

## QUICK READ SYNOPSIS

Chronicle of a Myth Foretold:  
The Washington Consensus  
in Latin America

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## Introduction: Of Myths and Markets

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### *Background*

By the 1990s, policy makers in Washington, known as the Washington Consensus, said that the proper role for government in a global economy is simply to get out of the way and let markets do their work.

- The proving ground for the Washington Consensus was Latin America, which, until the 1980s, had been dominated by an economic policy known as import substitution industrialization (ISI).
  - State action was seen as essential for development.
  - The government erected tariffs and fed domestic producers the internal demand for products and also helped them grow.
  - Heavy industry and utilities were often government owned.
- One downside of ISI was rising economic inequality and growing regional imbalances—it did not generate rates of economic growth or poverty reduction seen in areas like export-oriented Asian economies.
- With pressure from the United States, nations in Latin America began to dismantle the apparatus of ISI.

- Tariffs were lowered, state businesses were privatized, and government controls were reduced.
- Foreign investment flowed in and rapid growth made it seem that the Washington Consensus free market idea was right.
- Countries around the world undergoing transition from state socialism to capitalism were also pressured to follow the Washington Consensus idea, but despite early optimism, by the mid-1990s a series of financial and economic meltdowns occurred.
- In the aftermath of the turmoil, policy analysts throughout the world challenged the basis tenets of the Washington Consensus.
  - They took to task the simpleminded faith in markets and naiveté about the societies in which they intervened.

*Free Market*

Unfortunately, the idea of the free market can be misleading—it suggests wrongly that markets exist autonomously, as states of nature, and that in the absence of interference, they will operate smoothly and effectively.

- Markets are competitions among people seeking to maximize their own advantage while trading resources according to specific rules.
- In this way societies regulate competition and constrain outcomes.
- The role of government is to ensure that needed markets exist, transactions are enabled, all have access, and all are reasonably protected against the consequences of potential market failures.
- As new technologies emerge, the nature and number of markets change—the relative success or failure of any particular market depends greatly on a country's social institutions and social norms.
- Governments necessarily play an important role in building the legal, institutional, cultural, and human capital infrastructure that enables the effective functioning of markets.

*Washington Consensus Failure*

The Washington Consensus was imposed by rote in country after country by technocrats with little or no comprehension of the history, culture, or language of the societies into which they were intervening. The articles in this volume examine its shortfalls and consequences.

*Magic to Realism*

It is clear that the blind faith in the power of markets was magical, not realistic.

- Giving free reign to market mechanisms while ignoring the state and paying scant attention to institutions did not produce steady growth.
- Neoliberal policies did not shrink government budgets, reduce social spending, or lead to sustainable increase in foreign investment.
- By opening up to global trade, these policies radically increased the size of the informal or underground economy at the expense of formal jobs, while increasing disparities of income.
- Rising inequality in the economic sphere was accompanied by a growing segmentation of urban neighborhoods by class and income. In the face of this, faith in democracy waned, yielding a crisis of governability that threatened the sustainability of economic reforms.

NOTE: There is now a call for an appreciation of the role of institutions. Markets alone cannot produce steady growth unless certain features of social organization and behavior have been institutionalized beforehand.

*Conclusion*

Although findings suggest that institutional reform is a key element of economic development, they do not reveal the nature of the changes that are required in any given national setting.

- Good institutions are those that secure property rights, enforce contracts, guarantee rule of law, ensure fair competition, support a sound currency, mediate risks through social insurance, preclude confiscation of profits, mitigate market failures, and encourage market strengths.
- The configuration of institutional arrangements depends on a nation's historical legacy of cultural values, economic institutions, social organizations, and political structures in the context of using locally available cultural resources.
- There must be a realistic appraisal of local institutions and how they can be adapted to create conditions for economic growth, rising human welfare, and stable democratic governance.
- The creation of efficient, effective, and fair markets requires an efficient, effective, and fair government; and a competent, forward-looking state is essential for progress and development in a global market economy.
  - Paradoxically, the road to development leads not around the state but with the state as an active partner.

