
RESEARCH ARTICLE

Combating Inequality: Is There a “Scandinavian Way” to Reduce Inequality in Latin America?

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Latin America experienced a process of reduction in income inequality between 2002 and 2014, a period in which most other countries experienced an increase. However, since then inequality has started to increase again. The Scandinavian countries are often regarded as models of low inequality, in spite of recent increases. If compared to Latin America, what stands out about Scandinavia is that one has managed to sustain processes of inequality reduction over several decades in spite of political shifts and changing economic conditions. This paper seeks to identify aspects of the interaction between structural factors, policy changes, and strengthening or weakening of change agents, that have led to sustained inequality reduction in the Scandinavian countries (with a particular emphasis on Norway), and discuss their relevance for Latin America.

Keywords: Inequality; social movements; social policy; labor market; institutions; Latin America; Scandinavia

1. Introduction

Between 2002 and 2014 Latin America experienced a period of economic growth with significant reduction of poverty and income inequality (Cornia 2014, ECLAC 2014). Only a few countries fell outside this inequality reduction trend, whereas all other regions in the world experienced increased inequality in the same period (Atkinson 2015, Bourguignon 2015a). No single factor can explain the reduction in inequality in Latin America in this period, and there is no complete agreement about which elements that have counted more heavily in the equation. However, there is agreement that (1) what we saw was mainly a reduction in income inequality, not improvement in the distribution of assets; (2) as the income inequality reduction was measured by household surveys, it failed to account for the income of the top 1 percent and the bottom 1 percent in the income distribution; (3) in spite of this, the reduction in income inequality was significant and could be attributed to a combination of favorable global economic conditions, increases in education levels (leading to reduced skills-premium) and social- and labor-market policy. Nevertheless, as warned by students of the historical evolution of inequality in Latin America, since inequality reduction did not result from profound structural changes, the results may be short-lived (Bértola 2015, Rodríguez 2018).

Despite recent increases in income inequality (Egholt Sogaard et al. 2018), the Scandinavian countries¹ are

often regarded as models of low inequality. As a result Latin American policy makers and academics show significant interests in learning from the Scandinavian experience. What has been particularly remarkable about the Scandinavian experience is that inequality reduction was sustained over six decades, throughout periods of growth as well as recession, and through governments of different ideological leanings. This long term inequality reduction rested on the synergies between policies aimed at productivity increases, high growth, and low inequality. Rather than the result of any carefully planned model, the Scandinavian equality is a result of a process wherein one reform contributed to prepare the conditions for, and generate support for, further reforms.

It is futile to make direct comparisons between regions as different as Scandinavia and Latin America, or draw lessons from specific policies or the role of specific political actors or movements. Moreover, Latin America is faced with complex challenges, including climate change and insecurity that require new thinking on social redistribution. Rather than making comparisons, what I seek to do in this paper is to identify aspects of the interaction between structural factors, policy changes, and strengthening or weakening of change agents that have led to sustained inequality reduction in the Scandinavian countries (with a particular emphasis on Norway), and discuss their relevance for Latin America.

Theoretically, the article is inspired partly by a varieties of capitalism approach (VoC) that postulates the association between different institutional and structural foundations of capitalism and differences in outcome in terms of growth and inequality (Hall and Soskice 2001, Buhr

and Frankenberg 2014). However, whereas the VoC approach tends to take snapshots of national contexts, the emphasis here is on the political dynamics of reform, and on how it rests on the form of integration into the global economy.

2. Theories of inequality and the Nordic experience

Several factors are associated with income inequality reduction in the literature: Demographic changes may reduce the ratio of dependents to breadwinners, leading to reduced inequality; technological shifts may reduce structural heterogeneity, reducing the differences in productivity between different strata of workers; mass education may contribute to reduction of the “skills-premium” narrowing the income gap between low and high-skilled workers; labor market policies and institutions may contribute to a “wage-compression” between low and high-paid workers; return on capital (versus labor) may be reduced (e.g. through solving imperfections in capital markets); taxes and social transfers may redistribute income, and the establishment of broad welfare regimes may enhance the opportunities for lower strata in the income distribution.²

While much effort has been put into seeking to identify the factors that best explain the different aspects of inequality reduction, others seek to understand the long term evolution of patterns of high or low inequality. Based on the experiences of Chile specifically and Latin America more generally, Rodríguez Weber has developed such a long term analysis combining structural and institutional features (Rodríguez Weber 2018a, 2018b). A main argument developed is that Latin America's particular form of peripheral capitalism conditions any attempt at reducing inequality due to the combination of four factors: structural heterogeneity between high and low productive sectors (the former mostly associated with exports); specialization in the production of commodity exports with low need for labor; highly cyclical economies with abrupt enter and outflow of capital; and deep power asymmetries

between classes and ethnic groups that have existed since colonial times and reinforce the structural heterogeneity.

In the case of Scandinavia, much effort has gone into understanding not only the impact of specific policies and institutions on various aspects of the reduction and maintenance of low inequality, but also on the long term process that has allowed successive policies to produce structural change. Income inequality in the Scandinavian countries started to decline in the late 1930s and continued until the 1970s, before it levelled out, and then started to increase in the 1990s. The reduction in the Gini coefficient of the income distribution was accompanied by increased distribution of wealth as well as reduction in the share of the income of the top 1 percent (see **Figures 1, 2 and 3**).

It is common to attribute the low inequality of the Scandinavian countries to a social democratic model. However, as emphasized by Barth, Moene and Willumsen (Barth, Moene et al. 2014) the social democratic road to affluence is not a story about a carefully planned development or an intelligent design more generally. Nor is it a story of “becoming rich first” and then distribute. When Scandinavia started on its egalitarian path in the 1930s, the countries were far from rich. As a recently independent country, Norway was among Europe's poorest countries in the late 19th century. In the mid-1930s when inequality reduction begun, the income level of Norway was between what Guatemala and El Salvador had at the turn of the millennium (see **Table 1**). The Scandinavian countries were also characterized by a high share of the economy in primary sectors, and significant degree of structural heterogeneity. Furthermore, there were high levels of social conflict, fueled by unemployment at around 20 percent. Strikes, sabotage, boycotts and obstruction were commonplace. Between 1921 and 1931 the number of strikes peaked in Norway, and as noted by Moene and Wallerstein (2003), at this time Norway and Sweden experienced the highest level of industrial conflicts in the world, and nowhere were employers as ready to respond to workers claims with lockouts as in Norway and Sweden.

