

POVERTY, INEQUALITY, POLICY AND POLITICS IN LATIN AMERICA*

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- THE MICROECONOMICS OF INCOME DISTRIBUTION DYNAMICS IN EAST ASIA AND LATIN AMERICA.* Edited by François Bourguignon, Francisco H. G. Ferreira, and Nora Lustig. (Washington, DC: The World Bank, 2004. Pp. 416. \$38.00 paper.)
- SOCIAL INCLUSION AND ECONOMIC DEVELOPMENT IN LATIN AMERICA.* Edited by Mayra Buvicnić and Jacqueline Mazza with Ruthanne Deutsch. (Washington, DC: Inter-American Development Bank, 2004. Pp. 361. \$24.98 paper.)
- CHANGING PATHS: INTERNATIONAL DEVELOPMENT AND THE NEW POLITICS OF INCLUSION.* Edited by Peter P. Houtzager and Mick Moore. (Ann Arbor: University of Michigan Press, 2003. Pp. 304. \$65.00 cloth.)
- ESCAPING THE POVERTY TRAP: INVESTING IN CHILDREN IN LATIN AMERICA.* Edited by Ricardo Morán. (Washington, DC: Inter-American Development Bank, 2003. Pp. 125. \$15.95 paper.)
- DESARROLLO, EQUIDAD Y CUIDADANÍA: LAS POLÍTICAS SOCIALES EN AMÉRICA LATINA.* Edited by Alicia Puyana and Guillermo Farfán. México, DF: Plaza y Valdés, 2003. Pp. 352.)

For those who study Latin America, poverty and inequality are problematic and endemic features of the region's economies and societies. While the debt crisis of the 1980s produced not only an increase in poverty but also rising income inequality, the structural adjustment policies of the 1990s were supposed to deliver economic growth that would eventually reduce both poverty and inequality. As many studies, including several under review here, have demonstrated, even when economic growth did return, it did not necessarily reduce poverty and often increased income inequality. In response to persistent or increasing poverty in the 1990s, international financial institutions began promoting targeted social spending and investment in human capital (see, e.g., World Bank 1990,

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1993; Inter-American Development Bank 1998). Targeted social spending was supposed to provide more efficient social safety nets to catch those affected by the economic crisis and subsequent structural adjustment reforms. Investment in health and education was endorsed as a means to promote growth and competitiveness in globalized markets. More than halfway through the first decade of the twenty-first century, now is an appropriate moment to take stock of the effectiveness of economic growth and anti-poverty programs in addressing poverty and inequality and to outline plans for future efforts to ameliorate these problems in Latin America.

Disciplines such as economics, sociology, public policy, and political science all contribute to our understanding of the sources of poverty and inequality, and this collection of books represents a wide range of the approaches and methodologies used by these disciplines to study poverty and inequality. Collectively, these books address poverty and inequality three ways. First, the three volumes published by international development banks and written mainly by economists explore the sources of poverty and inequality. Second, all five books recommend either implicitly or explicitly certain policies for addressing poverty or inequality. The policy recommendations, especially those of the development bank volumes are neither surprising nor particularly innovative; most continue to recommend targeted investment in human capital to reduce poverty and inequality. Third, the remaining contributions and volumes focus on the politics and implementation of social policy, including targeted policies, in Latin America. The results of several studies suggest that poverty alleviation or targeted policies are not universally effective. Furthermore, as many of the authors suggest, social and political contexts shape the likelihood that policies are politically sustainable or effectively implemented.

EXPLAINING INEQUALITY, POVERTY, AND SOCIAL EXCLUSION

The volumes published by The World Bank or Inter-American Development Bank are dominated by contributions from economists and focus on defining, measuring, and explaining income inequality, poverty, or social exclusion. The volume edited by Bourguignon, Ferreira, and Lustig (2004) provides a methodologically consistent examination of income inequality in Latin American and East Asia in the 1980s and 1990s through decomposition analysis of household survey data from Argentina (Buenos Aires only), Brazil (urban areas only), Colombia, Mexico, Indonesia, Malaysia, and Taiwan, China. The initial chapters explain the Oaxaca-Blinder decomposition methodology that estimates endowment, occupation and price effects on income inequality. As the editors argue, the methodology has several advantages over cross-national macro-level studies of income

inequality because it can describe more completely the reasons for changes in aggregate income inequality within particular economies. A country may experience relatively little change in the overall level of income inequality despite significant changes in the composition of that inequality. For instance, a decline in the gender wage gap that tends to reduce inequality may be offset by a large increase in the number of women entering the labor market at low wage levels. Each chapter applies the same method to analyze the household survey data from each of the seven countries.

