

Wavering between neoliberalism and populism: An empirical analysis of the South American experience, 1990-2015

Abstract

A sample of economic and institutional outcomes in South American nations are analyzed for the 1990-2015 period. Qualitative analysis suggests that populist countries -Argentina, Bolivia, Ecuador, and Venezuela - have fared worse than other American nations in terms of the evolution of basic institutional indicators. Empirical findings on the determinants of political rights and civil liberties and economic growth, however, are more nuanced. While growth and liberties in populist nations seem to be affected differently by some factors, the findings suggest that there are also similarities across all countries, rendering futile making any definitive conclusions. Notwithstanding the difficulty with sweeping assessments, what seems to be true is that most South American nations would experience higher economic growth if they are able to lessen income inequality and decrease corruption levels.

JEL: O10, O40, O54, P50

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Introduction

While business cycles are a fact of life for all countries, extreme fluctuations in political and economic episodes seem to be the norm in Latin America. During what has come to be known as the lost decade of the 1980s, most nations in this part of the world experienced severe inflation - in some notable cases, hyperinflation - and the ensuing economic debacle gave way to necessary, but very painful structural reforms throughout the 1990s, the so-called neoliberal period.ⁱ More recently, and partially due to insufficient growth and improvement in standards of living, in certain countries the neoliberal age has given way to a new period that can be loosely coined as the populist era.ⁱⁱ It is this wavering between neoliberalism and populism that I intend to analyze by concentrating on some of the economic and institutional outcomes that countries in South America have experienced during the 1990 to 2015 period.

A concern that needs to be addressed to analyze how different economies have fared over time refers to how exactly one is to distinguish between populist and liberal economies. The first thing to note is that all countries have, to different degrees, wavered between less and more intrusive government - the extent of government

intervention is an imperfect, yet useful proxy for distinguishing between a liberal economy and a populist one - and hence no single country falls into either category for the entire period of interest. Additionally, it is difficult to ascertain what constitutes a liberal or a populist policy, as the distinction may depend on personal values and not on a particular quantifiable variable. Lastly, it is reasonable to assume that all countries engage in liberal, and in crowd-pleasing policies at all times, and therefore a nation that is considered liberal - or populist - may engage at the same time in policies that are the exact opposite of its current perceived economic philosophy. Notwithstanding the problems associated with labels, certain South American nations have been categorized as 'populists' in order to distinguish them from the rest. Though the classification of nations as populists is arbitrary - for instance, it was determined that Brazil should not be part of this group even though it was an important backer and sympathizer of many of this group's interests throughout Lula da Silva's presidential term between 2003 to 2011 - the criteria for selecting Argentina, Bolivia, Ecuador, and Venezuela as part of this group of nations rest on self-identification by their governments as either populists or progressives and on an implicit, semi-formal alliance among them in matters of security, trade, economic, and social policies.ⁱⁱⁱ In addition to the arbitrariness mentioned above regarding the decision to denote certain countries as populist, it must be stated that even if the classification is accurate, all of these nations have not been 'populist' throughout the 1990-2015 period analyzed here. For instance, the De la Rúa administration in Argentina (1999-

ⁱThe term 'neoliberalism' pertains to the resurgence of 19th century ideas associated with laissez-faire economic liberalism. Contemporary advocates of this concept espouse extensive economic liberalization policies, including privatization of government enterprises, removal of restrictions to trade, deregulation of markets, and fiscal austerity

ⁱⁱWhile there is no single, acceptable definition of populism, for the purposes of this work the term will be used to describe a situation in which a large majority of people believe to be (mis) governed by a small circle of elites who can be overthrown if the people organize and work together. From an economist's perspective, populist policies include nationalization of private enterprises, protective trade measures, high regulation of markets, and government largesse at income redistribution programs. In the context of Latin America, the concept of populist must also encompass, as argued by Stefanoni,¹ a long-existing national-popular and anti-imperialist tradition as well as a newer *indigenista* undercurrent building on post-colonial ideas of development.

ⁱⁱⁱWhile Bolivia, Ecuador and Venezuela are official members of the Bolivarian Alliance for the Peoples of our America (ALBA, for its Spanish acronym), Argentina, at least until December 2015, when Cristina Kirchner was finally deposed from her position as President of the country, seems to have been a de facto member of this alternative grouping of American countries. Established on December 14, 2004 at the initiative of Cuba and Venezuela and presented as an alternative to the now defunct Free Trade of the Americas (FTAA) proposal, ALBA aims to consolidate regional economic integration based on a vision of social welfare and mutual economic aid. Currently there are eleven-member nations.

2001) and the Hugo Banzer administration in Bolivia (1997-2001) would hardly count as examples of populist regimes, yet these interludes in the economic and political lives of these countries are inexorably linked to their most important defining characteristic - at least for the period under study - which is to have been ruled by long-lasting, progressive administrations bent on implementing permanent structural transformations of economic and political institutions. The focus of the study is to analyze the entirety of the experience of countries that have fallen into a populist trap and to compare these experiences with those of other countries that did not succumb to it, at least to the extent that populist countries did. Indeed, an important contribution of this work is to fill in the gap of current analysis on the transformations taken place in countries in the South American hemisphere since 1990. Though there have been significant efforts to understand the political and sociological dimensions of the changes taking place, little effort has been devoted to analyze the economic consequences of these changes, particularly in regards to how growth and political rights and civil liberties have been affected in nations that have remained on progressive agendas for a significant amount of time and those that have followed a more conventional path to development.

To analyze the economic and institutional outcomes experienced by all South American countries, a qualitative assessment of key economic, political, and institutional indicators during the period 1990-2015 is carried out.^{iv} Then, the principal determinants of economic growth are explained, as well as the impact on growth of reducing corruption and lessening income inequality in each country. Lastly, an analysis of the determinants of political rights and civil liberties is carried out.

A summary of key qualitative and empirical findings is this: the political rights and civil liberties of populist nations have progressively deteriorated, and this erosion has become more palpable with the passing of time. Regarding the determinants of economic growth, male primary education, higher population levels, an open economy, and higher levels of investment are positively correlated with real GDP per capita growth, but there are differences in intensity in how these variables affect growth across countries. Finally, female primary education plays an important role in fomenting political rights and civil liberties in populist nations, while lower corruption and higher levels of economic freedom are associated with greater political rights and civil liberties in all countries.