## Neoliberalism and Patterns of Economic Performance, 1980-2000

Joseph Nathan Cohen and Miguel Angel Centeno,  
Princeton University

*Background*

The basic premises of worldwide economic policy making have undergone profound shifts over the past three decades.

- The new neoliberalism mandated the removal of government's hold over the economy and the reintroduction of open competition.
- The market reemerged as the central force governing economic activity during the 1990s, and neoliberalism became entrenched.

*Neoliberalism*

By the 1990s, neoliberalism's legitimacy was solidified by a worldwide economic boom that appeared to offer nations great opportunities for growth by attracting the massive amounts of the then circulating capital.

- Neoliberalism has reengineered much of the world economic system and has become substantially ingrained in our economic institutions.
- After the 1980s, trade barriers were reduced, controls on capital were loosened, companies were privatized, currencies were decontrolled, and taxes were lowered.
- These changes reduce the power of the state relative to capital, undercut the unions, and threaten the security of social spending.

- Although the neoliberal transition appears to have brought about a dismantling of trade barriers and capital controls and a substantial increase in the volume of international capital flows, it is not clear that the shifts have brought about corresponding changes in the volume of global trade, government budgets, or social spending.

NOTE: Despite setbacks owing to the spread of terrorism, a sharp economic recession, and a rising tide of protest against trade and globalization, these structural reforms largely remain in place.

### *Embedded Liberalism*

Under the pre-1990s embedded liberalism, trade barriers and capital controls were high and the state wielded great power over the private sector and international capital interests.

- Unions were strong and business highly regulated and taxed to provide resources for secure social spending.
- Publicly owned enterprises were common.
- National leaders sought to promote growth in international markets.
- Currency prices were set by multilateral agreements rather than global markets.
- International policy making focused on geopolitical issues arising from the cold war.

### *Government Spending*

In theory, neoliberalism's return to the market should have coincided with smaller government budgets and fewer redistributive transfers.

- If governments were dedicating themselves to promoting the market as a mechanism of allocation, one would expect transfer payments and, in turn, government expenditures to decline—and they did not.
- Spending reductions appeared only in the most free-spending nations—those with very large budgets relative to domestic output.
  - Summary statistics suggest that relative government spending was quite stable during the 1980s and 1990s.
  - The data cast doubt on the notion that there was a significant change in government spending because of neoliberalism.
- Another possibility is that government spending did not recede since 1980 but changed the areas to which funds were allocated from social spending to spending to skew international markets.

### *International Trade*

In addition to limiting government spending, neoliberalism was also supposed to have dismantled barriers to trade.

- Unfortunately, the increase in international trade has been described as both a reason for implementing neoliberalism and a consequence of it, so the direction of causality is not completely clear.
- Nations had to open their borders to avoid market failures, cultivate competitiveness, discourage corruption, and forestall indolence.
- Although import tariffs remained strong through 1989 (and in some cases even increased), they clearly declined between 1990 and 2000.
- As for export tariffs, the data suggest that the export duty approached extinction as a policy instrument in the 1990s.
- There is a slight increase in trade over the neoliberal period—this is substantively small, just one percentage point every two years.