The country studies reveal two important trends regarding income inequality in Latin America in the late twentieth century. First, despite similar economic crises and common trends in economic liberalization, overall levels of and changes in income inequality remain distinct by country. In Buenos Aires, income inequality did not change significantly between 1986 and 1992, though it rose dramatically over the next six years. In urban Brazil, by contrast, the high level of aggregate inequality was relatively stable between 1976 and 1996, while the incomes of those below the fifteenth percentile have fallen dramatically. Inequality in Colombia has also had a complex dynamic: between 1978 and 1988 overall inequality appeared relatively stable despite modest increases in inequality in rural areas. In contrast, between 1988 and 1995, inequality in the countryside fell slightly but was entirely offset by increasing inequality in urban areas and by the differences in incomes between rural and urban areas. Not surprisingly, inequality rose noticeably in Mexico between 1984 and 1994. As the editors suggest in the conclusion, this variation suggests that "grand theories about universal laws of how inequality behaves over the process of development are probably less useful than the profession once thought" (399). Though the editors suggest that different development processes may explain the variation, they do not elaborate on any specific differences among the four Latin American countries or suggest what types of theoretical explanations are more likely to explain the relationship between development and income inequality than grand theories. Indeed, it seems likely that differences in inequality outcomes may reflect differences not only in endowments, prices, and occupation effects, but also in policy decisions and priorities of different governments.

Second, the decomposition analysis of inequality in the seven countries reveals one common trend, which the editors label the MIDD (Microeconomic of Income Distribution Dynamics) effect. In nearly all the countries and time periods studied, increasing returns to education led to increasing income inequality at the same time that the distribution of educational endowments became more equal. Increasing returns to education mean that workers with higher levels of education experience greater gains in income from one year of additional education than workers with low levels of education. Increasing returns to education also

offer little incentive for workers with low levels of education to invest in small increases in education because such investments will offer little in the way of wage improvements. It might seem logical that increased inequality could be driven by increases in education endowments among highly educated workers in the presence of increasing returns to education. However, the microeconomic studies of this volume observed such increases in income inequality when educational endowments were becoming more equal due to increases in the middle of the educational endowment distribution, not by increases at the upper end of the educational endowment distribution. While we understand that increasing inequality in the context of trade liberalization, even in labor abundant countries, is likely if increasing trade does not translate into demand for unskilled labor (Wood 1997), the decomposition analyses and growth of income inequality—even as educational endowments improve for the middle of the distribution—suggest that the demand for semi-skilled and skilled labor is still outpacing the supply of such labor in Latin America. The policy implications of the findings are straightforward for these authors: if Latin American countries are concerned with income inequality, they should focus on expanding educational endowments at the low and middle parts of the education distribution so that the supply of semi-skilled labor catches up with demand. While this may be a logical policy recommendation given the findings of the study, it is neither new nor innovative.

Escaping the Poverty Trap, edited by Ricardo Morán, offers a demand-based approach to understanding poverty with a focus on the transfer of poverty between generations. The first part of the book provides a theoretical model for explaining which factors increase the likelihood that children will break the poverty cycle and then tests the model using household survey data from several countries. The theoretical model emphasizes “family-related factors that influence early human capital formation, education outcomes, and hence, lifetime prospects for these children” (13), rather than the supply of educational infrastructure for the poor because “lack of school places as such is no longer a critical impediment to educational progress and the reduction of endemic poverty in most Latin American countries” (55). Family characteristics, such as parents’ education and household income, are important determinants of whether children in poor families are likely to stay in school and eventually move out of poverty.