The rest of the paper is organized as follows. A brief review of the literature on economic growth and basic liberties in the American hemisphere is presented in section two. The data and the empirical specification are introduced in section three. The results of the empirical estimation are presented in section four, and section five summarizes and reviews the policy implications of the findings.

Literature review

The theoretical and empirical literature on economic growth is ample, as is the literature analyzing the determinants of democracy and the quality of institutions in different countries. While theoretical considerations are important, the emphasis here lies with empirical contributions, particularly as they refer to the case of nations in the American hemisphere.

^{iv}The ten South American countries analyzed here are Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay, and Venezuela. Not included in the analysis are Guyana, Suriname, and French Guiana.

A seminal work on the general theme of development in Latin America is a study sponsored by the Economic Commission for Latin America and written by Raúl Prebisch,² which set the foundations for the empirical analysis of growth in the Americas. Barro³ presents another significant early contribution to the general theme of growth and its broad applications in the Americas and elsewhere, while a more recent and comprehensive historical analysis of growth in the Americas is provided by Loayza et al.⁴ A study analyzing growth exclusively in Latin America is De Gregorio,⁵ who concentrating in the period 1950-1985, finds that macroeconomic stability plays a crucial role in growth but it is negatively correlated with government consumption and political instability. Furthermore, the terms of trade appear to have no significant impact on growth. A comprehensive analysis is also provided by Barro,⁶ who, utilizing a panel data set of around one-hundred countries and for the 1960 to 1990 period, finds that growth is enhanced by higher initial schooling and life expectancy, lower fertility, lower government consumption, better maintenance of the rule of law, lower inflation, and improvements in the terms of trade. Additionally, his findings show that there is a strong positive influence of the standard of living on a country's propensity to experience democracy. In a similar line of research, Bengoa and Sanchez-Robles,⁷ find that for a sample of eighteen Latin American countries during the period 1970-1999, foreign direct investment is positively correlated with economic growth while economic freedom in the host country is a positive determinant of FDI inflows. Similarly, Makki and Somwaru⁸ analyze sixty-six developing countries and find that FDI, trade, human capital, and domestic investment are important catalysts in fomenting economic growth.

More recent contributions include Astorga,⁹ focusing on the six largest economies in Latin America for a period of over one-hundred years and finding that physical and human capital are key determinants of GDP per-head growth, but also finding that there is an overall negative conditional correlation between trade openness and per-capita growth; Zhuang and St. Juliana,¹⁰ also focusing on American countries for the period 1995-2006, and finding that GDP growth is positively correlated with capital expenditure, school primary completion rate, and trade openness; and Vedia-Jerez and Chasco,¹¹ concentrating on South American countries for the period 1960 to 2008 and finding that economic growth is driven mostly by physical and human capital accumulation, as well as by sectorial exports. Studies focusing on the determinants of growth in individual American countries are also plentiful, with Bojanic¹² focusing on Bolivia, Adrogué et al.¹³ on Brazil, Escobal and Torero¹⁴ on Perú, and Schmidt-Hebbel,¹⁵ on Chile, just to mention a few.

Articles pertaining to the determinants of democracy, civil liberties, political freedom, and other similar indicators are also abundant, with several focusing on the Latin American experience. The social sciences literature contains a number of important contributions, including Diamond,¹⁶ who provides a qualitative assessment of what it takes to consolidate democracy in the Americas; Gasiorowski and Power,¹⁷ analyzing the structural determinants of democratic consolidation in Third World countries and finding that development-related socioeconomic factors, contagion effect of democratic neighbors, and high inflation are strongly correlated to the likelihood of democratic consolidation; Przeworski et al.¹⁸ exploring the questions of whether economic development is conducive to political democracy and whether democracy fosters or hinders material welfare; Ansell and Samuels¹⁹ and Boix,²⁰ reconsidering the modernization theory by analyzing how inequality may affect regime

change; and Mainwaring and Pérez-Liñán²¹ analyzing the evolution of political regimes in Latin America since 1900 and the reasons for the patterns of those political regimes. Within the economics literature, significant contributions include Barro,²² utilizing a panel study of more than one-hundred countries and showing that the propensity for democracy rises with per capita GDP, primary schooling, and a smaller gap between male and female primary attainment; Muller²³ who, for the period 1965-1980 and utilizing cross-national data from fifty-eight countries, finds that income inequality hinders democracy, particularly in middle-income countries; Graham and Sukhtankar²⁴ focusing on Latin America and finding that despite the severe economic crisis during the first part of the new millennium, support for democracy as a system of government has actually increased across the hemisphere; Glaeser et al.²⁵ focusing on education and democracy and showing that as education increases and raises the benefits of civic engagement, it raises participation in support of a broad-based regime (democracy) relative to that in support of a narrow-based regime (dictatorship); Blanco and Grier,²⁶ investigating the causes of political instability in Latin America and showing that democracy has a significant negative effect on instability; Csordás and Ludwig,²⁷ finding that the neighbor effect is the most important determinant of democracy; and Bojanic,²⁸ analyzing the impact of fiscal decentralization on accountability, economic freedom, and

political rights and civil liberties in the Americas during the 1972-2015 period and finding that decentralization in developing American nations initially hampers but eventually enhances accountability and political rights and civil liberties. Studies on this subject for individual countries are also numerous though few are devoted solely to nations in the American hemisphere. A sample of works on individual countries include Gervasoni²⁹ focusing on Argentina, Wallerstein³⁰ on Brazil, Puryear³¹ on Chile, and Weyland³² on Peru.

Data and empirical specification

Annual data is utilized in order to analyze the economic and institutional outcomes in ten South American countries. The period of interest is 1990 to 2015, and though country data for most variables are available for the entire period, gaps in the dataset do exist and they are specified where appropriate. Unless otherwise noted, the principal data source is the World Bank.^v

Two basic specifications are estimated. Economic growth is the underlying theme of the first one and political rights and civil liberties are the targets of the second one. The dependent variable in the first specification is the growth rate in real GDP per capita (measured in 2005 prices) and its functional form is given by the following standard growth equation:^{vi}

$$Y_{it} = \beta_0 + \beta_1 \ln \text{male}_{it} + \beta_2 \ln \text{female}_{it} + \beta_3 \ln \text{Population}_{it} + \beta_4 \ln \text{Open}_{it} + \beta_5 \ln \text{Gini}_{it} + \beta_6 \ln \text{Corruption}_{it} + \beta_7 \ln \text{Investment}_{it} + \mu_{it} \quad (3.1)$$

where Y is the percentage growth rate in real GDP per capita, $Male$ and $Female$ represent the total number of new male and female entrants in the last grade of primary education, regardless of age, expressed as percentage of the total male and female population of the theoretical entrance age to the last grade of primary;^{vii} $Population$ refers to the size of a country's population; $Open$ is the share of total trade (exports + imports) on GDP (in 2005 prices); $Gini$ is an income inequality coefficient (0 = perfect equality; 100 = maximal

inequality); $Corruption$ is an index that reflects the level of corruption (0 = most corrupt; 10 = entirely clean country);^{viii} $Investment$ refers to total investment as a share of GDP;^{ix} and μ is a standard error term. All regressors are expressed in natural logs.^x

