

What Paul Krugman Gets Wrong About Inequality in Latin America

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April 20, 2012

When it comes to discussing Latin America, Paul Krugman has a tortuous relationship with facts. Let's take a look at [a post he wrote last week](#) on inequality in the region. Krugman claims that Latin America's decline in inequality in the last decade is due to the region "partially turning its back on the Washington Consensus" ([a term that has misleadingly become short hand for free market policies](#)). Is that the case?

First, note how the graph in Krugman's post actually shows inequality going up in Latin America during the 1980s, *before* the implementation of policies related to the Washington Consensus (which for most countries begins in the early 1990s), and then sharply declining *before* the arrival of what he calls the "new policy approach" of left-of-center governments. The rise of inequality in Latin America in the 1980s coincides with the periods of hyperinflation that crippled the economies of Argentina, Brazil, Nicaragua, Peru, and Bolivia. Central banks in Latin America were all too busy in those years financing the acute fiscal imbalances of their central governments through the emission of money. And Latin American countries were deep in the red precisely because their bloated public sectors became unsustainable, leading to the serious debt crisis of 1982. Thus, it was an inflationary spree, caused by the crisis of big government, that exacerbated inequality in the region. Of course, Krugman fails to mention this.

Figure 3
Average regional Gini Index of the distribution of household income per capita



Source: IDLA dataset and SWIID3 for the period early 1980s.

Can we assign the recent decline in inequality in Latin America to any specific ideology? A [recent study](#) by Kenneth Roberts of Cornell University on the politics of inequality in Latin America looked at inequality trends from 2000 to 2010 and found that “countries that experienced net declines in inequality were governed by diverse administrations of the left, centre, and right, including non-leftist governments in Colombia, Mexico, Peru, Paraguay, El Salvador, Guatemala, and Panama.” According to Roberts, “there was no strict correspondence between declining inequality and either the ideological profile of national governments or any specific set of redistributive initiatives.”

Second, it’s quite a stretch to state that Latin America as a region moved away from the Washington Consensus. I’m not going to dwell here on the virtues of all the policy recommendations identified by John Williamson back in 1989 or discuss the extent to which they were actually implemented by the various Latin American governments. However, even though some countries such as Venezuela, Ecuador, Bolivia, and Argentina have turned their backs on responsible macroeconomic policies in the last few years, most governments in the region, including those called “left of center,” still implement macroeconomic policies related to the Washington Consensus such as freer trade, fiscal and monetary discipline, and attraction of foreign direct investment.

It is telling that despite the serious deterioration in economic freedom in countries such as Venezuela, Ecuador, and Argentina economic liberty has actually increased — slightly — in Latin America as a region in the last decade. According to the [Economic Freedom of the World](#), Latin America went from a regional average grade of 6.56 (out of

10) in 2000 to 6.62 in 2009. Implying that Latin America has somehow turned its back on market-friendly policies is misleading.

Third, Krugman looks at the economic performance of Latin American governments based on their ideological affiliation, suggesting that social democratic regimes have a better record than non-left-of-center governments. However, [the study on which he bases](#) his post relies too heavily on analyzing governments by their ideological labels, rather than looking at their actual economic policies. This can be very misleading. For example, during the period covered by the study (2000s), Chile is ranked as left of center, even though during that decade the country increased its level of economic freedom, moving up in the ranking of the *Economic Freedom of the World* index from 28th place in 2000 to 5th in 2009.

Finally, Krugman finished his post questioning Chile's free market model and private pension system (even though the study he was referencing categorizes Chile as "left of center" and thus credited that ideological camp for Chile's healthy economic indicators). Krugman doesn't provide evidence to substantiate his criticism other than making a presumable reference to the recent student protests in Chile. If he looked at the facts, he would see a different picture. He would find that Chile is the country with the most impressive record in poverty reduction in Latin America (the poverty rate fell from 45 percent in the mid-1980s to just 15 percent in 2011), that it has tripled its income per capita since 1990 to \$16,000 (the highest in Latin America), and that it is set to become the first developed nation in Latin America within a decade. What is it about this record that Krugman finds so annoying?

This piece [originally appeared](#) on the Cato Institute's Cato@Liberty blog.