In order to estimate the relative importance of different family characteristics on the intergenerational transmission of poverty, Ricardo Morán, Tarsicio Castañeda, and Enrique Aldaz-Carroll estimate several statistical models using a household survey panel study of Lima, Peru, (1985, 1994) and household surveys from eleven other Latin American countries in the mid-1990s. Poverty is measured by educational outcomes,

rather than income, and the models explain the likelihood that an individual will complete secondary school given parents' education, family size, household income, gender, and place of residence (urban or rural). Many of the results are unsurprising; higher parent education, smaller families, higher household income, and living in urban areas all increase the likelihood that children born in poor families will complete secondary school. Women from poor families are also more likely to complete secondary school, and an increase in mothers' education has a stronger positive effect on the likelihood of completing secondary school than increases in fathers' education.

The authors use these results to support several policy recommendations for reducing poverty in Latin America, which are expanded upon by the essays and lectures in part two of the volume. For instance, policies should focus on families rather than individual parents or children. Family planning, reproductive health, and family education should continue to promote smaller family size. At-risk families, such as indigenous families and those headed by young, single mothers, should be targeted for additional support. Improvements in early childhood education and scholarships for primary and secondary school students from poor families are also recommended to improve educational outcomes. Again, these policy recommendations are consistent with those made by the development banks for more than a decade.

Though the authors emphasize the need to address demand-side determinants of the perpetuation of poverty, the statistical models leave a large amount of variance in secondary school completion rates unexplained. The unexplained variance in educational outcomes suggests that there is still room for improvement in the supply and quality of educational and health resources. Furthermore, the effectiveness of some programs highlighted as successful examples of family-focused anti-poverty initiatives is hampered by limited health and education infrastructure, especially in rural areas. Many targeted, integral poverty alleviation programs, including *Oportunidades* in Mexico (which is cited as a good policy example in this volume), are limited to the poor in communities with a minimum level of access to health and education facilities.¹ Though such programs may ameliorate poverty in areas that are "easy" to reach, they also risk reinforcing the exclusion of the extreme poor. Moreover, primary and secondary school completion rates will mean little if the quality of educational services are so poor that graduates do not have the skills needed by the market. Until all communities have minimum access to *quality* health and educational resources to be effectively included in targeted poverty programs of the

1. The chapter by Alicia Puyana and Jorge Horbath in *Desarrollo, equidad y ciudadanía* discusses the limitations of targeted social spending in Mexico and Colombia.

sort recommended by this volume, attention should not be diverted from the supply-side determinants of poverty.

Social Inclusion and Economic Development in Latin America takes up the issue of social inclusion with a focus not on poverty or inequality defined in terms of income but in a broader framework of relative freedom and capabilities, which is informed by the work of Amartya Sen (2000). Substantively, the essays cover a range of countries in Latin America and discuss the social exclusion of women, Afro-descendants, indigenous peoples, people living with disabilities, and people living with HIV/AIDS. In general, the essays address one of the following broad issues: differences and commonalities in the types of social exclusion experienced by different groups, the costs of social exclusion for communities or economies as a whole, or the inability to measure or address social exclusion due to the invisibility or lack of data for certain excluded groups. Some essays in the volume explain how gender discrimination differs from ethnic or racial discrimination, while others emphasize that women who are members of ethnic or racial minorities are likely to experience more marked discrimination in labor markets.² Other essays, such as that by Jonas Zoninsein, explain how discrimination in labor markets reduces incentives for discriminated groups to invest in human capital and enables inefficient firms to survive by paying low wages.

The more interesting contributions to this volume, however, are those chapters that discuss the pressing need to address the invisibility of certain types of social exclusion in Latin America. In many countries, political and social discourse denied in the past or continues to deny the existence of discrimination according race, ethnicity, gender, sexual orientation, disability, and HIV/AIDS status.³ Excluded groups struggle to get government recognition on national censuses or household surveys because without data to document exclusion, excluded groups have difficulty identifying and organizing their membership and effectively lobbying governments for inclusive public policies.⁴ For some groups, organizers and activists face challenges where social norms and stigmas may lead some group members to not identify with the group. Evidence from Peru, for example, suggests that individuals are not willing to self-identify as racial or ethnic minorities.⁵ In such cases, even if governments officially acknowledge social exclusion and try to gather data on its characteristics, the correlation between social exclusion and membership

2. Mala Htun discusses the ways that gender discrimination is different from other forms of discrimination. Several chapters in Part III of the text, including case studies of Brazil and Peru, demonstrate that gender discrimination can be compounded by race or ethnicity.