The dependent variable in the second specification is a ratio of political rights and civil liberties and its functional form is given by the following equation:^{xi}

$$L_{it} = \beta_0 + \beta_1 L_{it-1} + \beta_2 \ln \text{IncomePerCapita}_{it} + \beta_3 \ln \text{Male}_{it} + \beta_4 \ln \text{Female}_{it} + \beta_5 \ln \text{Life}_{it} + \beta_6 \ln \text{Urban}_{it} + \beta_7 \ln \text{Population}_{it} + \beta_8 \ln \text{Unemployment}_{it} + \beta_9 \ln \text{Corruption}_{it} + \beta_{10} \ln \text{EcFreedom}_{it} + \mu_{it} \quad (3.2)$$

where L is the ratio of political rights and civil liberties; L_{t-1} is a one-period lagged term of the dependent variable utilized to account for the dynamic nature of the model; $IncomePerCapita$ is real GDP per capita (in 2005 prices); $Male$ and $Female$ are the previously defined shares of male and female population with primary education; $Life$ represents life expectancy; $Urban$ is the urbanization rate; the previously defined $Population$ variable; $Unemployment$ is the unemployment rate; $Corruption$ is the corruption index introduced earlier; and $EcFreedom$ is an index of economic freedom included to analyze the extent to which economic liberties affect political

rights and civil liberties.^{xii} All explanatory variables are expressed in natural logs^{xiii} and the μ term represents a standard error term.

Equations (3.1) and (3.2) were estimated with Generalized Least Squares (GLS), Two-Stage Estimated GLS (Two-Stage EGLS), and

^v<http://databank.worldbank.org/data/> 5

^{vi}The GMM specification includes as regressor a one-period lagged GDP per capita variable in order to capture the dynamic nature of growth.

^{vii}This indicator is also known as "gross intake rate to the last grade of primary education." The ratio can exceed 100% due to over-aged and under-aged children who enter primary school late/early and/or repeat grades.

^{viii}Source: Transparency International (www.transparency.org). The index ranges from 0 (most corrupt, meaning business transactions are entirely dominated by kickbacks, extortion, etc.) to 10 (denoting an entirely clean country). In 2012, the range of the index changes from 0 (most corrupt) to 100 (least corrupt). For consistency, I kept the 0-10 range and adjusted the new values to comply with the original index range.

^{ix}Source: International Monetary Fund World Economic Outlook Database (<https://www.imf.org/external/pubs/ft/weo/2017/02/weodata/index.aspx>). Investment or gross capital formation is measured by the total value of the gross fixed capital formation and changes in inventories and acquisitions less disposals of valuables for a unit or sector.

^xSource of data for Male, Female, Population, Open, and Gini is the World Bank (<http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators&preview=on>)

^{xi}The ratio of political rights and civil liberties was constructed out of data obtained from Freedom House (<http://freedomhouse.org/report/freedom-world/2015>). The ratio was estimated as follows: Freedom House assigns a score of 1 to 7 for political rights (1 = highest degree of freedom; 7 = lowest degree of freedom) and a similar range of scores for civil liberties (1 = highest degree of freedom; 7 = lowest degree of freedom). By summing the individual scores of each country in these 2 categories and dividing it by the highest possible score that a country can get (14 = 7 + 7), a combined ratio of political rights and civil liberties is obtained. The higher (lower) this combined ratio is, the lower (higher) the degree of political rights and civil liberties: 0.14 = best or highest level of political rights and civil liberties and 1.00 = worst or lowest level of political rights and civil liberties.

in the case of equation (3.1), with Generalized Linear Models (GLM). Random effects were utilized in all cases because even if there are omitted variables, it is unlikely that they will have time-invariant effects on the dependent variable.^{xiv} Additionally and in order to correct for intrasectional and cross-sectional autocorrelation, the specifications were estimated with the Prais-Winsten Panel Corrected Standard Error (PCSE) procedure, which allows for correlation of errors across two equations. More specifically, equations (3.1) and (3.2) were estimated with Cross-section SUR, panel-corrected standard errors (PCSE), which is a class of covariance structures that allows for conditional correlation between the contemporaneous residuals for cross-section *i* and *j*, but restricts residuals in different

periods to be uncorrelated, and permits better inference from linear models estimated with time-series-cross-section data.^{xv} As noted by Moon and Berron,³³ two principal motivations behind the utilization of SUR are that (i) efficiency is gained by combining information on different equations; and (ii) the technique imposes and/or tests restrictions that involve parameters in different equations.

Results

As an introduction to the empirical analysis, Table 1 presents a qualitative assessment of six key economic indicators for the period 1990-2015.

Table 1 Evolution of key economic indicators (five-year averages, 1990-2015)

