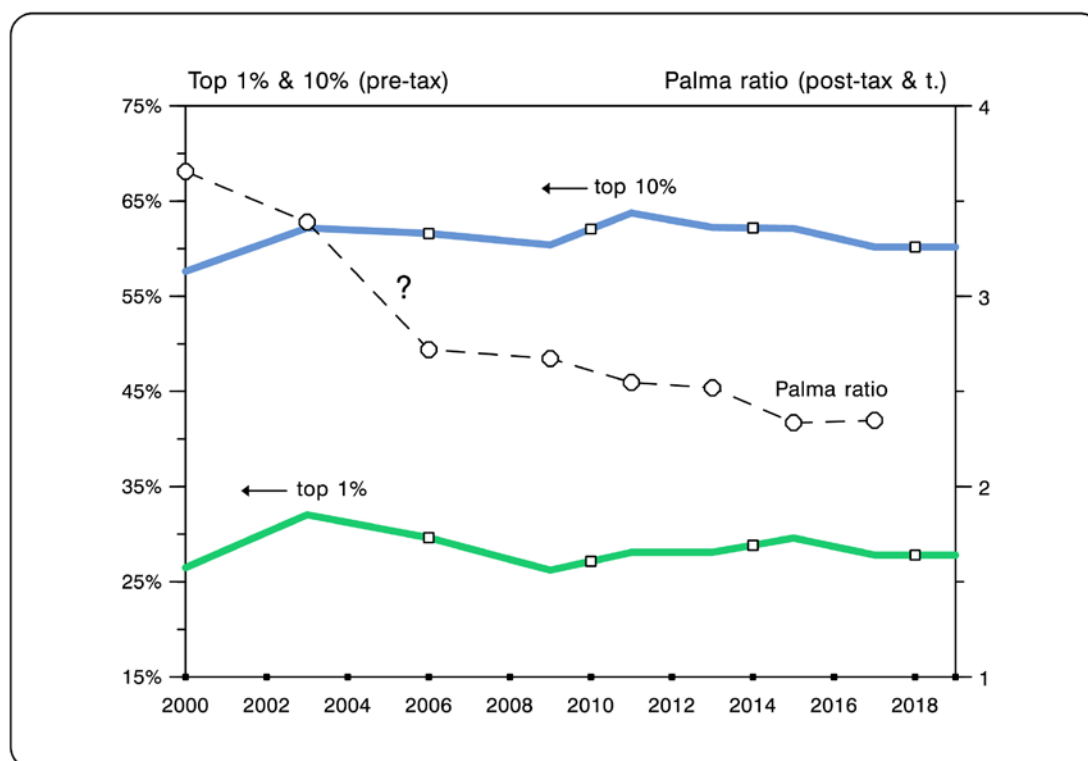
However, it was precisely this 'refill' of the cheap labour market and the horizontal diversification of extractive, service and finance activities abroad that made feasible the option of persisting in doing 'more of the same' by taking away the necessity for the neo-liberal model to update itself when its existing engines of growth (mere extraction of commodities and cheap services and finance at home) had run their course. 'Cosy' cum 'crony' capitalism—an its 'limited access order'—, had become self-destructive due to its own logic. The oligarchy has no one but itself to blame for 'strategy 3' having become counterproductive for their own interests.

This inaction of insisting on doing just 'more of the same' regardless—that is, this resistance of the *status quo* to the alteration of its state of rest—this reminds us of Conrad novels where, as in so many sea stories, the main enemy of creativity is stasis. It is, in fact, the deadliest thing of all.⁹²

Finally, and as opposed to what household surveys indicate, new pre-tax data shows that 'strategy 3' was far more distributionally successful for top earners than it had been reported so far, including in Figure 7 above (which was built with household surveys data)—casting further doubts on Chile's supposed declining inequality. (Figure 9).

FIGURE 9

Chile: shares of pre-tax income of the top 1% and top 10%, and the Palma ratio of post-tax and transfers income, 2000-2019



⁹¹ Palma (2019b).

⁹² Segal (1997).

- **t.**=transfers. Circles indicate years when the Casen household survey was carried out; squares indicate presidential periods. The question mark indicates that there is plenty of room for scepticism regarding the supposed decline in Chile's inequality as reported in household surveys.

- Source: WID (2020), based on De Rosa et al. (2020), for top 1% and 10% (as shown in tax-return data); and World Bank (2020) and Palma (2019a) for Palma ratios (calculated from household surveys).

As the figure suggests, 'strategy 3' did help the top 1% and 10% keep their income-share stable at a level not far from where Pinochet left them; which now are even higher than Brazil's (see Figure 3 above). Furthermore, in a country with such a low and regressive system of taxation it is difficult to believe that the supposed drop of the top income shares after taxes shown in household surveys during the 2000s is anything but the growing inability of these surveys to capture the income of the rich in this growingly financialised and 'fiscal paradised' world.

And if the share of the top remained basically stable, a drop in the Palma ratio of the speed shown in Figure 9 (especially towards the latter period of Ricardo Lagos' presidency; see question mark in the figure) would have required an increase of the share of the bottom 40% of about twice the level reported in these surveys.

Therefore (as in the case of Brazil in Figure 3 above), although there is little doubt that the income-share of the poor did benefit from a small but effective system of transfers, some scepticism is called-for regarding the much publicised supposed decline in Chile's inequality.

In sum, 'strategy 3' may well have become an abject failure in productivity matters (ending in a 'Ricardian-style' near productivity-growth stagnation; see Figure 8); it was nevertheless remarkably successful in distributional matters for the rich —until an outburst of popular discontent put a sudden end to it with a display of social power not seen in Chile since the one that defeated Pinochet in his 1988 plebiscite. The power of the young (enraged by the hopeless future on offer under this strategy), and the feminist movement (which had had enough of gender abuse and discrimination at every level)⁹³, broke the neo-liberal ideological spell: the emperor (who obsessively sermonised that 'there was no alternative') had no clothes.

7.- 'Strategy 4': from the ideological narcissism of 'strategy 3' to the élite's sudden need to idealise the European 'new' social democracy

Although this new distributional switch from 'strategy 3' to '4' clearly involves many issues, there can be little doubt that the key one was economic reality catching up with the lack of productive dynamism of ('cosy' and 'crony') 'strategy 3'. Also, new technologies of social communication helped improve the much needed 'collective action' among the majority, empowering their "voice" (in the sense of Hirschman already cited). Previously, the elite's greater capacity for collective action gave it the upper hand in games of chicken; but new technologies of communications, as the social unrest in Chile demonstrates, became a game changer for the majority!

The explosion of social unrest in October 2019 was quickly followed by the emergence of the pandemic, which provided a distraction from the social discontent. However, as poverty and unemployment grew rapidly, while the centre-right business-friendly government struggled to respond, this distraction

⁹³ Its slogan, "El estado opresor es un macho violador" (The oppressive state is a rapist macho) said it all (<https://www.youtube.com/watch?v=tB1cWh27rml>).

did not last. In turn, (as discussed above) insult was added to injury as almost all the great fortunes continued to expand as in the best of times, helped by the “perpetual mania” of the financial casino —with the assets of seven largest billionaires jumping from US\$ 23 billions to US\$40 billions in the year to March 2021.⁹⁴ One of them, a former son-in-law of Pinochet (who thanks to corrupt privatisations during his Father-in-law’s dictatorship had suddenly changed from being a failed entrepreneur to one of Chile’s largest billionaires) almost tripled in that year. Perhaps not surprisingly, when the plebiscite to change Pinochet’s Constitution took place in October 2020, it gained 80% support.

From the perspective of this work, one of the key impacts of the pandemic was to throw not just this but all kinds of inequalities into stark relief. For example, while in a middle-class neighbourhood (Ñuñoa) the two main reasons for requesting a circulation permit during the quarantine were for people to go to a supermarket and to walk their (pedigree) dogs, in a popular neighbourhood (La Pintana) these were for attending funerals and visiting relatives in penal facilities. In addition, the low levels of internet coverage in the latter (just 13%) forced people to leave their homes even if they could otherwise have worked or studied from home.