3. For example, Gilberto Rincón Gallardo explains that prior to 2000 the Mexican government did not officially recognize discrimination.

4. See chapters by Jacqueline Mazza, Ernest Massiah, and Eva T. Thorne.

5. See chapter by Máximo Torero, Jaime Saavedra, Hugo Ñopo, and Javier Escobal.

in a particular disadvantaged group is still likely to be underestimated in national statistics. To the extent that several chapters in this volume begin to address these issues, they signal an important and growing area of research for those concerned with social exclusion, poverty, and inequality in Latin America. Such discussions of the myriad forms of social exclusion help research on poverty and inequality move beyond its sometimes myopic focus on income.

POLICY THEORY VERSUS POLICY REALITY: THE POLITICS OF PRO-POOR POLICIES

The remaining two volumes under review move beyond the policy laboratory to examine how politics affect the implementation and effectiveness of social policy for the poor on the ground. The contributions to *Changing Paths*, edited by Houtzager and Moore (2003), address the ways in which the polity or political institutions influence the effectiveness of policies designed to ameliorate poverty. Houtzager's introduction frames the project as a corrective to rational choice or neoliberal perspectives that emphasize state failures and to post-structuralist approaches that overestimate the ability of civil society to correct market failures. Instead, Houtzager proposes a polity-centered approach that emphasizes path dependence and the importance of political institutions in shaping collective action and the relationship between civil society and the state. The contributions include a variety of case studies, qualitative and quantitative cross-national comparisons, and theoretical essays. Most conclude that political institutions are important determinants of pro-poor policy effectiveness either directly or, more often, indirectly through their impact on the capabilities of local communities to articulate and defend their interests.

For instance, sub-national comparisons of the implementation of pro-poor policies in Bolivia (chapter 12 by Laurence Whitehead and George Gray-Molina) and India (chapter by John Harriss) suggest that while such policies require a commitment from above, success is often determined by the ability of local communities to challenge local elite opposition, and such ability is shaped by political institutions, the availability of political allies, or elite unity. The authors are not suggesting that institutions merely mediate conflict between plural societal interests, nor do they suggest that institutions alone shape the interests and resources available to civil society. Their position is somewhere between the two extremes and argues that the interaction of institutions and civil society over time reinforces certain patterns of access, resources, and organization that produce variation in pro-poor policy outcomes.

In a similar way, the two chapters by Peter Houtzager and Marcus Kurtz, which compare the Philippines to Peru and Chile to Mexico, respectively, suggest that historical interactions between political institutions and civil society produce divergent policy outcomes between

countries. In all four countries, significant institutional challenges or change occurred during the periods of study, which interacted with different configurations of domestic power to produce varying outcomes. In the Philippines and Peru, the organizational capacity and political engagement of civil society actors were shaped by these processes. In Chile and Mexico, democratic transition and political competition combined with differences in the strength of rural civil society shaped the design, implementation, and effectiveness of targeted poverty alleviation programs. Both studies demonstrate the iterative and interactive process between civil society and political institutions that ultimately determines policy outcomes. Together, the empirical contributions in *Changing Paths* move beyond simple unidirectional causal explanations of policy outcomes that give primacy to either civil society or institutions, and instead they offer complex explanations of the various ways in which civil society and political institutions interact over time to create particular contexts for public policy.

In *Desarrollo, equidad y ciudadanía* (2003), Alicia Puyana and Guillermo Farfán have brought together an uneven but interesting collection of research. Unlike the other volumes under review, the contributions in this volume are not tightly bound by a common theoretical or methodological approach. Many of the chapters do contribute to debates addressed by the other volumes under review, especially *Changing Paths*. Two important themes emerge: the factors that determine the political sustainability of pro-poor policies and the implementation or effectiveness of such policies.