	Growth real GDP per capita (%)					Inflation (%)					Unemployment rate (%)				
	90-95	96-00	01-05	06-10	11-15	90-95	96-00	01-05	06-10	11-15	90-95	96-00	01-05	06-10	11-15
All countries	2.37	0.59	1.70	3.55	3.01	310.46	10.74	10.63	9.15	12.09	7.67	8.94	9.67	7.27	6.28
best performer	Chile (6.21)	Chile (2.82)	Ecuador (3.12)	Uruguay (5.66)	Colombia (4.56)	Ecuador (6.33)	Chile (4.32)	Peru (2.42)	Peru (4.04)	Peru (3.00)	Ecuador (5.32)	Bolivia (4.42)	Bolivia (5.18)	Bolivia (4.02)	Bolivia (2.94)
worst performer	Brazil (0.43)	Paraguay (-1.70)	Paraguay (0.14)	Ecuador (1.69)	Brazil (0.64)	Brazil (1,413.40)	Colombia (18.58)	Venezuela (27.90)	Venezuela (23.42)	Venezuela (59.79)	Colombia (11.83)	Argentina (14.80)	Argentina (15.10)	Colombia (11.56)	Colombia (10.08)
Populist countries	2.10	0.25	1.72	2.86	2.45	107.37	11.41	15.44	13.65	22.80	7.82	9.45	10.69	6.56	5.98
best performer	Argentina (3.77)	Argentina (1.49)	Ecuador (3.12)	Argentina (4.70)	Ecuador (3.88)	Ecuador (6.33)	Bolivia (6.40)	Bolivia (4.98)	Ecuador (7.34)	Ecuador (4.12)	Ecuador (5.32)	Bolivia (4.42)	Bolivia (5.18)	Bolivia (4.02)	Bolivia (2.94)
worst performer	Ecuador (0.76)	Venezuela (-1.13)	Argentina (1.24)	Ecuador (1.69)	Venezuela (1.04)	Argentina (371.03)	Venezuela (45.70)	Venezuela (27.90)	Venezuela (23.42)	Venezuela (59.79)	Argentina (10.13)	Argentina (14.80)	Argentina (15.10)	Argentina (8.54)	Venezuela (9.30)
	Growth in real wages (%)					Real budget deficit as a share of GDP (%)					General government gross debt as a share of GDP (%)				
	90-95	96-00	01-05	06-10	11-14	90-95	96-00	01-05	06-10	11-15	90-95	96-00	01-05	06-10	11-15
All countries	9.82	-2.19	-1.97	2.99	3.42	-0.76	-1.87	-1.43	-0.24	-6.71	33.12	27.82	56.55	36.37	37.07
best performer	Ecuador (18.10)	Uruguay (2.67)	Colombia (4.71)	Venezuela (15.23)	Paraguay (6.67)	Paraguay (2.93)	Venezuela (2.29)	Chile (0.89)	Chile (3.01)	Peru (0.52)	Argentina (25.91)	Chile (13.28)	Chile (11.88)	Chile (5.65)	Chile (13.85)
worst performer	Venezuela (3.25)	Venezuela (-5.46)	Argentina (-7.17)	Ecuador (-0.21)	Colombia (1.94)	Venezuela (-4.23)	Brazil (-5.31)	Bolivia (-6.25)	Venezuela (-5.38)	Venezuela (-51.02)	Paraguay (35.60)	Bolivia (66.89)	Argentina (95.23)	Uruguay (66.79)	Brazil (64.42)
Populist countries	9.75	-3.83	-2.15	3.50	3.58	-3.46	-1.83	-1.34	-0.70	-14.51	25.91	34.42	66.17	36.25	38.15
best performer	Ecuador (18.10)	Argentina (-1.74)	Ecuador (2.81)	Venezuela (15.23)	Argentina (5.01)	Argentina (-1.72)	Venezuela (2.29)	Ecuador (0.88)	Bolivia (2.29)	Bolivia (-1.05)	Argentina (25.91)	Venezuela (31.84)	Ecuador (46.89)	Ecuador (23.13)	Ecuador (27.16)
worst performer	Venezuela (3.25)	Bolivia (-4.82)	Argentina (-7.17)	Ecuador (-0.21)	Bolivia (2.61)	Venezuela (-4.23)	Bolivia (-3.57)	Bolivia (-6.25)	Venezuela (-5.38)	Venezuela (-51.02)	N.A	Bolivia (66.89)	Argentina (95.23)	Argentina (49.77)	Venezuela (48.99)

Notes:

1. Real variables are expressed in 2005 prices
 2. For inflation, best performer reflects the country with the lowest positive inflation. Countries such as Ecuador and Argentina, that experienced deflation during the period 1996-2000 (-5.86% and -0.62%, respectively), are not considered 'best' performers
 3. The unemployment rate utilizes the ILO definition and refers to the percentage of people in the labor force who are unemployed. Best performer reflects the country with the lowest unemployment rate
 4. Data on real wages available until 2014 (source: Socio-Economic Database for Latin America and the Caribbean (SEDLAC), <http://sedlac.econo.unlp.edu.ar/eng/>). For the period 1990-1995, data is not available for Brazil, Colombia, and Peru. Additionally, availability of yearly data for all countries is not uniform. Averages reflected in this table have been adjusted for this variability in available data
- Best performer for growth in real wages refers to the country with the highest positive or lowest negative growth rate. Data on wages in Venezuela is only available until 2006, hence the growth rate of 15.23% for the 2006-2010 period reflects the growth rate between 2005 and 2006 only
5. For the real budget deficit as a share of GDP variable, a negative percentage number indicates a government deficit; a positive percentage number indicates a government surplus. Best performer refers to the country with the highest surplus or lowest deficit
 6. For the period 1990-1995, data on general government gross debt as a share of GDP variable exists only for Argentina, Chile, and Paraguay. Data for Ecuador and Uruguay is also unavailable for the period 1996-2000

Best performer refers to the country with the lowest debt ratio

The evolution of the six economic indicators is presented in five-year averages, or cycles, and the best and worst performers for each cycle are highlighted, both for the full sample of countries and for the subset of populist countries.^{xvi} While there are no clear patterns of behavior, it is interesting to note that populist countries - as a group or individually - are not always worst performers when compared with the rest of nations in any one of these six economic indicators. For instance, for the growth in real GDP per capita indicator, during the 2001-2005 period the highest performer among all countries was Ecuador, a populist country, with an average five-year growth rate of 3.12 percent, and the worst performer among all countries, in all but one of the cycles was a non-populist nation, highlighting the fact that being categorized as populist is not necessarily equivalent to underperforming. Having stated that, however, it is also true that among all nations, Venezuela - another nation categorized as populist - is the

one country that has attained the 'worst performer' label most often, both among all countries and among populist nations, emphasizing the fact that this nation has experienced more than two decades of exceptionally difficult challenges. In terms of a country that has consistently been considered best performer with each economic indicator, in all or some cycles, and either among all nations or populist countries only, there is no clear candidate, but Chile comes close, as this country has been a best performer at some point in four of the six indicators and has never been labeled a worst performer in any one of the six indicators.

A more in depth analysis of the determinants of economic growth in American countries is presented in Table 2. Utilizing equation (3.1) and the regression techniques described in the previous section, estimation results are reported for all countries and for the subset of populist nations.