The combination of the explosion of discontent and the inequalising side of the pandemic led to great anxiety among the élite —and in many to an outright panic— that Chile would return to being politically unmanageable as soon as there was some resemblance of normality. For a respected right-wing analyst, for example,

The greatest fear [...] is not the coronavirus, which will claim many lives, but it will pass [...]. Nor is it the imminent economic debacle, which will also finally recover [...]. [The] greatest fear [...] is an unmanageable social group that has abandoned the basic rules of communal life [...].⁹⁵

Faced with these uncertainties, some politicians and business leaders began to idealise the European ‘new’ Social Democracy as a way out of their strategic impasse, hoping it might help reactivate economic activity while ensuring a minimum of protection and social peace (‘strategy 4’).

For example, the presidents of both main business associations (The Confederation of Production and Commerce, and The Society for Manufacturing Development), contradicting everything that both business association had preached for generations (especially since the neo-liberal reforms), began to call for a European-style new social democratic model.⁹⁶ Even some intellectuals from that political orientation began to publish their “Social Democratic Manifestos”, to prevent “[...] future governments from going from [social] explosion to [social] explosion”.⁹⁷ Also, an ex-finance minister of Chile’s current right-wing government, and current Presidential candidate, expressed a similar opinion, and the main right-wing candidate for the next presidential election (a Chicago Boy and one-time Pinochet favourite) also, for the first time, defined himself as ‘social democrat’ —and even in favour “of a new and stronger state [capable of] guaranteeing social rights”.⁹⁸

⁹⁴ Forbes (2021), and Palma (2020b).

⁹⁵ <https://www.latercera.com/opinion/noticia/el-miedo/SS57SUH65JGWXEE4VDXJD5N2W4/>

⁹⁶ See, for example, <https://interferencia.cl/articulos/entrevista-juan-sutil-desde-el-punto-de-vista-social-probablemente-chile-tiene-que-avanzar>; and <https://kiosco.latercera.com/reader/03-08-2020-la-tercera?location=31>

⁹⁷ <https://www.elmostrador.cl/destacado/2020/07/24/un-manifiesto-social-democrat/>

⁹⁸ <https://www.emol.com/news/National/2020/08/24/995890/be-social-democrat-definition-Lavin.html>

Not surprisingly, many on the 'new' left became really upset with this apparent infringement on their intellectual property rights!

However, it is precisely the highly inefficient and probably unsustainable inconsistencies between the economic and social agendas of the European 'new' social democracy that made it so attractive for the élite (see Appendix 2). In this new scenario, while a new social democratic economic agenda could still aim at delivering "more of the same" in the production sphere, a new social agenda (stronger in social protection) could give a new lease of life to their now fragile neo-liberal model. Furthermore, they have an ace up their sleeve: in this financialised world, instead of having to pay for the extra social protection with new taxes, additional public sector borrowing can always save the day. Therefore, for the Latin American business community, a switch to 'strategy 4' could be another win-win situation: it could help re-legitimise its neo-liberal rentier model by making it a bit more civilised, and public bonds (instead of taxes) could finance the much-needed social peace and a minimum degree of equity. How had this not occurred to them before!

Basically, this would be a way to square the circle: powerful agents could continue to manipulate the product and financial markets at their pleasure (which includes continuing to extend the 'market' into hitherto unacceptable, even inconceivable, spheres of social life —those that have already generated some of the most inefficient activities in the economy), and higher deficit spending could facilitate the "herd immunity" necessary for social peace.

From this perspective, the new strategy makes complete sense, and the dwindling number of people within their group that still rejects it is driven by the self-destructive power of fundamentalism. The most attractive element for the more enlightened right wing is that this new alternative, together with offering a minimum of social peace and some equality, may allow them to maintain in the new Constitution being discussed in Chile at the moment many of the Buchanan aspects of their model, including some crucial components of Pinochet's Constitution and its "handcuff laws". The project currently in the Senate to support the aforementioned "TPP-11" treaty is another example in that direction (Palma, 2020d).

For Buchanan (1993), it is not the poor but big business that really needs "social protection", as their property rights can only be guaranteed by imposing constitutional guarantees. Buchanan viewed society in a rather paranoid way, as in eternal conflict between "creators" (entrepreneurs) and "looters" (everyone else) who would have the former constantly besieged. In his work he repeatedly warns of the danger of "parasites" and "predators" on the lookout for "innovators." This is why it is the owners of big capital who really need 'social protection', and their property rights could only be guaranteed by (Chilean-style) **constitutional limits** to change.

Also, implicit in Buchanan is the idea that as part of their 'social protection' big business should have the privilege of being somehow above the law. This idea has some resemblance to Carl Schmitt and Giorgio Agamben's idea of "state of exception", except that it is not related to the sovereign's ability to transcend the rule of law, but that of a privileged group in society. Also, this 'exceptionalism' is not intended to be temporary: in the name of Buchanan-style understanding of 'the public good', it is intended to be a permanent state of affairs.

One Chilean example of this 'exceptionalism': why fear prosecution, when —if convicted for (say) huge fraud— instead of going to prison one may be just sent back to university! A judge recently sent corporate executives convicted of a major tax fraud on a one-semester course in corporate ethics (with the condition that they had to get a passing grade!). The same happens in developed countries; in this 'too-big-to-jail' world, when HSBC became the bank of choice of

Mexican drug cartels, or Standard Chartered of those on the official terrorist list, they just got a fine and no one went to prison. In turn, when Purdue Pharma and other drug-makers encouraged over-prescription of opioids, leading to overdoses and addiction that according to US government data resulted in 450,000 overdose deaths between 1999 and 2018 (half again as many people than all fatalities so far in the current pandemic), and millions to opioid addiction, there was just a fine and no one went to prison. And this was so even if Purdue Pharma agreed that it “knowingly and intentionally conspired and agreed with others to aid and abet” doctors dispensing medication “without a legitimate medical purpose”.⁹⁹ Furthermore, the court had no problem with the Sackler family having transferred (often through questionable means) more than US\$10bn out of the company between 2008 and 2017.¹⁰⁰

As a law professor states (commenting on how the Trump Administration spared corporate wrongdoers billions in penalties), “There’s no reason anymore to fear prosecution for committing serious corporate crimes”.¹⁰¹ In fact, in a Buchanan-style thinking this would not be just the mere exercise of state capture by big business, but something that has a perfect logic in the sense of untying the hands of “creators” and “innovators”.

In Chile, as in the rest of Latin America, this influence of Buchanan also impregnated the ideology of the ‘new’ left; since the transition to democracy, they have spared no effort in apologising for their supposed “predatory” past (such as having been in favour of agrarian reforms, nationalisation of natural resources, and so on).

This growing asymmetry between the economic and social agendas also took place within the Chilean Christian democrats; in the 1960s, its first President, Eduardo Frei Montalva, had an economic agenda which was closely articulated with its social one: agrarian reforms and the partial nationalisation of large copper mines went hand in hand with policies for social protection and social empowerment (the “Promoción Popular”, or “Popular Empowerment” policy). However, in the 1990s, during the presidency of his son Eduardo Frei Ruiz-Tagle, while the social agenda remained similar to that of Frei senior (although implemented this time in a “consultant-intensive” way), the economic agenda tried to build a future which was the exact opposite to that of his Father’s agenda. And since these agendas pointed in opposite directions, they obstructed each other.

And the support of most of the centre-left for these constitutional barriers that defend the property rights of “creators” (like their *de facto* opposition to a proper royalty to recover the rents of natural resource) is done regardless of the rather ‘uncreative’ way in which many of these supposed “innovators” acquired their assets —such as in ‘piñatas’ of public corporations and of natural resources during the highly corrupt neo-liberal reforms, piñatas in which access was restricted to courtiers of the regime and family members of the dictator (others need not apply).¹⁰²

The open question, of course, is whether in Latin America this ‘strategy 4’ would be as effective a mechanism for making a rentier neo-liberal economic agenda more acceptable as in Western Europe. Political settlements of this kind

⁹⁹ <https://www.ft.com/content/8112c484-c8f9-49f8-8d6d-bffeff9ccb59>; see also <https://www.ft.com/stream/e0c6c996-1c60-4ac0-8e96-ecb154217b20>

¹⁰⁰ See <https://www.bbc.co.uk/news/business-54636002>; and <https://uk.reuters.com/article/us-usa-opioids-litigation/mckesson-says-states-seek-21-billion-from-drug-distributors-in-opioid-settlement-idUKKBN27J1UC>

¹⁰¹ <https://www.nytimes.com/2018/11/03/us/trump-sec-doj-corporate-penalties.html>

¹⁰² See, for example, Mönckeberg (2015); Gárate (2012); and <https://www.ciperchile.cl/2013/09/12/%c2%bfcuanto-habra-que-esperar-para-que-los-chicago-boys-asociados-respondan-por-el-botin-que-algunos-se-llevaron/>

are surely bound to be more fragile in the periphery than in the centre. Also, perhaps ‘strategy 4’ came a bit too late in Latin America, just as the aristocratic concessions did in late 18th-century France. Latin American oligarchies will surely need now some truly fancy footwork (and the appropriate ‘collective action’) to make this new strategy work!