Regarding the politics of poverty policies, several authors in these volumes take issue with political economy models that conclude that pro-poor policies are politically unsustainable. In *Desarrollo, equidad y ciudadanía*, Merilee Grindle argues that formal political economy models do not accurately reflect the political process. Instead, policy making is a dynamic process that cannot be reduced to the distribution of winners and losers. This critique echoes an argument made by Ronald Herring in *Changing Paths*. Herring critiques political economy models that claim that agrarian reform is politically impossible or not sustainable and argues that agrarian reform may actually be more effective than targeted poverty alleviation programs. In a similar vein, Joan Nelson's contribution to *Changing Paths* suggests that the most politically sustainable pro-poor policies are those that address the needs of both the poor and middle strata. Rather than purely targeted policies, Nelson recommends including targeted benefits within more expanded universal programs. Together, these essays suggest that formal political economy models do not accurately reflect the real political processes that shape anti-poverty policy in Latin America. Though formal models may be useful heuristic tools, too often their simplifying assumptions bear little resemblance to political realities.

Other authors in *Desarrollo, equidad y ciudadanía* focus on the implementation or effectiveness of poverty policies in Latin America. Norman Hicks and Charles Griffin of the World Bank outline the characteristics of successful anti-poverty policies, focusing on targeting and investing in human capital. In contrast, the chapter by Alicia Puyana and Jorge Horbath on targeted poverty alleviation programs in rural Colombia and Mexico suggests that targeting often excludes the poorest communities and regions. They call into question the effectiveness of targeting if it fails to reach the poorest sectors. Barbara Stallings and Jürgen Weller instead focus on the labor market and suggest that addressing labor market inequalities and the wage gap between formal and informal sector workers may be a more effective way to address poverty. Investment in human capital and the adoption of unemployment insurance are part of such a strategy, but policies that encourage the growth of firms that offer formal sector employment and thus the expansion of social insurance coverage are also important. Such recommendations were absent from the volumes produced by the development banks, which instead treated the labor market structure as a given rather than as an arena for anti-poverty policy. These chapters, like many in *Changing Paths*, reflect a more thorough understanding of the complex realities of policy-making and policy implementation.

POVERTY, INEQUALITY, POLICY AND POLITICS

Individually, these books provide economic explanations of poverty and inequality and political explanations of why anti-poverty policies are frequently ineffective. Collectively, these books illustrate the tension between policy recommendations and policy implementation, or between policy design and politics. The economists at the development banks have produced careful studies that highlight the sources of both poverty and income inequality, but the policy recommendations, which tend toward recommendations to stimulate demand for education, continue to be more of the same policy recommendations that have been promoted by development agencies for more than a decade. The sociologists and political scientists in these volumes argue and demonstrate that the effectiveness of social policies aimed at reducing poverty or income inequality is fundamentally shaped by political context. Economic models and policy proposals should better address the ways that political institutions and the distribution of political power shape policy implementation and outcomes. Effective pro-poor policies require building and sustaining political support for such policies, including designs that enable beneficiaries to become strong program advocates. Policy-makers must be careful to avoid pro-poor policies that only create new forms of social exclusion.

According to World Bank estimates, 9.7 percent of Latin Americans were living on less than one dollar a day and 26.9 percent were living on less than two dollars a day in 1981. By 2001, these figures were still 9.5 percent and 24.5 percent (World Bank 2005a, table 2.5a). Though poverty peaked in Latin America in the mid-1980s, economic recovery and economic restructuring did not make large inroads into poverty throughout the region. Nor have targeted social spending or efforts to invest in human capital greatly reduced poverty or income inequality over the last decade. Despite the modest progress toward reducing poverty in the region, The World Bank continues to promote more of the same policy recommendations, though with some encouraging changes recently. The World Bank's *World Development Report 2006: Equity and Development* (2005b) continues to endorse targeted pro-poor policies and investment in human capacity as an effective means for reducing poverty and income inequality in the world. The report also acknowledges, however, the need for redistribution of influence and subsidies away from dominant groups, including several institutional reforms. To the extent that these recommendations signal the need to address political inequalities in addition to economic inequalities, perhaps the economists at the development banks have begun to take seriously the lessons learned by political scientists and sociologists who have studied the politics of poverty in developing countries.

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