Table 2 Determinants of economic growth. Dependent variable: real GDP per capita yearly growth rate

Independent variables	All countries				Populist countries			
	GLS (random effects)	GLS (fixed effects)	GLM	Two-stage EGLS	GLS (random effects)	GLS (fixed effects)	GLM	Two-stage EGLS
Male primary education (%), in logs	23.086** (10.961)	20.526* (10.887)	25.420*** (9.686)	16.815*** (3.898)	67.173* (35.643)	98.742** (47.894)	70.318** (34.198)	41.241* (21.570)
Female primary education (%), in logs	-18.357** (9.056)	-16.224* (9.082)	-19.620** (8.555)	-12.120*** (3.289)	-61.025 (38.543)	-80.367* (47.067)	-67.846* (41.214)	-39.845* (23.427)
Population, in logs	0.862* (0.462)	0.680 (0.504)	1.298** (0.558)	0.894*** (0.210)	6.753 (4.254)	10.382** (5.154)	7.256** (3.696)	3.806 (2.883)
Share of total trade on GDP (%), in logs	2.199* (1.163)	1.740 (1.311)	3.400*** (1.220)	2.164*** (0.443)	6.838 (4.328)	13.077** (6.662)	7.412** (3.798)	5.153* (2.924)
GINI coefficient (0 = perfect equality; 100 = maximal inequality), in logs	-7.926** (3.976)	-6.333 (4.719)	-9.967** (4.127)	-6.969*** (1.905)	-3.716 (11.899)	-9.435 (23.946)	-6.514 (12.680)	-7.672 (6.521)
Corruption index (0 = most corrupt; 10 = least corrupt), in logs	0.928 (0.797)	0.900 (0.799)	1.009 (1.027)	0.913** (0.434)	-2.264 (3.840)	-1.067 (6.265)	-3.859 (4.846)	-0.239 (2.418)
Share of total investment on GDP (%), in logs	3.975** (2.033)	3.629* (2.192)	4.800*** (1.851)	3.844*** (0.655)	5.822** (2.949)	6.795* (3.691)	5.806* (3.624)	2.977** (1.528)
Adj R ²	0.07	0.47	-	0.35	0.08	0.46	-	0.11
Number of observations	143	143	143	143	56	56	56	56

Notes:

1. Real gdp per ca pita measured in 2005 prices
2. Total investment refers to gross capital formation and is measured by the total value of gross fixed capital formation and net changes in inventories and acquisitions
3. GLS and Two-Stage EGLS estimated utilizing the Prais-Winsten Panel Corrected Standard Error (PCSE) Within estimator
4. All estimations include an intercept term (not shown in table)
5. GLS refers to generalized least squares; GLM refers to generalized linear model
6. Standard errors in parentheses
7. *significant at 10%; **significant at 5%; ***significant at 1%

As is clearly observed, there are similarities concerning how different variables affect growth in real GDP per capita in the full sample of countries and in the subset of populist nations. Access to primary education for males is seen to positively effect growth in both sets of countries, while female primary education seems to have the opposite effect. While this latter result may seem puzzling, in the context of the current state of education in Latin America it may have to do more with the quality of education rather than the general access to it, as described by, among others, Carnoy.³⁴ For comparison purposes and focusing on the GLS with random effects specifications, in the full sample of countries a one-percent improvement in male primary education is associated with an increase of approximately 0.23 percentage points in growth, while in populist countries the same change in male primary education would increase growth by around 0.67 percentage points, an almost three-fold increase.^{xvii} Likewise, the size of the population, openness to trade, and investment are all positively associated with economic growth in both sets of countries, but there are differences in the intensity of the positive association.

Regarding the differences, while reducing income inequality is a driver for economic growth in the full set of countries - reflected in negative and (mostly) statistically significant coefficients for the GINI coefficient - it does not seem to play the same role in populist countries.

Though the coefficients remain negative in all specifications for this set of nations, they are not statistically significant. This finding is not surprising and is supported by various authors, including Brueckner and Lederman,³⁵ and brings attention to the fact that in developing nations reducing income inequality may not always generate the expected outcomes. Furthermore, where as less corruption seems to be a driver for growth in the full sample of countries - reflected in consistently positive and statistically significant coefficients for the corruption index (two-stage EGLS only) - in populist nations the opposite seems to be true as the coefficient for this variable is consistently negative, though statistically insignificant. While this latter result - higher levels of corruption enhance growth - may seem surprising, it is a finding that has been observed before and is more likely to happen in nations with weaker institutions and relatively lower levels of development, as documented in Leys³⁶ and Bardhan.³⁷

Further evidence on the impact of corruption and income inequality is reported in Table 3, where actual and estimated GDP per capita growth rates for all nations, populist countries, and for each individual country are presented.^{xviii} The impact on economic growth if corruption levels had been lower and income inequality had decreased are also reported.

Table 3 Actual and estimated growth rates; Impact on growth if corruption decreases and income inequality lessens

	Actual real GDP per capita growth (%)	Estimated GDP per capita growth (%)	GDP per capita growth if Gini improves by 10% (corruption remains the same)	GDP per capita growth if corruption decreases by 10% (Gini remains the same)	GDP per capita growth if Gini improves by 10% and corruption decreases by 10%
Argentina	2.52	2.04***	5.05	0.37	3.37
Bolivia	2.29	2.55**	3.44	2.85	3.73
Brazil	1.27	1.34***	3.34	0.60	2.60
Chile	3.69	3.12*	2.36	5.17	4.41
Colombia	2.49	2.02**	3.04	3.35	4.36
Ecuador	1.69	1.71***	4.49	1.54	4.32
Paraguay	1.50	2.16**	2.72	3.24	3.80
Peru	3.07	3.49**	3.97	1.42	1.89
Uruguay	2.92	3.65**	5.40	4.49	6.25
Venezuela	1.04	7.07*	14.71	1.12	8.86
Populist countries	1.88	2.06***	4.06	1.39	3.39
All countries	2.25	2.41***	3.35	2.46	3.40

Notes:

1. Actual real GDP per capita growth rate refers to the average growth per capita of each country for the period 1990-2015
2. Estimated GDP per capita growth rate is calculated by regressing each country's real gdp per capita growth rate against its corresponding corruption index and Gini coefficient (both in logs) and then plugging in the actual averages for corruption and Gini into the estimated specification
3. Gini improvement means actual average decreases by 10%; corruption decrease means actual average increases by 10%
4. *** indicates estimated GDP per capita growth rate falls within 1/10 of a standard deviation from actual GDP per capita growth; ** within 1/5 of a standard deviation; * within 1 standard deviation