Conclusions

This paper tries to answer the question of why is it that the rich tend to stay rich no matter what the rest of society throws at them. To do so, it makes a contrast between the neoclassical narrative (which emphasizes that inequality is the outcome of a fairly deterministic interaction between a series of relatively exogenous economic ‘fundamentals’), and a Ricardian one (where the key lies in the way in which a society articulates an antagonistic distributional conflict between rentiers, capitalists, bureaucrats and workers). That is, it makes the contrast between inequality as a reflection of the relative value of marginal productivities, and as the outcome of specific interactions between power structures and market failures in the context of choice between distributive alternatives in a world of multiple equilibria —one in which history, politics and institutions matter as much (if not more) than economic ‘fundamentals’. From this Ricardian perspective, ‘democracy’ should be understood as the genuine possibility of choosing between real distributional alternatives in this world of multiple equilibria. That is, in a democracy nothing reveals more clearly who we really are as a society than the inequality that we collectively choose to build. In short, we deserve the inequality we have (Palma, 2016a). Its about the most self-defining act there can be!

In addition, as from this analytical perspective inequality is the outcome of a confrontation between antagonistic hegemonic projects, there cannot be a purely rational solution that reconciles them permanently. In the world of “the political”, the articulation of contingent practices can only lead to outcomes that are normally precarious.

This paper also analyses the question of why do élites have such different degrees of sophistication in terms of their technologies of dispossession (i.e., those that help them extract the value created by others)?¹⁰³ And it also asks how we can get through the veils obscuring these interactions and distorting our vision of inequality. A key issue is whether neo-liberal globalisation-cum-financialisation has broadened the scope for what I call “distributional failure”; that is, for the **self-construction** of artificially-high levels inequality (particularly in terms of market inequality —see Appendix 2).

From this Ricardian perspective, if democratic politics is all about having the genuine possibility of choosing between real distributive alternatives, persistent high levels of inequality can only be the outcome of the absence of such possibility —something that normally can only be achieved by imposing highly inefficient rigidities such as those of a Buchanan-style constrained-democracy, or market manipulation as those analysed by North in his “limited access order”.

As discussed above, in distributional matters rather than thinking (as in most neo-classical analyses) about the possible **concrete effects** that well-known factors may have on inequality (e.g., technology, social mobility, education, and so on), it is more illuminating to try to understand the **concrete expressions** that these factors may find in actual experiences of inequality —and how these may relate to economic performance. In fact, some of the pieces of

¹⁰³ Mazzucato (2018); Palma (2019a).

the distributional puzzle may well be the same in different countries, but the way they fit together may well differ —sometimes significantly.

As initially discussed in my first paper ever (written while I was still a graduate student; Palma, 1978), and developed further in Palma (2016b), the analytical challenge in subjects such as inequality is not about building “mechanico-formal” theories, from where ‘general implications’ can be abstracted. It is about developing methodologies for the analysis of concrete situations of phenomena such as inequality —in the case of this paper, for the analysis of Chile’s *concrete experience* of inequality.

The key question which we should ask ourselves is why, it being obvious that the capitalist economy tends towards a greater level of inequality (and this mainly because the élite has the option to construct **several routes** to get the upper hand in the distributional struggle, rather than because of mechanical issues such as “ $r > g$ ”); why, it being obvious as well that we have all embarked on a process of growing internationalisation and financialisation; that societies are divided in groups with antagonistic interests, and that the particular is to a certain extent conditioned by the general, why with these premises we have not gone beyond the partial —and therefore *abstract*— characterisation of inequality.

A key lesson from Chile’s complex distributional experience is that it reveals the fundamental problem of neoclassical thought: it has never been able to break with its “original sin”, which is thinking of income distribution as the natural (and rather mechanical) outcome of the relative value of marginal productivities (Solow, 1956) —where everyone is perfectible capable of appropriating the value of its own marginal productivity (neither more, nor less). Furthermore, this analysis assumes technology, preferences, and factor endowment as a “given”; and history, institutions, and politics as optional extras.

For example, although Chile has the same GDP per capita and average wage as in Croatia, it has a median wage that is only about half Croatia’s.¹⁰⁴ Surely this is not so because something ‘forces’ Chile to have such degree of wage inequality —i.e., surely this is not the mechanical consequence of Chile’s abundance of natural resources, its lower quality of education (as shown by the Pisa tests)¹⁰⁵, its particular problems with skilled biased technological change, and so on, but basically because of choice among multiple equilibria. Choice in the sense that in terms of inequality there is no room for claims that we are just innocent bystanders at the mercy of ‘exogenous’ distributional forces. This choice, of course, is not absolute but it is normally (although not always) taken within the parameters of the interaction between our history, politics and institutions with some of those fundamentals. As already suggested, for an agency to succeed it needs to understand structure!

In short, while Croatia has chosen *as a society* to resolve its distributional conflict between rentiers, capitalists, bureaucrats and labour in a way that has generated low levels of wage inequality, in Chile rentier inequalising forces have ruled.

And from an economic point of view, the efficiency of each choice will also depend —as Carlos Díaz-Alejandro would have emphasised— on the degree of support that each option is able to gather. To this I would add that the need for “collective action”, or the need to ensure cohesion —so that members act together even when individuals and groups may have strong incentives to free-ride— is also relevant. For example, although Croatia’s option may well be superior, it is nevertheless more likely to suffer from free-riding. For example, it is more likely to suffer from what in Palma (2019a) I called the Mediterranean

¹⁰⁴ World Bank (2020), and Duran and Kremerman (2020), respectively.

¹⁰⁵ https://www.oecd.org/pisa/Combined_Executive_Summaries_PISA_2018.pdf

“rentier-middle and upper-middle syndrome” (a distributional failure found in this part of the world), with its ‘retire-well-at-50-with-Mediterranean-diet’ bureaucrat!

In other words, although Croatia’s option may lead to a more sustainable political settlement, growth was faster in Chile during ‘strategies 2’ and the early stages of ‘3’. However, soon this scenario began to falter when this strategy, due to its internal self-destructiveness, failed to keep delivering productivity growth and basic wellbeing for the majority of the population. So, Chile is now being plagued by a growing degree of discontent, and the majority is now challenging the current political settlement and distributional outcome with an ever higher degree of force and mass mobilisation. Surely not the ideal scenario for high levels of investment and sustained economic growth...

And in terms of the usual ‘determinants’ of inequality used (and abused) in so many neo-classical narratives of inequality, evidence (as it is often the case) is not at all straightforward; for example, Chile is so much more unequal than Croatia even though its tertiary enrolment is one-third higher; and in terms of its percentage of public expenditure it spends twice as much as Croatia in education, and nearly half as much in health in this indicator; it has a much better rating in Moody (A1 vs. Ba1), in S&P (A+ vs. BBB-) and in Fitch (A- vs. BBB-); and in the usual indicators it has a lower level of corruption and its State is less ‘fragile’; while doing better in many macroeconomic fundamentals (e.g., trade balance), and so on. But its Palma ratio is 2.8 (and Gini 48), while Croatia’s is just 1.1 (and Gini 31).¹⁰⁶ Perhaps the fact that its rate of homicides (although very low for Latin American standards) is four times higher than Croatia’s is a more telling indicator of the way in which it articulates conflicts in general than what public expenditure statistics can tell us, or of what rating agencies admire, or of what doubtfully constructed ‘rankings’ indicate about both countries’ strengths and weaknesses.