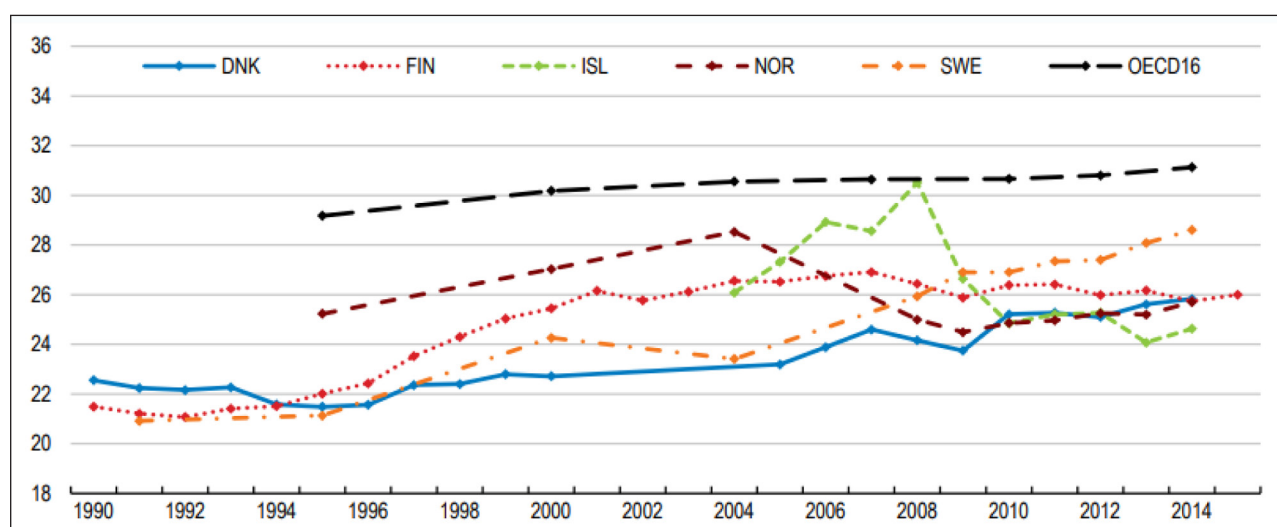


Figure 1: Gini coefficients disposable household income, OECD average and Nordic countries, 1990–2014.

Source: Pareliussen et. al 2018. Reproduced with permission from Nordisk Ministerråd, Publication Unit.

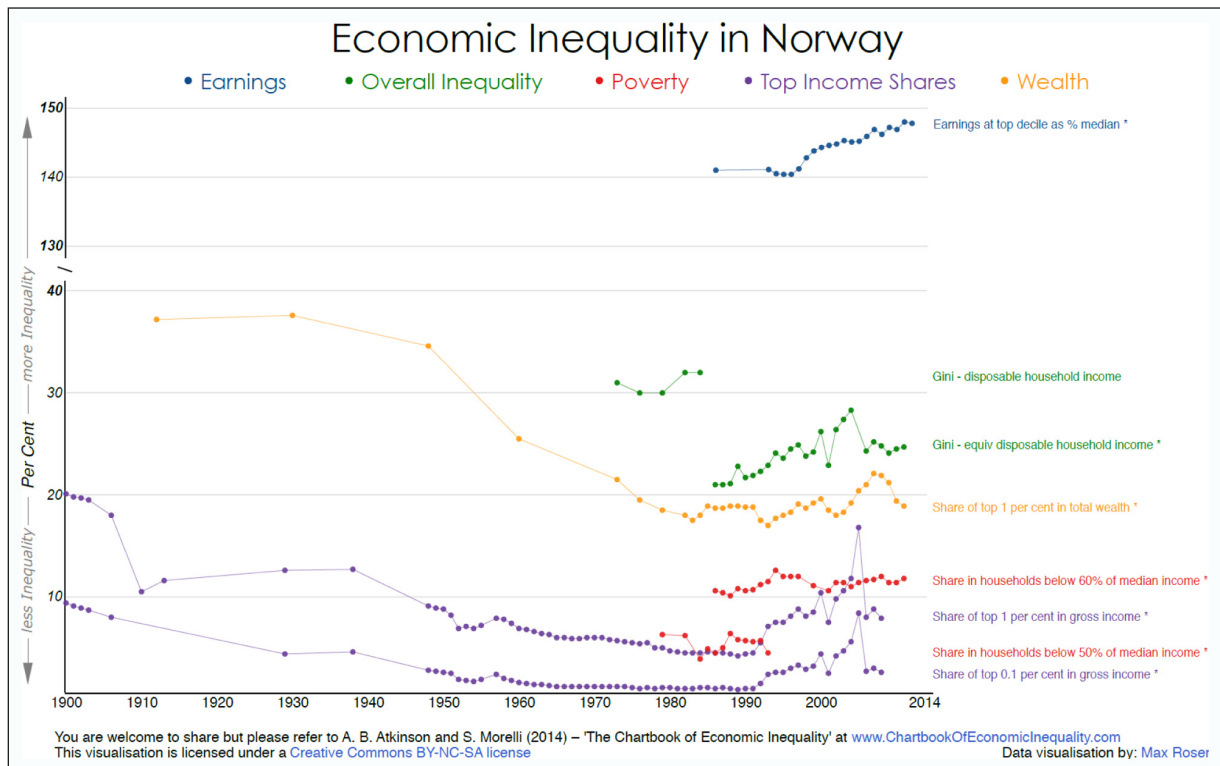


Figure 2: Economic inequality in Norway.

Source: Atkinson and Morelli (2014). Reproduced with permission under Creative commons BY-NC-SA license.