The first and second columns present average actual and estimated GDP per capita growth rates for the period 1990-2015.^{xix} All estimated values fall within one standard deviation of actual growth rates, and most estimates fall within 1/5 of a standard deviation, highlighting the very close fit of regressing real GDP per capita growth against the corruption index and the GINI coefficient. Columns 3 and 4 estimate what growth in real GDP per capita might have been if, *ceteris paribus*, actual averages for the Gini coefficient had improved by 10 percent and if average corruption had been 10 percent lower. Column 5 estimates real GDP per capita growth if both the Gini coefficient had been 10 percent lower (an improvement in income inequality) and the corruption index had been 10 percent higher (an improvement in the level of corruption).^{xx}

Regarding the impact of an improvement in the Gini coefficient, most countries would have experienced higher growth in output per capita, demonstrating that greater income equality can be a significant driver for growth. For the particular cases of Argentina, Brazil, Ecuador, Venezuela and the subset of populist nations, the improvement in growth would have been quite remarkable - in all four cases an improvement of over 100 percent - highlighting that for certain nations a significant barrier to greater growth is income inequality, a finding thoroughly supported in the literature, and evidenced in many articles, including Aghion et al.³⁸ and Cingano³⁹. In Chile, however, the opposite seems to be true: greater income equality would have decreased average growth in real GDP per capita by approximately 36 percent, noting that though policies to reduce income inequality are generally preferable, in some cases greater income equality may actually deter growth, a finding consistent with those reported elsewhere, including Barro⁴⁰ and Dominicus et al.⁴¹

^{xix}Source: The Heritage Foundation in partnership with the Wall Street Journal, available at www.heritage.org/index/about. The four broad categories that serve as benchmarks for constructing the index are rule of law, limited government, regulatory efficiency, and open markets. It ranges from 0 to 100, where lower numbers represent lower levels of economic freedom and higher scores represent higher levels of economic freedom. Specifically, 0-49.9 (repressed); 50-59.9 (mostly unfree); 60-69.9 (moderately free); 70-79.9 (mostly free); and 80-100 (free).

^{xiii}The source of data for real GDP per capita, Male and Female primary education, life expectancy, urbanization rate, population, and the unemployment rate is the World Bank: (<http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators&preview=on>)

^{xiv}Equation (3.1) was also estimated via GLS with fixed effects to determine any significant variations. The pattern of behavior of the estimates, regardless of the estimation technique and whether random or fixed effects are utilized, is broadly the same.

^{xv}Sometimes referred to as the Parks estimator, Cross-section SUR generalized least squares is simply the feasible GLS estimator for systems where the residuals are both cross-sectionally heteroskedastic and contemporaneously correlated.

^{xvi}As noted in section 1, the category of 'populist nations' is comprised of Argentina, Bolivia, Ecuador, and Venezuela.

^{xvii}For all countries, a 1% change in male primary education is associated with $23.086 \cdot \ln(101/100) = 0.2297$ change in the dependent variable. For populist countries the same change in this variable is associated with $67.173 \cdot \ln(1.01) = 0.6684$ change in real GDP per capita growth.

^{xviii}Estimated GDP per capita growth rates were obtained by regressing each country's real GDP per capita growth rate against its corresponding corruption index and Gini coefficient and then plugging in the actual average values for both variables into the estimated specification.

^{xix}In addition to reporting on the ten American countries, a 'populist countries' and an 'all countries' categories are also included that focus on the aggregate comportment of populist nations and of all nations.

^{xx}The 10% figure utilized for varying both the corruption index and the Gini coefficient was adopted arbitrarily, though other percentage values were also tested without significant changes to the behavioral pattern observed in table 3.20

Regarding the impact on growth if corruption levels had been ten percentage points lower, the results indicate that though most countries would have benefitted with lower corruption levels, Chile, Paraguay and Uruguay would have experienced the highest improvements in growth. Argentina, Brazil, Ecuador, Peru and the group of populist nations, on the other hand, would have seen growth diminished by lower corruption levels, noting that, as was the case with income inequality, it matters the context of the country - or the set of countries - where policies aimed to reduce corruption are implemented. The results reported here are consistent with findings that support the view that less corruption is generally - but not always - associated with greater growth, as evidenced in Mauro⁴² and Méon and Sekkat.⁴³

Column 5 shows that with the exception of Peru - its growth in real GDP per capita would have decreased by approximately 38 percent - all countries would have benefitted from a combination of higher income equality and lower corruption levels, with Brazil, Ecuador, Paraguay, Uruguay, and Venezuela experiencing the greatest improvements in growth, in all cases by well over 100 percent. The improvement in the remaining countries is more modest, though by no means insignificant as in all cases the increase in growth would have been in double percentage points.

A final segment of the empirical analysis concerns investigating the principal determinants of political rights and civil liberties, which are arguably key determinants of the quality of institutions in a country. As a preamble, Figure 1 shows the evolution of these liberties in the four populist countries and in the highest performing nation among all ten countries. The evolution of the average of all countries is also illustrated.

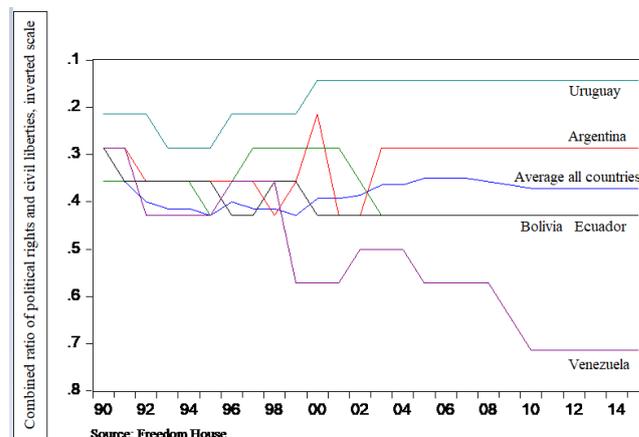


Figure 1 Evolution of political rights and civil liberties, 1990-2015.