Surely no ‘external’ or ‘pre-determined’ (if not at least weakly exogenous, even Granger causality) force —of the type typically chosen in econometric exercises— has compelled Chile, with such high middle-income level, to have a median net wage not high enough even to bring a family of four above the poverty line —with nearly two-thirds of female workers in this position. Should we also blame gender discrimination on some ‘fundamental’, or external force? Again, is the fact that in Malaysia (a predominantly Muslim country) 75% of professionals in its Central Bank are females, while in Chile is only a tiny fraction of that just an ‘accident’ (in the sense used by Piketty in his first major book), or simply the mechanical outcome of some ‘cultural’ tradition, or just some differences in resource endowment? Perhaps choice in the sense in which countries opt to articulate conflicts in the arena of “the political” has more to do with it. In other words, as suggested above, one must always reject mechanical determinisms and simple causalities and insist on our ultimate freedom and responsibility.

As Milanovic indicates¹⁰⁷, in Chile the bottom 5% of the population has an income level similar to that of the bottom 5% in Mongolia (a country with an income per capita which is about one-fourth Chile’s), and the top 2% enjoy an income level equivalent to that of the top 2% in Germany (a country with an income per capita that is more than three times higher). Surely for Chile this scenario is as self-defining an act as it can be!

Another lesson from the Chilean experience is that in countries with such artificially created high level of inequality, most routes available to the élite to get the upper hand in the distributional struggle are associated **with different**

¹⁰⁶ World Bank (2020); and Palma (2019a).

¹⁰⁷ Milanovich (2019).

degrees of economic inefficiency.¹⁰⁸ Mostly (but certainly not entirely) because of this, these routes or *élite*-strategies for keeping the unequal *status quo* sooner or later become losing games *if played indefinitely*.

Therefore, the secret of success for the *élite* has been its flexibility, its internal cohesion and its capacity to maintain its ideology as hegemonic when playing their sequence of 'losing strategies' that wins —i.e., the Parrondo paradox. Perhaps Chile's greatest contribution to the analysis of inequality is that these phenomena have taken place in a fairly transparent form.

Surely Gramsci must have felt vindicated by all this. In a democracy, distributive struggles are basically won or lost at the level of ideology, and where the specificity of the political matters. Fundamentals? What fundamentals?

Foucault's (1979) conception of the relationship between power and knowledge, particularly the role of economic discipline in democracy —as a form of power that "disciplines" by imposing specific forms of knowledge— is also helpful in understanding the role of the 'experts' in all this, as they have become the 'praetorian guard' of neo-liberalism.

From a different perspective, Albert Einstein also remarked (and Poulantzas, 1975, following Althusser later theorised for the social sciences)¹⁰⁹ that even in natural sciences "Whether you can observe a thing or not depends on the theory which you use. It is the theory which decides what can be observed."¹¹⁰ That's one of the main reasons why the "disciplining" of mainstream economics works so well, as it imposes specific forms of seeing.

And in the social sciences, this form of seeing will also suggest the range of options for the econometric specification. And the circle could be closed a bit too easily as in traditional econometric testing there is the problem of "too big to fail" —i.e., in very large samples *p*-values go quickly to zero; this can mislead researchers into claiming support for results of no practical significance.¹¹¹

In turn, as discussed above, from the perspective of the interaction between artificially-created inequality and economic inefficiency what's happening in the high-income OECD indicates that they now seem almost infatuated with their process of "reverse catching-up" with unequal middle-income countries. That is, they now seem determined to mimic the Latin American distributional process by which they engineer an artificially created shift in distribution from profits to unproductive rents, while keeping wages as stagnant as possible —leading to a slowdown in investment and productivity growth, and to a massive increase in the cost of social protection (by now about 40% of its public expenditure; and adding public health and education, the typical Western European country now spends about one-quarter of its GDP in this).¹¹² So much so, that neither trade nor technological change have been able to come to the rescue (as in Ricardo's growth model). Furthermore, given this squeeze in operating profits, capitalists are increasingly seeking to generate as much of their income via (artificially-created) easy rents as possible.¹¹³ And if these are not

¹⁰⁸ See Figure 22 in Palma (2019a).

¹⁰⁹ On Althusser, and on methodological and epistemological issues in scientific analysis, see Laclau (2012). On discursive articulation, see Laclau and Mouffe (2014).

¹¹⁰ Quoted in Heisenberg (1971, p. 63).

¹¹¹ In other words, unless the true effect of size is exactly zero, all that is needed 'to reject' the null hypothesis (even when the null hypothesis of no effect is true), and declare that there is a statistically significant effect, is a large enough sample —particularly when working with traditionally unambitious levels of significance.

¹¹² Palma (2019a).

¹¹³ For the current role of financial markets and monetary authorities in helping rentiers (in the form of shareholders and executives) getting the upper hand in non-financial corporations, see Palma (2020b).

enough, what about that other rent (fraud)?¹¹⁴ Ricardo must be turning in his grave.

And in relation to wages in this Ricardian-style (lack of) productivity growth model, even before the crisis created by the pandemic, real wages were lower than in the early 2000s in about two-thirds of households in 25 advanced economies—more than 500 million people. In the UK, for example, during this period real wages had their worst performance since the Napoleonic Wars;¹¹⁵ in the meantime, (as mentioned above) the pay gap between executives and workers became obscene. In turn, in the US average hourly real earnings were kept stagnant since Reagan's election in 1980.¹¹⁶

And while the S&P500 was soaring more than 320% between 2009 and mid-2018—the longest bull market on record, which created more than US\$18tn of (virtual) wealth—the median US household wealth was actually falling! The bottom line is that monetary authorities in the OECD—the (secular-stagnationists) “new alchemists”—now think that their main task in life is to make sure that ‘the rich stay rich’.¹¹⁷ So, bull markets have become schizophrenically detach from the real economy: if the US had continued with the same share of investment-to-GDP as pre-Reagan, today over US\$ 1 trillion more would be invested per year.¹¹⁸ In fact, *net* private investment all but disappeared.¹¹⁹ As in a fitting “reverse catching-up” with Latin America, now in the high-income OECD the higher the share of income appropriated by the top, the lower the proportion of that income that is returned to the economy in a productive manner.

A great example of how a nearly perpetual bull markets have become decoupled from the real economy is what happened in the UK in early August: on the day the UK authorities announced that the economy had suffered its greatest recession in three centuries, the London Stock Exchange jumped by more than 2%. Nothing like that has ever happened before!

So, life is no longer that easy in the OECD now, with a family and a rentier oligarchy to support—should I say ‘Welcome to the Third World’?

¹¹⁴ Among many other activities of this kind, five global banks—JPMorgan, HSBC, Standard Chartered, Deutsche Bank and Bank of New York Mellon—were discovered helping shadowy characters and criminals to move staggering sums of illicit cash around the world, in a scam that totalled US\$2 trillion. HSBC's subsidiaries were also transporting billions of dollars of cash in armoured vehicles for Mexican drug lords, clearing suspicious travellers' cheques worth billions, helping drug-related mass murders to buy planes with money laundered through Cayman Islands accounts, and moving at least US\$7bn from Mexico into the bank's US operations. And other subsidiaries were moving money from countries on US sanctions lists, and helping a Saudi bank linked to Al-Qaida to shift money to the US. And, of course, no one has gone (or is likely to ever go) to prison. See <https://www.icij.org/investigations/fincen-files/global-banks-defy-u-s-crackdowns-by-serving-oligarchs-criminals-and-terrorists/>; <https://www.theguardian.com/business/2012/jul/17/hsbc-executive-resigns-senate>; and Palma (2020b).

¹¹⁵ Palma (2019a), and McKinsey Global Institute (2017).

¹¹⁶ Palma (2020b).

¹¹⁷ Even Krueger disagrees with this “new alchemists” monetary policy: “The top 1 percent of households saves about half of the increases in their wealth, while the population at large had a general savings rate of about 10%. This implies that if another US\$1.1 trillion had been earned by the bottom 99% instead of the top 1% [as in Obama's recovery plan], annual consumption would be about US\$440 billion higher” (https://obamawhitehouse.archives.gov/sites/default/files/krueger_cap_speech_final_remarks.pdf).

¹¹⁸ Ibid.

¹¹⁹ US Bureau of Economic Analysis (2020).