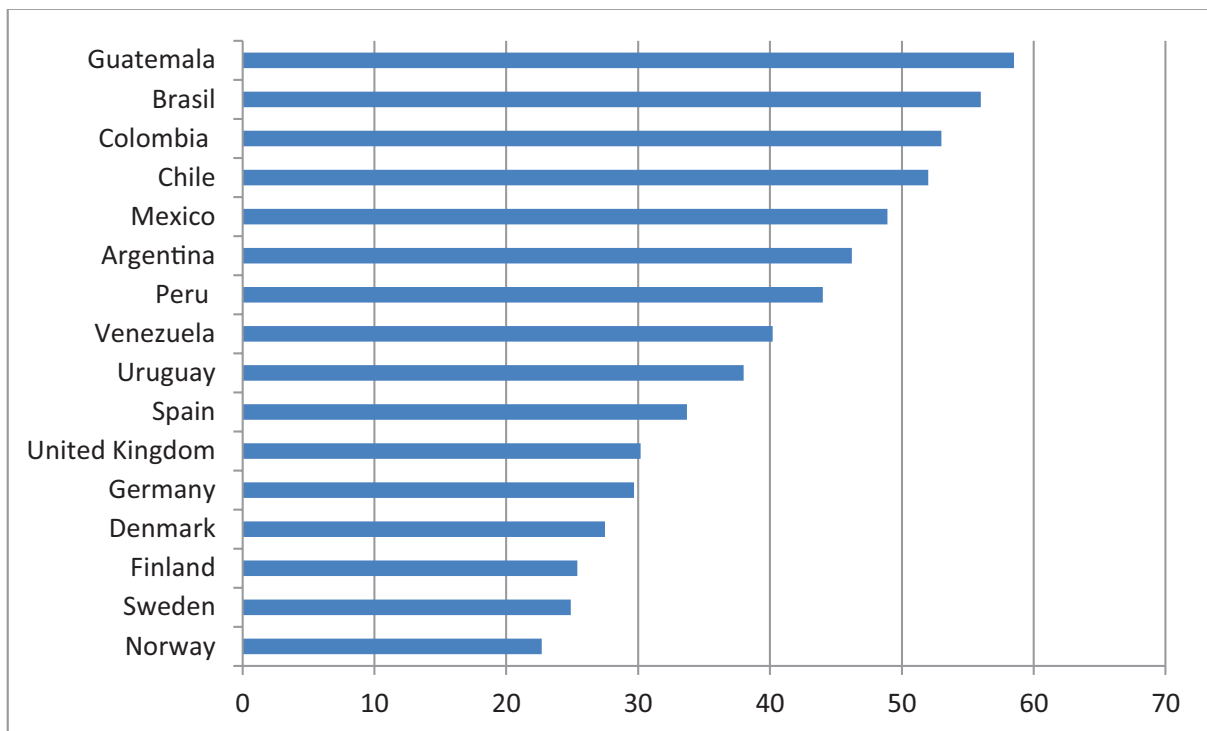


Figure 3: Gini coefficients, disposable household income, Scandinavia and selected Latin American countries (2013). Sources: Author's own elaboration. Data from Eurostat and CEPAL.

The process that changed this can be characterized as a combination of, on the one hand, the creation of complementarities between non-market institutions and capitalist dynamics, and on the other, political reinforcement (Barth et al. 2014, Barth et al. 2015, Barth and Moene

2016). The fundament was the a two-layer wage setting system that combined solidary, centralized bargaining with local negotiations. This was based on general agreements between workers and employers, signed in the 1930s. Absolute limits to wage increases were set by the

Table 1: Real GDP per capita, US \$ in 1996 Constant Prices (Laspeyres).

Country	Year	Real GDP per capita
Honduras	2000	2054
Bolivia	2000	2721
Ecuador	2000	3467
Guatemala	2000	3913
Norway	1935	4081
El Salvador	2000	4434
Peru	2000	4582
Paraguay	2000	4682
Colombia	2000	5380
Costa Rica	2000	5863
Panama	2000	6066
Venezuela	2000	6420
Brazil	2000	7185
Mexico	2000	8766
Uruguay	2000	9612
Chile	2000	9919
Argentina	2000	10994
Norway	2000	27044

Sources: Heston et al. (2002), Moene and Wallerstein (2003).

sectors that had to be internationally competitive (called the “front-sectors”). This meant that the wages in the high-productivity sectors were kept relatively low, while low-skill wages are relatively high (Moene and Wallerstein 2003). This wage compression made it more profitable to invest in high productivity sectors (with relatively low wages), than in low productive sectors with relatively high wages. That contributed to a gradual replacement of old and obsolete technologies by modern equipment and production processes. This led to a concentration of investments and workers in high productivity enterprises and sectors. Thus, wage compression fueled a process of “creative destruction”, increasing the average productivity and in turn growth. Scandinavian development strategy can in other words be argued to be characterized by an attempt to keep down the upper middle class in the name of solidarity, in order to raise profits, investments and the pace of creative destruction, enabling an increase in the lowest wages (Barth and Moene 2016).

Low paid groups and employers are the most obvious winners of this, whereas high skilled workers in the middle classes are potential losers. In addition, a progressive tax system gradually increased taxes to be paid by the middle classes to finance the expansion of the welfare state. This, in turn, included both direct transfers and provision of health, education and other services (although the balance between these differs across Scandinavia, see

Table 2: Employment Norway 2016.

	Employed	Registered unemployed	Outside of the labor force	Students
Men	82.9	1.1	14.9	1.1
Women	77.9	0.9	19.8	1.6

Source: Own elaboration based on numbers from Statistics of Norway.

Kuhnle 2000). While protests against tax increases have been frequent, and at times led to shifts of governments, middle classes in general have become supporters of the welfare state. This is in part because it was based more on universalistic spending than on means testing, and thus became a provider of goods and services to everyone, not a machine for pure redistribution from the rich to the poor. In other words, a comprehensive cradle-to-grave welfare state compensated the losers of the wage setting model, by for example lowering the expenses for the middle class on health and education. Moreover, It was designed deliberately to increase labor market participation among both women and men, through a.o. establishment of day-care facilities, maternity- and paternity rights, and universal health care. As a result, the Scandinavian countries have the highest labor market participation of women in the world, in turn contributing to a demographic shift as well as lowering dependence ratios (See **Table 2**).

The dynamics above can be summarized as follows: 1) international openness required limitations of wage-increases in the tradeables sector exposed to international competition; 2) wage negotiation mechanisms that contributed to a wage compression were institutionalized; 3) this generated a shift of investments towards more productive sectors where wages were comparatively lower than in less productive sectors; 4) social policies strengthened labor market participation and compensated the relative losers; 5) as investments shifted towards more productive sectors and social policies ensured higher labor market participation, this generated growth as well as political support for the model enabling further expansion of it.

The result of this was a steep decrease in wage inequality, but an even more significant decrease in the inequality of disposable income, as a result of the high taxes and transfers (see **Figure 4** for the example of Norway). It also diminished the gap between the richest and poorest deciles. A comparison with Latin America calculated from 2004 showed that the richest 10 percent Argentinians spent 39.1 times more than the poorest 10 percent, the richest 10 percent Brazilians 68 times more than the poorest 10 percent, and the richest 10 percent Bolivians 32 times more than the 10 percent poorest. In comparison, the richest 10 percent of the Norwegian population spent 6.1 times more than the poorest 10 percent (UNDP 2005). However, this did not prevent an income concentration in the hands of the very rich. As shown by Moene, while there are 1.7 billionaires for every million inhabitants in the United States, the corresponding number for Norway is 2.0 (Moene, 2016).