Clearly, among all countries and for the entire period of interest, Uruguay has been the one nation with highest political rights and civil liberties in South America. Among populist nations, Argentina is the one country that has fared better since 2003, a remarkable achievement considering that its basic liberties only began to improve after a severe economic crisis - lasting from the latter part of 1998 to approximately mid 2002 - that engulfed the country for almost four years. At the other end of the spectrum and starting in the latter part of the 1990s, Venezuela has been the lowest-performing nation among all countries, with its political rights and civil liberties in an uneven downward spiral since 1999. Bolivia and Ecuador, the remaining populist nations, have not fared much better, with their political rights and civil liberties well below the continent's average since 2003. Interestingly, the worsening political rights and civil liberties in Bolivia, Ecuador, and Venezuela coincide with the advent of populist regimes in these

countries, underlining the positive correlation between the populist era and the deterioration of basic liberties in these nations.^{xxi}

Figure 2 illustrates the evolution of economic freedom for the period 1995-2015, a concept that can also be considered a reflection of the quality of institutions and is arguably closely related with the extent of political rights and civil liberties in a country.

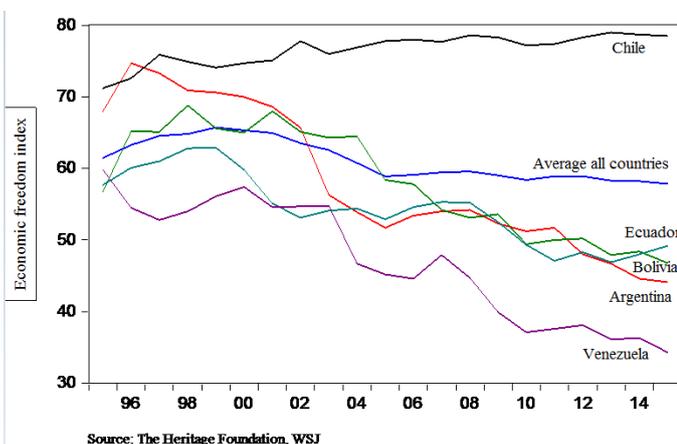


Figure 2 Evolution of economic freedom, 1995-2015.

As can be observed, Chile is the country that has consistently shown greater economic freedom among all countries throughout the period of interest. Starting in 2004, Venezuela has been the lowest performer. Two additional startling facts about the evolution of this variable is that since 2005 all populist countries have been below the continent's average and, despite an uptick in Ecuador's index for 2015, the spread between the continent's average and the individual index for each populist country has increased. The second striking fact is the very dramatic downward spiral in the level of economic freedom in all populist nations, a negative evolution that, once again, coincides with the accession and solidification of populist regimes.

A final qualitative indicator influencing the quality of institutions in a country is corruption. Figure 3 presents the evolution of a corruptions perceptions index for the period 1995-2015. Just as was the case with economic freedom, Chile has consistently shown the lowest levels of corruption and Venezuela the highest, at least since 2005. Also mirroring the evolution of economic freedom, corruption levels in all populist countries have consistently been above the average for the continent, highlighting the significant institutional challenges these countries face as they attempt to move forward.

With the qualitative analysis of the evolution of three key indicators in the background, Table 4 presents results concerning the determinants of political rights and civil liberties - equation (3.2) - in all countries and in the subset of populist nations.

^{xxi}Populist regimes sprang up with the advent of the new century. In Bolivia it began in 2006, with the ascension of Evo Morales to the presidency; in Ecuador, Rafael Correa assumed the presidency in 2007; in Venezuela, Hugo Chavez's era commenced in 1999 and lasted until March 2013, when he passed away. His successor, Nicolás Maduro, has vowed to maintain the political and philosophical underpinnings established by Chavez. In Argentina, the Kirchner era - first Néstor then his wife Cristina - began in 2003 and lasted until December 2015.²¹

The results indicate that, unsurprisingly, in all cases political rights and civil liberties in the previous period have a positive and statistically significant impact on the dependent variable. Additionally, real GDP per capita does not seem to exert any influence on dependent variable, regardless of the group of nations being analyzed.

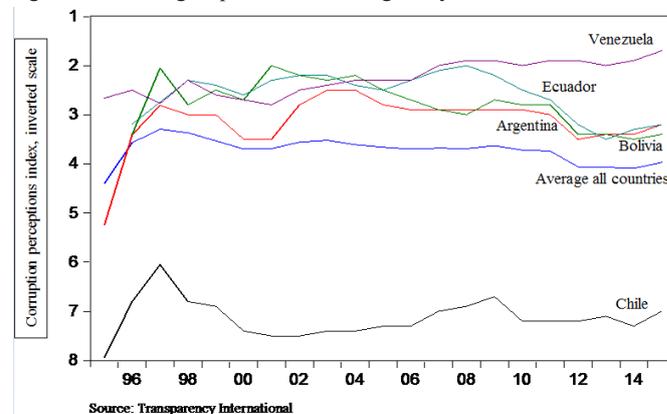


Figure 3 Evolution of corruption perception levels, 1995-2015.

The differences between these two sets of countries are, in some cases, rather conspicuous. With gender education, for instance, male primary education seems to be a detriment for higher political rights and civil liberties in populist nations, yet it seems to have a statistically insignificant impact on the full set of nations.^{xxii} Likewise, female primary education seems to play a key role in fomenting these very liberties in populist nations, yet this variable does not seem to exert any impact on the full set of countries. While the specific reasons for this pattern of behavior lie beyond the scope of this work, it is important to stress that the results presented here imply that in populist nations women seem to have a pivotal role in generating conditions for improving the civil liberties and political rights in their communities.

The behavior of the rest of the variables is also noteworthy. In the full sample of countries, there is some indication that political rights and civil liberties improve with decreasing levels of corruption - reflected in negative and statistically significant GLS and Two-Stage EGLS coefficients for this variable when the specification does not include the index for economic freedom - underlining the importance of policies that aim to reduce the incentives for corrupt behavior. In populist nations, however, corruption does not seem to bear any impact on the dependent variable. A longer life span seems to negatively affect liberties in populist nations but does not seem to have any impact in the full sample of countries. Likewise, greater urbanization deters liberties in populist nations, but seems to have no influence in the full set of countries. Furthermore, larger populations seem to enhance liberties in populist nations but the impact of this variable in the full set of countries is non-existent. In populist nations higher levels of unemployment hinder liberties - an unsurprising finding that adds to the growing list of negative externalities generated by being unemployed - but this variable does not have any influence for all countries. Finally, higher levels of economic freedom contribute to greater political rights and civil liberties in all countries, but does not have any impact on the group of populist nations.