The analytical challenge, therefore, is to understand the mechanisms which have helped the rentier to get the upper hand in the high-income OECD since the neo-liberal reforms of the 1980s, as well in highly unequal middle income countries such as Latin America, and the specificities of this phenomenon in each historical circumstance.

The key point here is that certainly no one has forced the OECD to 'bananise' its market inequality —and with it, its economic performance (see Appendix 2).

As for Latin America's "Southern-style" distributional scenario, it has so far proved to be something resembling a stationary process: no matter what the rest of society has thrown at the oligarchy, their 'jogo de cintura' has been up to the task. Therefore, so far the impact of shocks (no matter how unbalancing) have had a short-lived impact —one that has declined over time.

And this 'stationary process' has also spread to our imagination and culture, as Latin America is now a region whose critical social imagination has stalled, changing from a post-War prolific period to an intellectually barren one since the 1980s reforms.¹²⁰ Of course, it could be argued that what happened in Latin America is not really that different from what has happened in the rest of the world post-1980, both developed and developing. One could even argue that the demise of critical thinking has spread around the world almost as a pandemic, transforming critical thinkers into an endangered species. However, the specificity of Latin America is that the downswing of this cycle of critical thinking has been particularly pronounced.

From this perspective, we have been left with both an oligarchy which is only interested in cleverly switching between distributional strategy (so as to construct a winning distributional game), and an intellectually stationary 'new' left that refuses to understand that in order to develop more sophisticated technologies of power it needs *more sophisticated forms of knowledge*.¹²¹ This is particular so in the economic sphere, where their choice of monotonously repeating 'more of the same' after the transition to democracy has proved to be counterproductive for their aspiration of becoming a hegemonic force. In short, they have been unable to build a proper *identity* via a successful "discursive articulation" between their economic beliefs and a reality inhabited by a plurality of agents and struggles.

Thus, in this "Gatopardian" stationary mode, everything has been allowed to change (e.g., the transition to democracy) so that everything *that mattered* to the élite could stay just as it was. Whether Chile's October 2019 social outburst (now mixed with the pandemic) proves 'a shock too far' for its oligarchy, or whether it will manage, yet again, to pull another rabbit out of its distributional hat —this time a social democratic rabbit— is Chile's known unknown.

The real mystery, however, is why oligarchies of this type can have such Muhammad Ali-style fancy footwork on distributional matters, while in economic matters they display the clumsy footwork of an elephant —such as still being stuck in its glaringly obsolete 1970s neo-liberal model, one resembling the early, and most primitive, Washington Consensus. If in one sphere they are the masters of "political articulation", in the other they have shown the manoeuvrability of an oil tanker.

A substantial component of the answer to that question, as discussed above, is that there are hardly any ways to reshape the structure of an economic 'system' with so little entropy: in how many ways can one redesign the structure of its economy, so that it can move 'forward in time', if one can't change (or even 'reshuffle') the fundamentals of its *status quo* — that those at the top continue to

¹²⁰ Palma (2014).

¹²¹ Foucault (2004).

corner an enormous share of national income, while seizing the low-hanging fruit they favour.

In other words, the oligarchy's fancy footwork in economic matters is more problematical, as it is stuck with a (rentier) albatross hanging around its neck (like Coleridge's Ancient Mariner —but without the guilt). In this sense, as in FDR's New Deal, what is required today 'to move forward in time' is not only a new set of Keynesian economic policies, but also a package of institutional reforms able to change the whole environment in which economic activity —and the distributional struggle— takes place.

And speaking about tackling rigidities to rearrange components in more imaginative ways, the new European social democracy also has a great challenge of this nature with the rigidities of its social protection system, which was designed for another technological paradigm and another international economic order.

What is also remarkable is how we are all now indeed converging in the West (north and south of the equator), but towards features typical of Latin-style middle-income countries, such as mobile élites creaming off the rewards of economic growth, and "magic realist" politics that lack self-respect if not originality.

Regarding the Latin American capitalist elite's distributional strategies, perhaps they have now set themselves too ambitious a challenge: how to retain a lion's share of national income while ensuring that their easy-rentier (and ever more inefficient) economic agenda is sustainable in time, as the majority are now prepared to challenge them credibly. Perhaps through 'strategy 4' —and its idealisation of the European 'new' social democracy— they might overreach, and despite their skills and experience, their "fancy footwork" may fall flat.

Furthermore, this time the help of the 'new' left is not as useful as it was during 'strategies 2' and '3', as this group has lost much of its political clout. And (as in the epigraph) this is no minor point as for Adorno domination is so much more effective when "... it can delegate the ... violence on which it rests to the dominated".

Basically (and as I analyse in Palma, 2020a), in Latin America both the élite and the majority are now trapped in what I have called a "Gramscian Moment", when the old fades, but the new fails to be born. That is, when the élite loses its legitimacy (and with it, its capacity to get the upper hand), but alternative discourses are still unable to gather sufficient credibility. In this interregnum, as Gramsci (1930) warned us from his cell in a Mussolini's jail —and as many in Latin America are now experiencing themselves, especially in Brazil—, it is almost inevitable that in the intervening time "there will appear a wide variety of harmful symptoms". For Gramsci, a strong hegemony is fundamental for states to move forward —the lack of it makes societies resemble drifting boats!¹²²

In sum, had the Latin American élite's plasticity of imagination in distributional matters been replicated in the economic sphere —as opposed to being translated into a mere compulsive rent-seeking obsessional drive—, its economy (and more) would not be trapped ever deeper in the quicksand of inertia —my definition of a "middle-income trap"—, of which Chile is a paradigmatic case.¹²³

The Freudian opposition between the creativity inbuilt in the instinct toward survival and the innate self-destructive drive of human beings seems to play out rather transparently in the spheres analysed in this paper —in particular,

¹²² Joseph (2002).

¹²³ Palma (2019b).

in the recurrent conflict between the Latin American élite's remarkable "ability to persist" and its compulsive —as well as self-destructive— rent-seeking drive.

From the point of view of its development potentials (and again using terms borrowed from psychoanalysis), perhaps what best characterises Chile today —and Latin America in general—, is its addiction to an impoverished life. Perhaps this is really what people in Chile rebelled against in October 2019.

Appendix 1

The Latin American 'new' Left

Very briefly (for a detailed analysis see Palma, 2016b), and as suggested above, what is crucial to my narrative is that on top of the usual *de facto* political power that the capitalist élite has from asset concentration, from lobbying power, from being able to solve its own problems of 'collective action', from its skills at building political alliances with the middle, and so on, an important component of its distributional success has been its remarkable capacity to build hegemonic consensuses around its own interests. The 'new' left is just one of its casualties.

In Latin America and many other parts of the world the 'new' Left is characterized by having concluded (a little too eagerly) that, with current domestic and international constraints, it would not be possible to assemble the necessary social constituencies for progressive economic agendas.

The history of the global South teaches us that this type of agenda requires a sufficiently strong domestic constituency behind it in order to be able simultaneously to take on all the 'usual suspects' (in the form of international and domestic forces) that are fiercely opposed to it. This constituency is required, for example, for the State to be able to impose East Asian-style 'discipline' on capitalists (and sometimes on workers) so as to be able to help construct both the low levels of inequality *in the sphere of production* found in countries such as Korea and Taiwan (see Figure A2.2 below), and their high levels of productivity growth.

In some cases — such as the paradigmatic examples of Nelson Mandela in South Africa, Lula da Silva in Brazil, and Patricio Aylwin and Ricardo Lagos in Chile— centre-left coalitions in the South have had clear opportunities to build the required constituencies. However, they capitulated too easily (in South Africa, the 'throwing in the towel' process was led by its 'new convert' Vice-President Thabo Mbeki), forsaking their progressive economic agendas and abandoning the economy as the fundamental site of the struggle —eventually conceding practically all the terms of the economic and distributional debates.

In other words, as the 'new' left believed that it could not get political power to implement its own progressive economic agenda, it then tried to gain power to implement someone else's instead —but (hopefully) more efficiently and with a human face. It thus sought political power to implement *de facto* what Chico de Oliveira has called "upside-down hegemony".¹²⁴ To do so, throughout Latin America, but especially in Chile and Brazil (and also in South Africa), the "new" left first used the argument of "urgent necessities" to justify abandoning its economic agenda, and diluting its redistributive one, to replace them with "prudent" policies (that would also detach both agendas from each other).