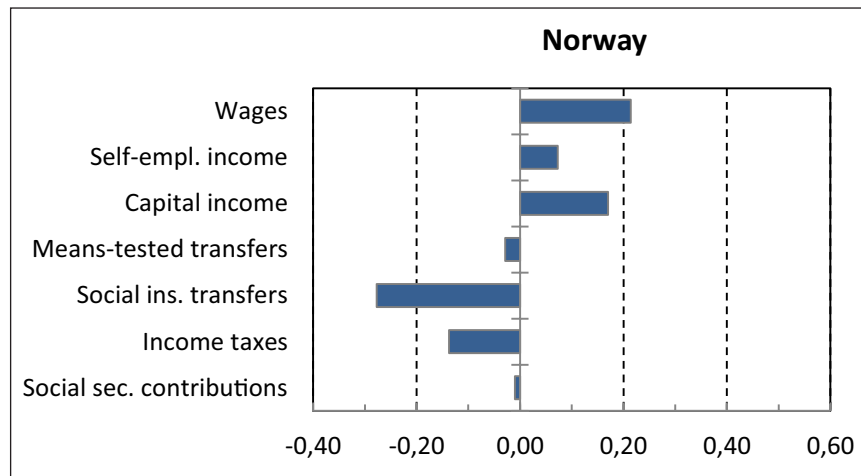


Figure 4: Redistributive effects on Gini coefficient of marginal changes in different components of individual income. Source: OECD Secretariat calculations from the Luxembourg Income Study (LIS).

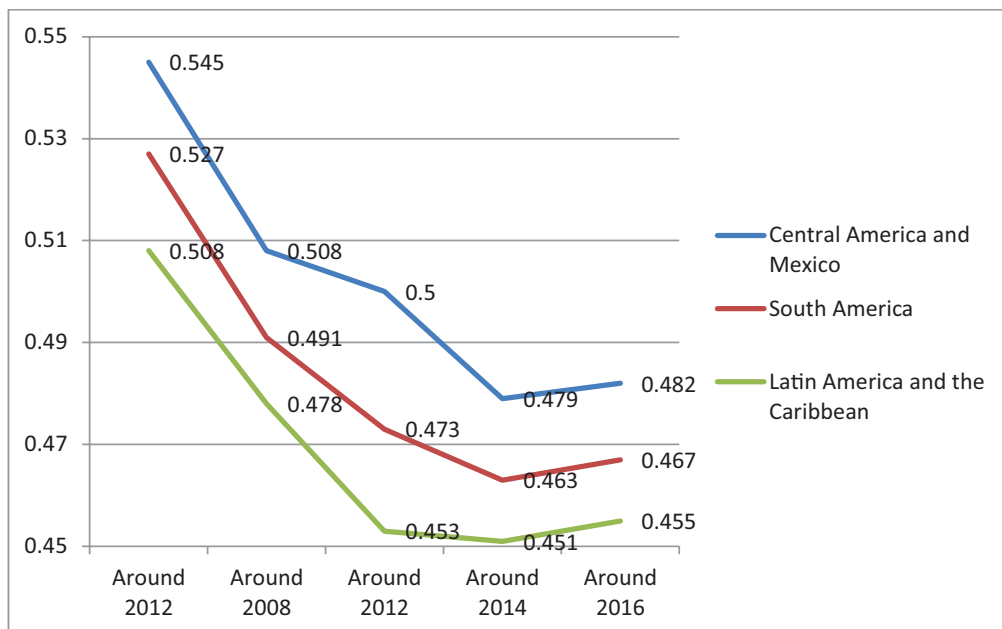


Figure 5: Latin America and the Caribbean (15 countries): average inequality, Gini coefficient of per capita family income, 2002–2016.

Source: CEPAL, 2018.

3. The recent inequality reduction in Latin America

Between 2003 and 2013 Latin America saw a general reduction in inequality as measured by the Gini coefficient of household income. The average Gini coefficient for the region fell from 0,527 to 0,467 between 2002 and 2016 (CEPAL 2018). Although all countries had high income inequality at the beginning of the period, the Gini ranged from 0,456 (Costa Rica) to 0,621 (Brazil). While all countries except Costa Rica experienced a drop in the Gini, it varied from being at more than 0.1 Gini points in Brazil, Ecuador, Bolivia, El Salvador, Nicaragua and Argentina, to very modest decreases in Mexico, Chile, Paraguay, Colombia and Uruguay, and very fluctuating and uncertain results in the rest of the countries. The

strongest decline occurred in the period between 2012 and 2012. After that, the Gini flattened out, and there was a slight increase after 2014 (see **Figure 5**).

The decline in the Gini coefficient was followed by a decline in the proportion of share of the income captured by the richest decile. This declined by an average of 2.35 percent between 2002 and 2010 (Cornia 2015). However, this did not follow the Gini trends across countries. The decline was steepest in Argentina and Peru (above 7 percentage points), while the share increased in Colombia and Nicaragua.

Although we have less data available on the development of the share of the top 1 percent of the income distribution, available data indicates that this share was not reduced. According to CEPAL's calculations, the top

1 percent of the population of Brazil, Chile, Colombia and Mexico gets more than 20 percent of the income (CEPAL 2018). For the few countries in the region for which we have figures available based on tax data, the share of the total income of the top 1 percent is higher than what is often calculated and there is little evidence that it has declined (Alvaredo et al. 2013).

Available data also shows that wealth inequality probably decreased much less, if at all. Historical data shows that in the 1950s, the Gini coefficient for land ranged between 0.63 (Mexico) and 0.93 (Paraguay) compared to 0.25–0.56 for Africa and Asia (Cornia 2015). The average is estimated to have been 0.81 for the entire last half of the 20th century (Deininger and Olinto 1999). The most recent study shows that the Gini coefficient of wealth in Latin America is 0.68, much higher than the average Gini for income, but less than what the historical data shows (Amarante and Jiménez 2015). A part of wealth is land and on that we only have very scattered data. Ibáñez and Muñoz (2010) shows for example that the Gini for land distribution in Colombia increased from 0.86 in 2000 to 0.892 in 2010. Thus, it more than reversed the rather limited improvements since the 1970s (Suescún Barón 2013).

The decline in inequality was in other words probably limited to income inequality and to a much less extent wealth, and it did probably not include a decrease in the income of the top 1 percent. Moreover, in the period from 2000 to 2008, the share of labor compared to capital in total income decreased. While it increased slightly after

that, it is currently estimated to be 33.7 percent, much lower than the OECD average of 62.8 percent, and it had declined significantly since the late 1970s. This is related to a weak growth in productivity (CEPAL 2018).