^{xxii}As stated before, the ratio of political and civil liberties ranges from 0.14 = best or highest level of political and civil liberties, to 1.00 = worst or lowest level of political and civil liberties.²²

Table 4 Determinants of fundamental rights. Dependent variable: ratio of political rights and civil liberties

Independent variables	All countries				Populist countries			
	GLS	Two-stage EGLS	GLS	Two-stage EGLS	GLS	Two-stage EGLS	GLS	Two-stage EGLS
Ratio of political and civil liberties _{t-1}	0.885***	0.869***	0.852***	0.831***	0.730***	0.701***	0.692***	0.642***
	-0.046	(0.059)	(0.048)	(0.062)	(0.088)	(0.122)	(0.106)	(0.155)
Real GDP per capita (constant 2005 US Dollars), in logs	0.024	0.238	0.016	0.015	0.077	0.081	0.071	0.075
	(0.022)	(0.021)	(0.022)	(0.020)	(0.051)	(0.052)	(0.052)	(0.053)
Male primary education (%), in logs	-0.110	-0.120	-0.125	-0.138	0.981**	1.026**	0.891**	0.933**
	(0.129)	(0.135)	(0.127)	(0.132)	(0.414)	(0.426)	(0.421)	(0.426)
Female primary education (%), in logs	0.124	0.135	0.137	0.152	-0.927**	-0.973**	-0.834*	-0.877*
	(0.116)	(0.121)	(0.113)	(0.119)	(0.459)	(0.472)	(0.460)	(0.467)
Life expectancy (years), in logs	-0.146	-0.147	-0.145	-0.147	0.936***	0.992***	0.774**	0.815**
	(0.139)	(0.125)	(0.137)	(0.122)	(0.305)	(0.336)	(0.313)	(0.323)
Urbanization rate (%), in logs	-0.048	-0.050	-0.076	-0.081	0.750***	0.793***	0.654***	0.692***
	(0.049)	(0.053)	(0.051)	(0.056)	(0.199)	(0.227)	(0.209)	(0.221)
Population, in logs	0.003	0.004	0.003	0.004	-0.359***	-0.378***	-0.332***	-0.353***
	(0.005)	(0.004)	(0.005)	(0.004)	(0.110)	(0.120)	(0.111)	(0.118)
Unemployment rate (%), in logs	-0.001	-0.001	0.012	0.013	0.036**	0.037**	0.054**	0.060**
	(0.012)	(0.011)	(0.014)	(0.013)	(0.018)	(0.017)	(0.022)	(0.024)
Corruption index (0 = most corrupt; 10 = least corrupt), in logs	-0.030**	-0.032**	-0.005	-0.005	-0.013	-0.018	-0.000	-0.004
	(0.014)	(0.013)	(0.017)	(0.016)	(0.037)	(0.039)	(0.036)	(0.037)
Economic freedom index (0 = low; 100 = high level of freedom), in logs	-	-	-0.080**	-0.087**	-	-	-0.081	-0.101
			(0.039)	(0.037)			(0.085)	(0.096)
Adj R ²	0.90	0.90	0.90	0.90	0.82	0.82	0.82	0.82
Number of observations	183	183	183	183	76	76	76	76

Notes:

1. All specifications estimated utilizing random effects and the Prais-Winsten Panel Corrected Standard Error (PCSE) Within estimator
2. All estimations include an intercept term (not shown in table)
3. Ratio of political and civil liberties ranges between 0.14 (best or higher levels of liberties) and 1.00 (worst or lower levels of political and civil liberties)
4. Standard errors in parentheses
5. *significant at 10%; **significant at 5%; ***significant at 1%

Conclusions and policy implications

After the tumultuous 1980s, most South American nations entered a decade of far-reaching structural reforms that altered their institutional, political and economic foundations. Privatization of government enterprises, fiscal and monetary austerity, a significant movement towards freer trade, and an overall deregulation of markets characterized a decade - the 1990s - that in this work has been loosely defined as the neoliberal era. While a majority of American countries have, to different degrees, continued with the path set forth by those reforms, another group of nations - the ones encapsulated by the term 'populists' - took on an altogether different direction. Here, an attempt has been made to analyze some of the economic and institutional outcomes that South American countries have experienced during the 1990-2015 period.

The qualitative findings suggest that, excepting Argentina, the political rights and civil liberties of populist nations have progressively deteriorated, and this erosion in basic liberties has become more apparent as time elapsed and the regimes became more entrenched. Moreover, while levels of economic freedom have shown a downward trend in all populist nations since 1995, this negative trend has become more pronounced with the advent of populism. A consequence of the worsening deterioration in economic freedom is that since the mid 2000s all these nations have been below the continent's average. Lastly, corruption levels in all populist nations have been higher than the average for all South American nations since 1996, and starting in 2005 Venezuela has been the country with highest levels of corruption in the hemisphere.

While there are similarities regarding the factors that affect growth and political rights and civil liberties in all American countries, the empirical findings demonstrate that there are also important differences. On the similarities and respecting the determinants of economic growth, the findings suggest that in all countries male primary education is a driver for growth, but female primary education is not, reflecting the importance of primary education and the need to improve it, particularly as it refers to making sure that females are given the same level of opportunities afforded to boys. Higher population levels, an open economy, and higher levels of investment are all positively associated with growth, irrespective of the group of nations being analyzed. Regarding the differences, in the full sample of nations greater income equality and lower levels of corruption are found to be conducive for growth, but in populist countries these variables do not seem to have any discernible statistical influence. A complementary exercise demonstrated that economic growth in most countries would benefit from greater income equality and lower corruption levels, though there are exceptions in both how these variables affect individual nations and group of nations and in the intensity of the impact of these variables.

With respect to the determinants of political rights and civil liberties, the findings suggest that female primary education can play an important role in generating conditions for greater political rights and civil liberties in populist nations. Furthermore, higher life expectancy, higher urbanization rates and higher unemployment hinder liberties in populist countries but exert no influence in all countries. An increasing population, on the other hand, plays a positive role in improving liberties in populist countries while having no impact in the full set of nations. Finally, lower corruption levels and higher levels of economic freedom are conducive for greater growth with all countries, but do not seem to have any impact in populist nations.

The principal policy implications concern the necessity to put forth and, in some instances, continue with policies that are conducive to greater growth and an improvement of political rights and civil liberties. While the challenges of all South American nations are considerable, the findings reported here suggest that they are especially daunting for populist countries, and hence continued efforts to generate growth - through policies that reduce the incentives for corruption, or generate conditions for greater income equality, for instance - and improve the basic liberties of all citizens are key if these nations hope to attain sustainable levels of growth and development.

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None.

Conflicts of interest

The authors declare no conflicts of interest.

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