In short, neo-liberalism, as an ideology, has proved to be such an effective technology of power that it has paralysed most of its opposition. That is, borrowing from Kafka's 'The Silence of the Sirens' (1917), the (inequalising)

¹²⁴ Oliveira (2006). On how the Latin American 'new-left' has lost its ideological compass, see also Palma (2014).

sirens have, up to now, had a still more effective weapon than their song, namely the (ideological) silence of their 'progressive' opposition.

Ultimately, according to Sartre's concept of *mauvaise foi* (bad faith)¹²⁵, I believe that a key component of the 'urgent necessities' argument used by the 'new' left all over Latin America, but especially in Chile and Brazil (and also in South Africa, incidentally) to justify abandoning radical economic and redistribution policies for 'prudent' and 'well behaved' market-friendly ones, was as an exercise destined to deceive others as well as themselves into believing that the transformation of society had become the ultimate unacceptable risk.¹²⁶ Thus a key component of its 'new-look' pragmatism was never to say or do anything that might wake the socialist ghosts of the past.¹²⁷

The most telling sign of success at this, particularly in the economic sphere, as Žižek (2008) reminds us is when "one starts telling stories of others as if they were one's own".

As I discussed somewhere else, the current political project of the 'new' left could even be called an "inverted utopia".¹²⁸ If utopia is that scenario in which it is not possible to do what one imagines, the opposite (the inverted utopia) would be when one is not capable of imagining even what one *is actually doing*. And this relates to what is discussed above relating to the way in which the 'new' left did that necessary Gramscian ideological integrative effort of elements of opposing ideologies: instead of doing it in an imaginative and creative way, it did so in a lazy, often opportunistic mode, letting the new neo-liberal economic ideology simply replace its previous ('post-war-type') social democratic ideology.

Perhaps Pascalian philosophy (and its 'materialist theology') could help understand this;¹²⁹ from this perspective, what the 'new' left did may have been somehow 'rational' in its own terms, as they became convinced that at times like this "there was nothing so conformable to reason as a disavowal of reason" (as it were).¹³⁰ And to pursue this they just had to follow the ritual: pretend that you believe and credibility —and belief— will follow. This works even with false beliefs... That is, if at the beginning they did not really believe in the neo-liberal model, a rigid devotion to the liturgy would end up believing for them. The key was not to mix what was done (the 'more of the same' of the Chicago stuff) with what was said to be done (the 'urgent necessities'). What was needed was to detach speech from reality. And why not then create false dichotomies: either one was stuck in the nostalgia of the past or one became the convert of the future. In fact, for the main ideologue of the Brazilian neo-liberal reforms (a former heterodox economist) the choice at the time was simple: "either you became neo-liberal or you were neo-idiotic (neo-burro)".¹³¹

And the problem with 'neo-idiot' was that "... their inability to believe, even though reason compels them to, and yet they cannot, [can only come] from their passions".¹³² The wisdom of reason comes from good sense indicating what 'should' be believed. The secret was to do it with *automaton regularity*; thus routine would become credibility and credibility would turn into faith —and one of

¹²⁵ Sartre (1993).

¹²⁶ For Sartre, 'bad faith' is the habit that people have of deceiving themselves into thinking that they do not have the freedom to make choices for fear of the potential consequences of making a choice.

¹²⁷ See Arantes (2007).

¹²⁸ <https://www.ciperchile.cl/2018/03/09/el-tp-11-el-gobierno-saliente-y-la-utopia-invertida/>. See also Arantes (2007).

¹²⁹ Ibid.

¹³⁰ Pascal (1958, Pensée 272).

¹³¹ Veja, 15/11/1996.

¹³² Pascal (1958, Pensées 233).

the 'born-again' type; which in economics meant to get identified with the most primitive early-type Washington Consensus (no intellectual sophistications, please!). As all this "...will naturally make you believe, and deaden your acuteness".¹³³ In short, do 'as if' you didn't know, and the rest will follow.

Undoubtedly, in this ritual there is an important element of pragmatism, but there is also the advantage that automatism helps to give up previous convictions little by little (almost) without realising it. And, as Pascal's materialist theology tells us, in the end automatism always ends up taking the mind with it!

In sum, even if one were to agree that during the transition to democracy in Latin America and in South Africa there was little option but to accept a political settlement of the kind implemented by the 'new' left, and even if one could understand their logic of telling 'stories' to their base (in order to conceal their growing acceptance of the neo-liberal model), and to the capitalist élite and international financial markets (in order to conceal their initial reluctant acceptance of the neo-liberal model), what is truly amazing is how easily the 'story-telling' convinced the story-tellers themselves!

Surely Jean-Paul Sartre must have felt that the 'new' left revindicated his *mauvaise foi* (or bad faith) hypothesis.

Appendix 2

A2.1.- The post-war social democracy vs. the 'new' (post-Thatcher and Reagan) "Third Way"

In the post-war social democratic thinking, and even before the end of the war (as in the meeting at Breton Woods), there was one key idea at the centre of the analysis (which is exactly the same that is most relevant to Latin America's current situation): the only effective way out of that disaster was **to restructure to reactivate**. This implied the need for new economic and social agendas, which should be designed in *an intimately articulated way*, so that they might both be enhanced by their interaction. This symmetry between the two agendas became the hallmark of this strategy, and one of its main strengths. Conversely, asymmetry between the two became the defining trait and greatest weakness of "version 2.0" of this strategy in post-1980s neo-liberal Europe. The economic agenda would point in one direction, and the social agenda in the other.

A2.2.- The neo-liberal crosscurrents of the '70s

One way to visualize the resurgence of neo-liberalism during the 1970s is that the stagflation post-73 awakened the destructive power of fundamentalism; those who worshiped unfettered market forces had been waiting for their chance to revenge on the Rooseveltian-Keynesian 'heresy'. Neo-liberals feared that their undoubted success could annihilate belief in free markets, threatening a return to a primitive analytical chaos that would destroy understanding and eliminate meaning.

This fear brought into play the destructive instincts, since the worst part of the Rooseveltian-Keynesian heresy (and of structuralism in the periphery) was its indisputable successes in restructuring and reactivating the world economy after the war, both north and south of the Equator.

For this reason, the challenge for neo-liberals was not to overcome Keynesianism creatively, but **to erase** every last vestige of its existence. For example, when the same ideologue of the Brazilian reforms was asked in that interview about the main aim of these reforms, he replied: "To undo 40 years of

¹³³ Ibid.

stupidity [besteira]".¹³⁴ This attitude of 'undoing stupidities' —of multiplying everything by "minus 1"— was what led these neo-liberal reforms to become an exercise in "non-creative destruction."

The economic discipline, with its high levels of intolerance, became a useful instrument for the advancement of this type of reforms. According to the psychoanalyst Ron Britton, there is a direct relationship between the 'expectation of understanding the real' and the tolerance of dissent.¹³⁵ The higher the expectations (as is often the case in natural sciences), the higher the tolerance of dissent; but if the expectations are low (as in so much of economic analysis), intolerance tends to be high. What happened to the economic discipline during (and after) the neo-liberal reforms is a particularly good example of the latter (low expectations cum high intolerance). The opposite is often the case in natural sciences; Einstein, for example, would happily say that he is never quite sure that his picture was the only one which could explain his observations.

As mentioned above, Foucault's (1979) conception of the relationship between power and knowledge, particularly the role of economic 'discipline' in democracy —as a form of power that disciplines by imposing specific forms of knowledge— is helpful in understanding the role of the 'experts' in all this. A paradigmatic example was the role played (somehow pathetically) by this 'guard' in Chile in a recent national debate regarding giving people the option to withdraw 10% of their private pension funds to help weather the decline of household incomes due to the pandemic. Their fundamentalist support for the private pension system led them to compete among themselves for the most apocalyptic prediction of what would happen if this was approved by parliament. One went as far as predicting that if this was allowed to happen "Chile would burst into flames".¹³⁶ However, since they have been crying wolf for too long, nobody now pays much attention.