4. Explaining the reduction in inequality in Latin America

In seeking to explain the reduction observed in inequality in Latin America between 2003 and 2013, a first conclusion drawn is that it rested mainly on a reduction in inequality of wage earnings (not transfers). However, there are major differences between countries in terms of how much this component contributes to overall inequality. The regional labor income Gini (working-population-weighted averages of countries in the sample) declined at an average rate of –0.6 percent per year. However, the labor income Gini increased for Costa Rica, Honduras, Panama and Uruguay, while the Theil also increased in those four countries in addition to El Salvador and Bolivia. The fastest fall in the labor income Gini took place in Brazil, with a –0.75 percent annualized rate from 1995 to 2010 (Azevedo et al. 2013).

Although it is a fact that the poor work more than the rich in Latin America (Azevedo et al. 2013), that is not the reason for the reduction in income inequality decline. As shown by (Lustig et al. 2013) and as can be observed in **Figure 6**, the inequality reduction is a result of the reduction of inequality of hourly wages. However, the reduction in the labor income Gini was less in the 2003–2010 period

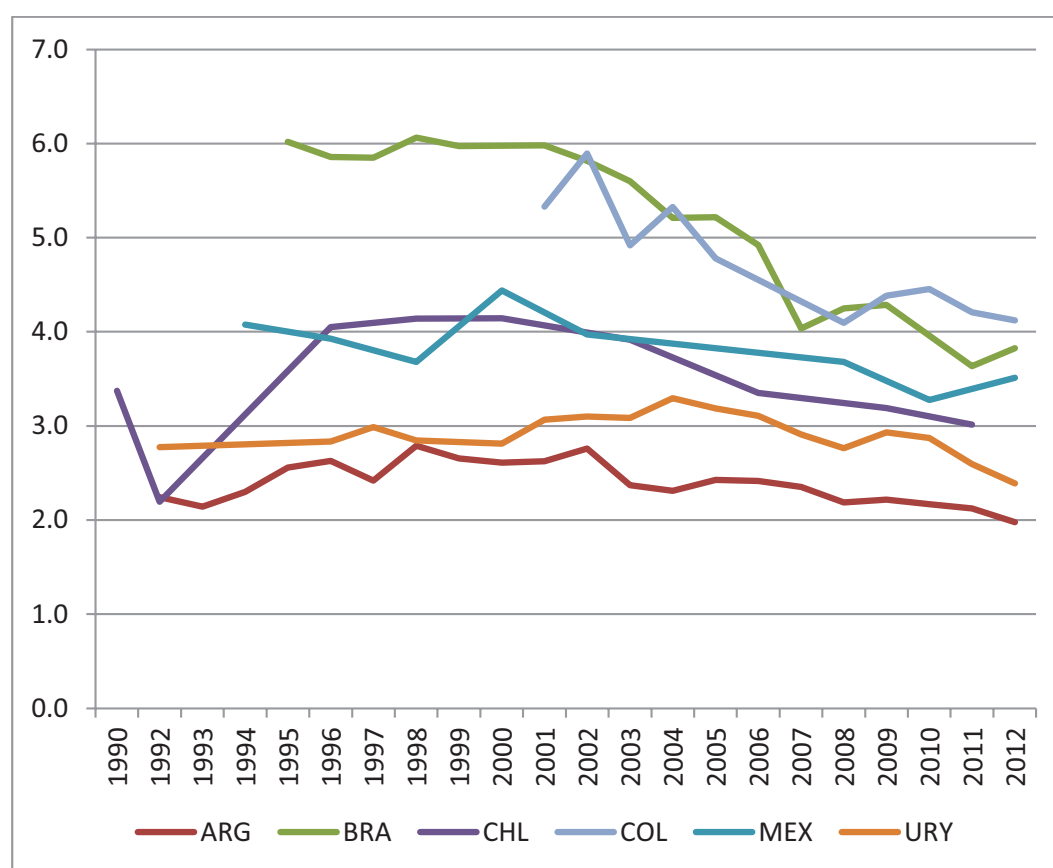


Figure 6: Ratio of hourly wages of high education to low education workers.

Source: Elaborated by Shabana Singh based on data from SEDLAC.

than 2010–2013. In the latter period inequality widened in Costa Rica, Honduras and Mexico, and it only declined negligibly in Dominican Republic, Panama and Brazil. This was explained by increases in labor income inequality (Cord et al. 2017).

Several factors have contributed to reduction in labor income inequality. One is a reduction in the “skills-premium” or return to skills. This has – in turn – been driven by various different factors. First, there is a larger supply of experienced and educated workers in the region, partly due to demographic patterns (aging of the population), and partly due to increases in education levels. Both mean that years of education and experience have increased in the region for the working population (Lustig et al. 2013, Cornia 2015). Second, it is related to an increase in the supply of higher paid jobs for unskilled labor, due to a combination of changes in tariffs and in commodity prices. Székely and Mendoza (2016) find that while the reduction in tariff levels of the 1990s had a marked effect on driving income inequality, their flattening out in the 2000s contributed to inequality reduction. The negative effects of trade in the 1990s were associated with loss of jobs in sectors for unskilled workers, as well as an increased demand for skilled workers. In the 2000s, there was a strong growth in the service sector combined with an increase in income from primary (commodity) sectors (De la Torre et al. 2013). This engendered a shift in the labor force away from agriculture toward higher-paying sectors, particularly construction and retail trade. The agriculture sector is the sector of employment of a third of the bottom 40 percent of the income distribution in Latin America, but of only 8 percent of the top 60 percent (World Bank, 2015). The increased demand for construction and retail was partly related to the commodity boom, although in countries like El Salvador it has rather been driven by increases in remittances (Bull 2013a). Here, migration has had a double effect on inequality reduction as remittances have increased the income of lower income strata, while many potential high-wage earners have emigrated (Acevedo and Cabrera 2014).

The shift of low skilled labor into higher paying service jobs, was partly due to the reallocation of labor from non-commodity tradeable sectors such as manufacturing, to services, as a result of the demand driven by the commodity boom (De la Torre et al. 2013). In some countries (notably in Mexico), the trend of a transition to higher paid jobs changed after the 2008–2009 crisis when low-skilled workers were being pushed into agriculture as a result of lower demands for low-skill workers in construction and retail (Cord et al. 2017).

The commodity boom also allowed the scaling up social transfers. In their review of different reasons for inequality reduction Lustig et al. (2013) find that non-labor income constitutes the second most important source of inequality reduction (after reduction of wage inequality). While the totality of transfers historically has been regressive in Latin America (due a.o to the heavy weight of pensions), they became progressive after the turn of the millenium (Lustig et al. 2014). Taxes, on the other hand, have not become much more progressive overall as indirect taxes

(VAT) still makes up a large share of tax income in most countries. Indeed, as shown by Lustig and Pereira (2018), consumption taxes in Brazil offset the poverty-reducing effect of direct cash transfers. However, this broad conclusion covers significant disparities across countries, both in their levels of taxes and impact on inequality (CEPAL 2015, CEPAL 2018). Yet, overall, taxes contribute little to redistribution in Latin America (Hanni et al. 2015).