- One might argue that the shifts have less to do with the spread of liberalism than with advances in telecommunications technology, improvements in transportation infrastructure, or the accumulation of capital by multinational firms.
- International Financial Flows*
- In addition to lowering trade barriers, neoliberalism also sought to reduce barriers to international capital mobility.
- By 2000, the median level of gross foreign direct investment was 5.5 times greater than the 1980 median, a proportional increase that is observable across all percentiles of the 1980 investment distribution.
  - The empirical data offer a clear testament to the degree to which capital flows favored the Organization for Economic Cooperation and Development (OECD).
- Economic Performance*
- What are the economic advances between 1980 and 2000 in terms of output growth, income distribution, price volatility, employment, and national debt?
- GDP growth rates under neoliberalism are thus far from the century's best and, in most nations, are being outpaced by population growth.
  - People in most nations came to earn less compared to citizens of the United States, and the data still show that inequality is increasing.
  - Inflation does appear to have been nearing containment across the world as the century ended and price growth has generally declined.
  - Market liberalization does not appear to have substantially affected unemployment levels, although it may have cultivated a convergence of cross-national differences in rates of unemployment.
  - Although the median level of debt dropped in the OECD after 1993, debt levels in the emerging markets began to rise after 1995.
- Conclusion*
- After 1980, developing nations were pushed toward a package of "neoliberal" reforms that included a reduction of total government spending, restricted social spending, privatization of state enterprises, lowering tariff and trade barriers, and decontrolling capital markets.
- In theory, neoliberal reforms were supposed to lower total government spending, but there is no compelling evidence of a meaningful downward trend in government spending relative to GDP during the final decades of the twentieth century.
  - Although reformers called for limitations on government social spending, evidence to support these expectations is very limited.
  - Although spending on defense, government salaries, and economic subsidies did appear to decline, many redistributive state transfers—such as housing, health, welfare, and education—did not.
  - Trade generally increased as a share of GDP for most countries, although the rate of growth was rather slow and it is not at all clear whether all or part of it can be attributed to the spread of neoliberalism.
  - The privatization of state-owned enterprises did occur from the adoption of neoliberal policies, but the wave of privatization appeared to crest around 1997 and was drawing to a close by century's end.
  - Neoliberalism also appears to be associated with growth in economic inequality between nations.

- Aside from the expansion of global trade, neoliberalism's only other unambiguous success is the control of inflation.

NOTE: The legacy of the neoliberal period thus appears to be stable prices and a greater orientation of nations toward trade and international investment but little job creation, rising inequality, and a declining standard of living in most nations outside the OECD, with the notable exceptions of China, Singapore, Taiwan, and South Korea.

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## Vanishing Assets: Cumulative Disadvantage among the Urban Poor

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### *Background*

Recognizing the multifaceted nature of poverty requires acknowledging that “the capabilities of individuals and households are deeply influenced by factors ranging from the prospects of earning a living to the social and psychological effects of deprivation and exclusion.”

- Rising poverty has had serious effects on the poor's capacity to maintain networks of social exchange.
- As economic uncertainty stretches on, apparently indefinitely, a social and cultural context of radical exclusion has emerged in urban Mexico.
- This study looks at Guadalajara, Mexico's second-largest city, where a growing number of people earn extremely low wages and are excluded from formal and more secure labor markets.
- The concern of this author's research is not to measure poverty but to investigate what people actually do to get by as actors who are enabled and constrained by complex social settings.

### *Resources of Poverty Model*

The resources-of-poverty model refers to the diversity of income sources and to the social organization of households that make survival possible.

- Prior to the economic crises of the 1980s and 1990s, the household served as the social unit in charge of reproducing labor and ensuring the survival of its members in spite of low wages.
- Household members managed to cope with scarcity by having more than one working household member, diverse income sources, and the reliance on interpersonal networks of reciprocal exchange.
- Although men were the main wage earners, women also contributed.
- Income and assets from social exchange through networks and support systems were crucial for the survival of urban working-poor households.
- Social exchange—the flow of goods and services within networks of friends, neighbors, workmates, and relatives—was important in helping low-income households meet socially set standards of living.
- The diversification of the household's collective income-generating strategy cushioned the effect of a temporary crisis, such as the unemployment, illness, or death of a working member.

*Implications of the Model*

- Larger, extended households could deploy their labor to earn more income and make larger contributions to the household budget.

Under the resources-of-poverty model, household survival and reproduction are achieved through a combination of social and economic mechanisms.

- A particularly important ingredient involves income generation of members other than the primary breadwinner.
- At this point in time, there was no real feminization of the household economy.
- The resources-of-poverty approach sees households as settings where daily confrontations and negotiations occur in a context of internal inequality and the differential distribution of burdens and rewards.
  - In this way, poverty is conceptualized as a phenomenon that differently affects women, men, children, and adults.
- Children were especially vulnerable to extreme poverty, and suffering was a daily feature in the lives of poor households.
- Women had to endure a triple burden as care providers, wage workers, and participants in collective activities in their neighborhoods for the provisioning of services.