Of course, there were problems associated with this (pension fund) option to help people during the pandemic, but in macroeconomics the rule is that the only way to solve a problem (in this case, the collapse of household incomes) is by creating another one (in this case, the impact that this measure may have on future pensions). The hope is that the new one would be easier to deal with. From this perspective, what was most notable of the role of 'experts' in this debate was that they were so passionate in their defence of the private pension system that they forgot to present alternatives to the problem at hand. Furthermore, I don't remember a single member of this 'guard' apologising for their mistake when none of their apocalyptic predictions materialised when parliament approved this measure; in fact, all that happened when most people took the option to withdraw these funds from their private pension accounts was a much needed bust to effective demand. And for most people there will be plenty of time to remedy the impact of this on their future pensions.

A2.3.- The growing asymmetry between the economic and the social agenda in the European 'new' social democracy

As suggested above, the fundamental problem with the European 'new' social democracy, unlike its post-war version, is that its new economic agenda became totally dissociated from its (more traditional) social agenda, as the former indiscriminately absorbed the neo-liberal economic discourse, while the latter was almost untouched by it.

¹³⁴ Veja, 15/11/1996.

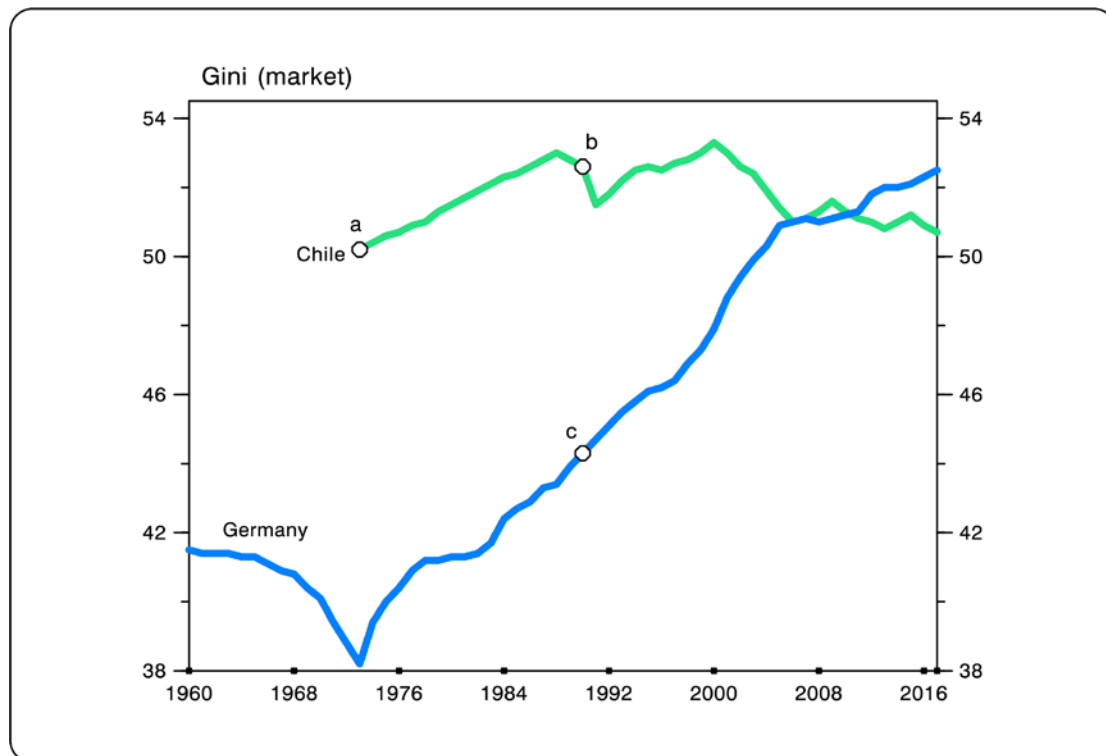
¹³⁵ Britton (1998).

¹³⁶ See <https://www.ciperchile.cl/2020/10/19/chile-en-su-momento-gramsciano-y-las-limitaciones-de-una-salida-tipo-nueva-socialdemocracia-europea/>

In addition, as both agendas remain stuck in the past —one was trying to repudiate it, the other to mechanically repeat it— they ignored how a new technological revolution and international economic order made it necessary to rethink **both** creatively. The case of Germany is paradigmatic in terms of the asymmetry of the two agendas; what has happened to its market distribution says it all.

FIGURE A2.1

Germany and Chile on market inequality: a process of “reverse catching-up”?



- Market-Gini=Gini before taxes and transferences; **a**=Pinochet's *coup d'état*; **b**=Chile's return to democracy; and **c**=German reunification.
- **Source:** SWIID (2020). As unfortunately this source (or similar) does not provide information by deciles, it is not possible to work with the methodology of the Palma ratio.

It is remarkable how the election of Reagan and Thatcher, and the fall of that hypocritical wall, unleashed in the OECD a ‘reverse catching-up’ with the tropics, “bananising” its market inequality. The Washington Consensus promised “convergence” around the world —and not just in incomes, but also in institutions, inequality, and so on. And distributive convergence did indeed occur, but it happened in the wrong direction!

The difference between the post-war social democratic economic agenda in Europe and the US and their subsequent pro-neo-liberal one is that the former sought to generate economic dynamism by “disciplining” capital, so that the only way it could make money was by doing something socially useful —especially at home. In its version 2.0, however, the new neo-liberal theology ingrained in its “common sense” (Gramsci’s perspective) that the only way to generate economic dynamism was through keeping the rich happy. The harmful impact this had in areas such as market-inequality is evident in the figure.

Furthermore, while in Germany the market-Gini jumped by a third, investment fell by the same proportion (it collapsed from 30% of GDP to 20%), becoming similar to the average level of Latin America since 1980 as well; and

this obsession with “Latinamericanising” investment became a generalized phenomenon in the OECD. Meanwhile, in Germany productivity growth also collapsed from growing at about 4% to 5% a year to almost zero —again, to a level similar to the Latin American average since 1980.¹³⁷ Not surprisingly, China turned the tables on Germany.¹³⁸

In other words, as mentioned above, in terms of inequality, the ‘iron law of oligarchies’ seems to be that when one gets a Latin-style, artificially inflated market-inequality the greater the proportion of income appropriated by the top, the lower the proportion of that income that will be returned to the economy in a productive way.

The US, in turn, also became more unequal in its market distribution than its Latin neighbour (Ginis of 51 for the US and 47 for Mexico); and with a President who only lacked dark glasses to look like another banana-republic dictator. If the US had had the same income level as it has now, but the level of inequality from when Reagan was elected, the top 1% would be earning US\$2 trillion less than they do —a figure greater than Brazil’s GDP! Meanwhile, the average real hourly wage has been stagnant ever since. Linking this with the above mention issue regarding investment (that in the US over US\$ 1 trillion more would be invested per year if it still had its pre-Reagan investment-GDP ratio), we find a clear “reverse catching up” in motion with countries at the other side of the Rio Grande.

It should be no surprise, then, that when Pope Francis referred to modern-day capitalism, he said that its “unbridled greed” is the “dung of the devil”, which creates a “subtle dictatorship”, and also plunders nature.¹³⁹ Also, when speaking about financial markets, he added that “A new, invisible and at times virtual, tyranny is established, one which unilaterally and irremediably imposes its own laws and rules”.¹⁴⁰

My criticism of the European ‘new’ social democracy is not so much for its attempts to absorb elements of the neo-liberal ideology —after all, that is a matter for them to choose— but for its inability to do so **creatively**. As mentioned above, for Gramsci, every hegemonic ideology must absorb elements of opposing ideologies, articulating them with the essence of its own. This is what Chile’s business élite and a centre-right political party did so well during ‘strategy 2’ after losing the 1988 plebiscite, and what it is trying to do now all over again in ‘strategy 4’ by absorbing (reluctantly) the basics of the social agenda of the European ‘new’ social democracy —trying to ensure the critical mass of social peace needed so that everything could remain basically as it was (in a ‘gatopardian’ way) in its rentier economic agenda.

The crucial point is that Germany’s bizarre deterioration of market inequality (or that in the rest of Europe, Western and Eastern) was far from inevitable. Figure A2.2 compares Germany and Korea.

¹³⁷ Palma (2019a and 2020a).