A final factor of importance has been wage policies. In 14 out of 18 countries there has been a steep rise in the legally mandated minimum wage. Increases in minimum wages have also driven increases in informal sector wages (Lemos 2009). Minimum wages stand in widely different relations to median wages, and there are wide disparities in compliance rates across the Latin American countries. There are also exemptions from the trend, notably Mexico, that has the lowest minimum wage in the region (180 US\$ PPP), and a reduction in the real minimum wage since the 1990s. In spite of these variations (Keifman and Roxana 2014) find that the rise in minimum wages explains 38 percent in the log of variation of total wages between 2003 and 2010.

To sum up, the inequality decline experienced in Latin America was due to a combination of policy changes and favorable external circumstances. By 2014, the external conditions deteriorated with the steep drop in commodity prices, while political shifts caused rapid changes in policies. By 2016, this was already visible on the evolution of income inequality that started to increase again. The urgent question is then, can we expect such experiences of inequality reduction to be sustained over time? What are the conditions that facilitates the emergence of a political dynamic of sustained inequality reduction?

5. A Scandinavian inequality reduction process in Latin America?

The importance of democracy

Several of the actors and conditions that enabled the emergence of inequality-reducing dynamics in Scandinavia, are also present in Latin America. The first one is democracy. The process that led to sustained reduction in Scandinavia in inequality started with mobilization of social movements. According to Charles Tilly, already by the mid-19th century the Scandinavian countries distinguished themselves from other regions in Europe by being the home of strong social movements.

Church-backed organizations provided the initial impetus, but secular liberals, religious opponents of state churches, advocates of cooperatives, supporters of folk nationalism, organized workers, and (especially after 1880) opponents of alcohol mounted vast campaigns, adopted social movement performances (Tilly 2004: 59).

Historically, the popular mass movements were dominated by people of modest origin. They served as mechanisms for mobilizing relatively poor groups, and they saw themselves as protest movements against the dominating elite (Lorentzen 2004).

There are significant similarities between the processes of social mobilization that emerged in various Latin American countries in the 1990s, and those that occurred in Scandinavia in the 1930s (Bull 2006, 2007). Highly different social movements found common grounds in opposition against elitism and the fight against inequality, and while there were revolutionary elements, most sought a gradual reform process (Cameron and Hershberg 2011, Levitsky and Roberts 2011).

As in Latin America, in Scandinavia, the evolution of protest organizations into transformative political forces, depended on the strengthening of democratic institutions, and the success of parties representing marginalized groups to acquire power through them. The 1920s and 1930s saw the gradual strengthening of social democratic labor parties in parliamentary elections and subsequent ascent to executive power across the Scandinavian countries (in Denmark, in the 1920s, in Norway and Sweden in the 1930s). This contributed to the victory of the branches of the labor movement that sought a long term, non-violent and democratic transition to socialism had over the more revolutionary and Soviet-aligned forces. By the end of the 1930s:

One of the most dividing movements – the labor movement – became the integrating force in the industrial society which gradually moved towards focusing on making labor and capital, city and country side to pull together in order to overcome the social crisis, with a stronger state as the driving, controlling, and leveling institution (Furre 1999: 118).

In the years to come, the labor movement, in various associations with peasant movements, women's movement and others, pushed for broad economic and social reforms, through negotiations and shifting alliances with opposing forces. Thus, they were implemented in a piecemeal fashion, but each victory for reforms in parliament or at the bargaining table laid the foundation for new advances.

Similarly, in Latin America, the broad social movements emerged among marginalized sectors; some ascended gradually through accessing local political positions, gaining seats in congress, and finally acquiring presidential power through democratic elections. However, a significant difference from the Scandinavian experience was the level of conflicts between governments and social movements after the center-left governments entered power (Machado and Zibechi, 2017). This is partly the result of the strategies pursued by the movements themselves, but even more so, the reactions from the governments, that varied from inclusion, real negotiations and policy adjustments to incorporate demands, to cooptation and repression (Bull 2013b). A further reason is the frequent populist pressure from above, seeking to capitalize on broad mobilizations for the strengthening of individual leaders. Yet, more profoundly, the Scandinavian social movements mostly demanded improved redistribution, and social rights but within the framework of the capitalist economy. In Latin America, many movements advocate a post-capitalist view of development that is difficult to

accommodate within the frames of a peripheral capitalist state (Gudynas 2013).

Nevertheless, the broad social mobilization in Latin America, should be seen by the elites as a significant resource and source of potential new consensuses. These must take into account the multiplicity of claims to create new platforms for national development paths, going much beyond the form of agreements signed in the 1930s in Scandinavia.

The possibility of wage compression

The main institutional turning point that allowed for the development of a process of wage-compression in Scandinavia, was the signing of basic agreements between labor, employers and the state in the 1930s, and the subsequent institutionalization of centralized, solidary, wage-bargaining. These agreements still form the “constitution of work life”, and they quickly led to a significant wage compression, first between low paid “blue collar” and higher paid “white collar” workers, quite similar to the process recently occurring in Latin America. In Norway, it quickly narrowed the wage gap. By 1958, workers' families in Norway spent an average of 14,224 kroner annually on food, housing, etc. whereas salaried “white collar” workers spent an average of 19,342, only 35 percent more (SSB 1978).

The agreements were negotiated between organized labor, organized employers and the states and they led to institutionalized, tripartite bargaining mechanisms. There are several obstacles against the development of such institutions in Latin America, most of which are political. The center-left, so called “pink tide” governments in Latin America focused on reversing some of the neoliberal labor regulation, by restricting the use of precarious contracts (Argentina, Chile); ensuring that labor law enforcement is strengthened (Brazil, Chile); and regulating subcontracting (Chile, Uruguay) (Ozarow 2017). Yet, as shown above, the most widespread means to increase wages has been the use of minimum wages. However, while minimum wages may reduce inequality in the short run, they will not easily contribute to a process of wage-compression that also serves to moderate the growth of high wages. Moreover, while minimum wage increases may trigger consumption-led growth, it has limited direct effect on productivity.

A significant challenge to the institutionalization of systems of wage-compression is the weak organization of labor in Latin America. Unionization rates are overall low (although widely varying across countries, see **Figure 7**) and they have not increased notably during the period of centre-left governments. Stable systems of centralized wage bargaining are rare, and only Uruguay and in some aspects Brazil and Argentina have systems of centralized, tripartite wage formation. The growth period between 2003 and 2013, saw significant decreases in informality of work, with possible positive consequences for the possibility of organizing. However, it is still high: in the poorest countries such as Honduras, around two thirds of the population work in the informal sector.

However, while we lack strong data on this from the period in which wage-compression started in Scandinavia,

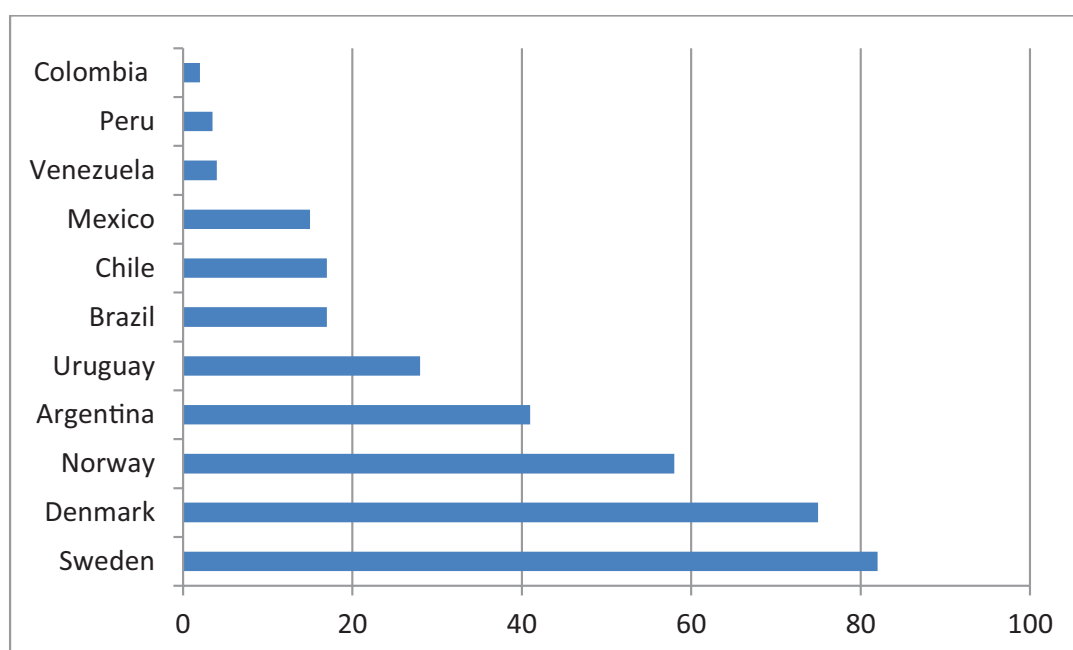


Figure 7: Unionization rates, selected countries Latin America and Scandinavia.
Sources: Author's own elaboration based on data from ILOstat and NordMod.

Table 3: Sector shares of the economy.

	Share of GDP		
	Agriculture and fisheries	Manufacture, mining and construction	Services
Norway 1930	16,7	30,4	52,9
Norway 1960	9	32,4	58,9
Latin America 2012	4,5	25,7	73

Sources: CEPAL: Anuario Estadístico de América Latina (2014), Statistics Norway (1995).

informality was high also there, particularly in the rural areas. There are also evidence that wage increases in the formal sector, leads increases in the informal sector. Thus, this is not necessarily an unsurmountable problem that a high proportion of labor is found in the informal sector. What has not been on the agenda in Latin America, but that would be important, is to seek ways to limit the wage-growth in the high-wage groups that are exposed to international competition, in order to contribute to a structural transformation. As discussed above, the last decade saw a lowering of the skills-premium as a result of increase in massive education. Yet, the Scandinavian story tells us that the debate about reducing inequality requires the opening of a debate about institutional mechanisms for limiting the wage gaps between low and high income groups, not depending only on market mechanisms, or educational trends.

Creative destruction and productivity growth

There is an emerging consensus in Latin America that in order to ensure sustained inequality reduction, it is essential that the production structure is diversified and technological progress is placed at the center of long-term

development strategies. This should include reindustrialization and upgrading of natural-resource-production technology. Also the development of modern services could ensure a transformation towards an economy with smaller productivity gaps, and thus less inequality (ECLAC 2012, ECLAC 2014, Ocampo 2015, CEPAL 2018). To some extent, Latin America is in a better position to generate a structural shift than Scandinavia was in the 1930s. As the example of Norway shows, a much larger share of its economy was in low productivity primary sectors in the 1930s, than in Latin America today (see **Table 3**).

To understand why limited structural transformation has occurred in Latin America, one should look at factors that have made it attractive to stay in sectors requiring low-technology, and hindrances against moving into sectors of higher value added. These hindrances may be divided into three groups. The first, is related to peripheral capitalism, and its commodity dependence. Taking this into account, Boyer (2016) argues that although the inequality reduction experienced in Latin America was due to internal compromises and policy changes, it could also be viewed as a result of the emergence of “contrasting but interdependent inequality regimes”. The finance-led

inequalities in the US are associated with the 'satanic mills'-type inequalities occurring in China, and these two national trajectories do destabilize the welfare states of countries in the European Union. The evolution of Latin America's inequality has depended on these actors for markets and sources of finance, and thus stabilization of a more egalitarian growth in Latin America is up to the interplay between the evolution in these inequality regimes (Boyer 2016: 19–21). In other words, it is no coincidence that inequality increases simultaneously in Europe as it decreases in Latin America. The implication is that a drop in commodity prices, and possibly lower demand and growth, may have direct negative consequences for inequality due to reduced demand for construction and retail services related to the commodity boom. However, one could also view this as a new incentive for a structural economic shift.

However, the likelihood of this happening depends, on whether internal, institutional "bottlenecks" are overcome. Thus, international structural explanations should be complemented with an understanding of domestic institutions and structures that allow for capital to flow from less to more productive sectors. Various forms of clientilism, populism and exclusive institutions make investment choices and opportunities dependent on personal loyalties and characteristics, rather than overall social efficiency (Acemoglu and Robinson 2013, North and Clark 2018). One visible result of this is the domination by family based diversified business groups, of whom many operate according to a logic of "opportunity seeking" involving widespread diversification and rapid shifts of sectors rather than investing in technological upgrading and productivity increases (Schneider 2010, Bull et al. 2014). The overall result is a the creation of a bottleneck against the transformation into an economy with smaller productivity gaps and less inequality.