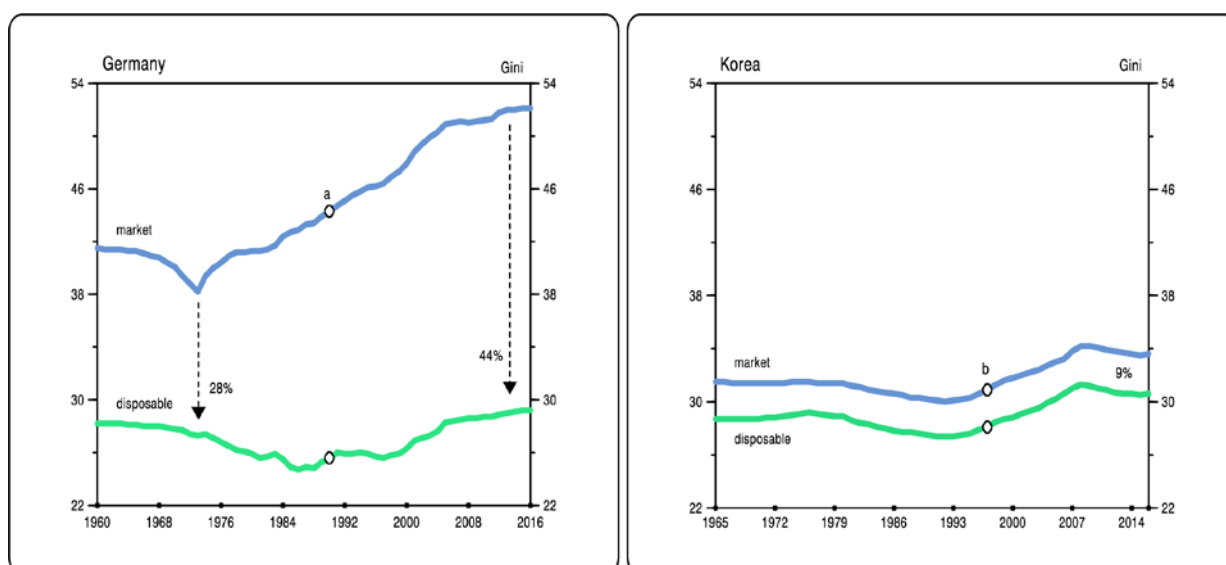
¹³⁸ According to a *Financial Times* columnist, “Germany once saw China as an export market for machinery with which China would develop its industrial base. Today, China is becoming the senior partner in the relationship. [Germany’s] biggest problem is falling behind in the technological race. ... [This] is symptomatic of a fundamental European problem. ... [Now there] are signs that complacency is about to turn into panic”. (www.ft.com/content/19fd8544-3c2f-11e9-b856-5404d3811663).

¹³⁹ <https://edition.cnn.com/2015/07/07/world/pope-mass-ecuador-quito/index.html>; see also <https://www.theguardian.com/world/2015/jul/10/pope-must-change-new-colonialism-of-economic-order-says-pope-francis>

¹⁴⁰ <https://uk.reuters.com/article/pope-economy/pope-rails-against-dictatorship-of-the-economy-urges-reform-idUSL6N0DX27N20130516>

FIGURE A2.2

Germany and Korea: market vs. disposable income inequality, 1960-2017



• **market**=market-Gini **disposable**=disposable income-Gini (after taxes and transferences); **a**=German reunification; **b**=East Asian financial crisis.

• Source: SWIID (2020).

As the figure indicates, both Germany and Korea arrive at the same final destination —i.e., at the same distribution of disposable income (Gini about 30, or a Palma ratio of about 1.2). However, Korea almost get there already in the sphere of production, while Germany (just to keep the rich sweet) **chooses** to follow a tortuous path: while it lets its market-distribution worsen by 14 Gini-points during this period, it then implements a redistributive policy of pharaonic dimensions so as to get to where Korea arrives without much effort. While in Korea the economic and social agendas point in the same direction, in Germany the two agendas obstruct each other.

This is what I call the European ‘new’ social democracy’s “distributive failure”; and this failure is different from an increase in market inequality *per se* —which is a distributive failure in itself. This new distributive failure relates to the increasingly inefficient, and surely unsustainable in the long run, reduction of market-inequality. It relates to the ever increasing (and economically distorting) gap between market and disposable income inequality, and the inevitable plethora of market failures, market distortions, transaction costs and increases in public debt associated with it.¹⁴¹

The end result of this distributive failure is that the direct requirements for ‘social protection’ in the European Union already represented 40% of public spending (the equivalent of 16% of GDP) before the pandemic. Furthermore, if one adds public health and education, this total reaches two thirds of all public spending —equivalent to no less than 25% of GDP! With the pandemic, of course, as inequality and the need for social protection have increased, this cost has

¹⁴¹ For a detailed analysis of this issue, see Palma (2019a).

soared.¹⁴² In the Eurozone, for example, the budget deficit has grown almost tenfold.¹⁴³

In sum, even before the pandemic, in Germany one out of every four euros of value added had to be allocated to social protection —and mostly to reverse an absolutely unnecessary, artificially-created, inefficient and gigantic Latin-style market inequality.

Pope Francis hits the nail on its head, criticising "a certain liberalism that believes it is necessary first to produce wealth [for the few], **no matter how**, to later promote some redistributive policy by the State".¹⁴⁴ The key here is in the 'no matter how' part of the quote; not only has Europe "Latinamericanised" its market inequality, but (as mentioned above) its financialised and rentier élite has done the same with investment and productivity levels. If at least the 'how it was done' really mattered (i.e., allowing markets mechanisms, such as competition, to operate as they should), perhaps even that particular economic dynamic would not have been so inequalising and growth-inefficient —and there would not be such need for social protection (with its unsustainable costs).

Korea, on the other hand, only needs to invest 11% of GDP in social protection to reach the same distribution of disposable income for which Germany has to spend more than double. That is why Korea can afford two simultaneous treats: collecting 15 percentage points of GDP less than Germany in taxes, and also having double Germany's level of public investment.¹⁴⁵

This is why the European 'new' social democratic welfare state has ended up *de facto* being a subsidy to market inequality, since such high inequality would not have been feasible without both the mammoth (and perfectly avoidable) level of taxation, and the explosion of public debt. Apparently, social protection is a subsidy for the poorest, but in reality the biggest beneficiaries of this social protection are high-income groups. This level of social protection not only makes such market inequality politically feasible, but also after the 2008 financial crisis, for example, the US and Europe spent US\$1trillion on bank bailouts, and US\$15 trillion were injected via "QE" (quantitative easing) into financial markets so as to sky-rocket the net worth of a few individuals.¹⁴⁶ Bringing us back to the already mentioned issue of the post-modern Robin Hood —who not only robs the poor to give to the rich, but also robs the rich to give to the very rich.¹⁴⁷

And to continue my comparison between Latin America and some more enlightened East Asian countries, while Korea spends the same as Chile in social protection (11% of GDP), with that expenditure it manages to get to a disposable income-Gini of 30 (or a Palma ratio of 1.2) while Chile only manages one of 48 (or a Palma ratio of 2.8). Taiwan, meanwhile, spends even less, and reaches an even better destination. And Brazil spends more than twice as much as Korea and Chile in social protection (although half of that is just clientelistic subsidies to pensions), but only achieves a level of inequality in disposable income that is even worse than Chile's (a Gini of 51, or a Palma ratio of 3.5). As for Mexico, it spends and achieves little —it spends less than 8% of GDP on this, and ends up with a Gini of nearly 44 (or a Palma ratio of 2.2).

¹⁴² On the rapid increase of inequality during the pandemic, see <https://www.ft.com/content/ab30d301-351b-4387-b212-12fed904324b>; see also Palma (2020b).

¹⁴³ <https://www.ft.com/content/5579361f-5aac-4cd3-9e93-190ffdc0baf>

¹⁴⁴ <https://www.lanacion.com.ar/el-mundo/papa-nid1772302/>. Emphasis added. I would like to believe that the resemblance between his stress on the 'no matter how' part of the story, and the emphasis in my own work on that particular factor is not coincidental as one of his advisers told me that he had passed my work on inequality to him...

¹⁴⁵ OECD (2020a).

¹⁴⁶ Palma (2020b).

¹⁴⁷ See Palma (2020c).

Thus, Latin America subsidises inequality doubly: first, like Germany, it allows its oligarchy to distort markets at will for their own enjoyment; but then (unlike Western Europe), it only taxes at half Germany's level, making it impossible to arrive at a more civilized distribution of disposable income.

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