There are also specific macro- and micro economic challenges in the different countries that have hampered a shift of investments towards more productive sectors. Venezuela has run a system of multiple exchange rates that has vastly distorted the economy and provided disincentives for investments in any sectors except oil, resulting in skyrocketing inflation and steep reductions in productivity. However, in spite of this, we see even here new sectors that emerge in the midst of crisis, exploiting new technologies and high-skill workers that have lost their regular employment bypassing both formal and informal bottlenecks (Rosales 2019). Thus, there are signs that the current crisis that many countries in Latin America are passing through, also brings with it a form of creative destruction.

Compensation and political reinforcement

Two important points about social security systems emerge from the Scandinavian stories of inequality reduction. First, social security systems were designed to reinforce not replace labor market participation – both by men and women. Second, the social spending benefitted all groups in society in order to reinforce political support. Moreover,

social spending was not cyclical, but kept up also in times of economic contraction.

In most countries in Latin America, low cost and effective poverty reduction were prioritized over universalism and encouragement of work-participation. Between 2003 and 2013, social spending as part of GDP increased from 16 percent to 19.5 percent. There are strong differences between the countries, ranging from Guatemala that spent 7 percent of its GDP on social purposes (including social security, social assistance, health and education) to Brazil that spent 22 percent. The areas that have grown most are social security and social assistance, through large programs such as *Benefício de Prestação Continuada* (Brazil), *Procampo* (Mexico), and large-scale Conditional Cash Transfers Programs (CCTs) such as *Jefes y Jefas* (Argentina), *Bolsa Família* (Brazil) and *Progresar/Oportunidades* (Mexico). According to Hanni et al. (2015) 61 percent of redistribution in Latin America is accounted for by CCTs. Some find CCTs significantly more equalizing than other social security programs (Skoufias et al. 2010, Suárez 2012). They are also much broader in coverage, reaching a fifth of Latin America's population. However, in spite of being an overall success, in some cases they failed to become gateways into the system and help to establish a continuum of benefits at different levels of social policy, as would have been required were they to become effective social protection tools and not merely isolated and short-lived interventions (Cecchini and Atuesta 2017). Moreover, they have been criticized for seeking quick poverty reduction through market incorporation. In Brazil, the ability of the poor to consume was strengthened as the financial sector allowed the use of *Bolsa-familia* endowments as collateral for consumer loans. This contributed to the recipients' ability to consume, but it did not necessarily increase labor market participation, and it also increased the vulnerability of the poor to changes in interest rates and other fluctuations (Lavinias 2013).

The recent political shifts to the right that has rolled back some of the welfare policies that led to inequality reduction, can be partly interpreted as the protest of the middle class. Although opposition against corruption and mismanagement has been a more generalized motivation behind recent the mass protests and the shifts towards the right (Latinobarómetro 2018), also the lack of perceived benefits from social reforms has led to the decline in popularity by former leftist governments among the middle classes. This is compounded by the lack of economic sustainability of the redistributive projects. This lack of economic sustainability is partly due to the high dependency on income from commodity exports. The fiscal dependency on commodity exports (oil, gas and minerals) were over 30 percent in Bolivia, Chile, Peru, Ecuador, Mexico and Venezuela (CEPAL 2015). The reduction of state income from commodities has not only reduced the state's ability to pay for social protection schemes, but perhaps more importantly, put at risk its ability to initiate economic projects that provides business opportunities for the economic elite and thus ensure their support. In countries that are still dominated by elites often

controlling the media as well as the economy, this has put the continuity of support for social protection schemes at risk.

This presents the Latin American countries with a real dilemma. One of the achievements of the “pink-tide” governments was to make social spending less regressive, through targeting of social programs and social transfers to the poor. The experience from Latin America shows, on the one hand, the need to attack privileges that drain the system for funds, but also the importance of establishing universal services and benefits in order to generate support for further distribution among the middle classes. There are multiple obstacles to this in Latin America. One of the most important is the persistence of weak states in most countries, with limited capacity to implement such systems. Many of the governments the “pink tide” took over states with weak capacity to penetrate societies, govern and redistribute across the territories (Thwaites Rey 2012, Enríquez and Newman 2016, Teichman 2016, Andrade 2017). Some launched explicit projects to strengthen the states simultaneously with social redistribution in the context of recent or fragile democracies (Andrade 2015). This generated a large number of conflicts and tensions as well as inefficiencies and abuses that hampered the sustainability of the projects of redistribution. However, as shown by the existing serious attempts at measuring state capacity, it is increasing in most countries in Latin America, providing some hopes for future improvement in services as well as ability to tax (Grassi and Memoli 2016).

6. Conclusion

It is futile to compare the different specific factors underlying inequality reduction across regions as different as Scandinavia and Latin America and in periods as different as the early to mid-19th century and the first decades of the 2000s. Latin America faces a number of particular obstacles against the reduction of inequality due to its stratified societies and particular form of capitalism resulting from its historical incorporation into the global economy. However, there may be some important lessons to be drawn from the process and institutional development that has contributed to inequality reduction in Scandinavia. One such lesson is the importance of democracy. Without democracy, the demands from social movements for increased redistribution would never have been translated into policies for wage redistribution, social rights and the expansion of welfare benefits and education, that in turn contributed to higher productivity and labor market participation. Without democracy, moreover, the process of redistribution would most likely have generated deeper conflicts between groups in the lower end of the income distribution and with capital owners and the middle classes. Democracy probably lowered the pace of reforms, but ensured their political sustainability.

A second lesson is the importance of open economies. The Scandinavian economies are small and open, and their welfare systems have been called a form of “protection without protectionism” (Moene 2013), as they combine generally low external tariffs with generous social

protection domestically. Economic openness contributed to lower the increase in the high-end wages, that was a key factor in the process of creative destruction ensuring higher productivity and growth.

As the left-tide has waned in Latin America, these points are important in order to open a debate about the possibilities for inequality reduction in a new political context. Through the last decade, it has been firmly established that high inequality in a society has negative consequences not only for poverty reduction, but a range of other issues, including security, social cohesion and growth. The Scandinavian examples should open new avenues for debates about how to combat it inequality, in different institutional and economic contexts.

However, as shown initially, in Scandinavia, inequality is on the rise after many decades of low inequality. While high immigration and opening of labor markets in Europe are among the reasons, a part of the reason is also the rapid increase in high-wages and the return to capital, as a consequence of more globalized production as well as more lax tax-regimes. Thus, the exchange of experiences between Scandinavia and Latin America should not be limited to the search for lessons from Scandinavia, but move towards a dialogue on means to combat increasing global inequality through drawing lessons from both successes and failures.

Notes

¹ The Scandinavian countries are Denmark, Sweden and Norway.

² For a review of classical economic theory, see Bourguignon (2015b).

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Competing Interests

The author has no competing interests to declare.

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