*Structures in Transition*

Previously, growth was achieved through the production of commodities for internal markets, and then the imposition of structural adjustment policies in Mexico produced deep social reorganization.

- Wages continued to decline while inflation rose.
- State-owned enterprises were privatized and government social expenditures fell from 7.6 percent of GDP in 1981 to 5.6 percent in 1987-1988.
- The opening of local markets to foreign goods seriously undermined local manufacturing enterprises.
- Guadalajara was particularly hard hit by the new “open economy,” which brought cheaper imported shoes, clothing, and textiles to local shops and all but annihilated Guadalajara’s main manufacturers.
- The lowering of labor costs was an important means for local enterprises to survive under these conditions. In 1987, wages in new manufacturing plants were 60 percent lower than wages in older ones.
- Inequality increased dramatically—the richest 10 percent of the population earned 55 percent more in real terms in 1992 than in 1977 while the real income of other social groups declined.
- The labor flexibility of households and their capacity to adapt to the new economic conditions by sending out more workers kept household incomes from falling as rapidly as individual wages.
  - The most important change in this respect was the increase in women’s participation in wage-earning activities.
  - Young males—typically sons—also increased their participation in the labor market.
- Self-employment increased, as the relative attraction of independent work increased as formal wages declined.
- Many households stopped buying consumer goods and services, replacing them with homemade equivalents (through recycling objects, repairing domestic appliances, and mending old clothes).

- Social Networks* The importance of being part of social exchange networks was enhanced.
- Women's networking became a crucial factor in daily life, providing support in child care and household chores and crucial information about new sources of income.
  - Basic consumption suffered, and important modifications were made as real wages deteriorated and employment became scarce. Wives stopped buying meat or bought less of it in favor of carbohydrates and less expensive proteins. Deprivation describes this transformation.
  - In spite of the relative success of the adaptive shifts within households, economic change in Mexico produced a rapid deterioration of living conditions for the majority of urban households.
  - Economic liberalization and the export production model have increased the number of poor households—while macroeconomic indicators recovered after the 1995 crisis, the benefits of such recovery did not reach the household level.

- The Poverty-of-Resources Model* The new economic realities have helped to reduce the capacity of households to respond in the older, traditional, resources-of-poverty way.
- Households have been forced to gather and create new economic resources and to intensify their use of their household labor to achieve survival and reproduction.
  - Neoliberal policies have made extreme hardship a defining condition of the poor's existence. The resources-of-poverty model is no longer empirically or theoretically viable.
  - This new model is the outcome of labor exclusion and the persistence and intensification of poverty—it signals the erosion of the social and economic conditions for survival among the urban poor.
  - Deteriorated labor markets mean exclusion rather than a diversification of options for the large number of working poor.
  - The long-term crisis has made the urban poor's resourcefulness insufficient to offset the erosion of their resource base—their lost capacity to participate in alternative occupations and to undertake self-provisioning activities leads to cumulative disadvantages.
  - The neoliberal development model has given rise to an immense group who cannot enter into the dynamics of this new labor system.
    - Unemployment—especially youth unemployment—is increasing.
    - The workforce is feminizing as capital searches for inexpensive female workers.

NOTE: The enormous risk is the creation of “unnecessary” or “redundant” groups of people: those who are not fully employable and have lost the central references of work to guide their lives. A new type of labor market segmentation is emerging between a very privileged group of workers and the vast majority who struggle to survive with very limited resources.

- Emigration* The difficulty of obtaining and keeping jobs in Mexican cities, together with the low pay, underlie decisions to emigrate to the United States and become part of transnational worker communities.

- Survival in Guadalajara and other Mexican cities has become even harder without contributions from these absent household members and without the daily social exchanges they used to provide.
- The declining role of men as breadwinners has developed in a setting where women increasingly work for wages that, although very low, have become critical for household maintenance.
- This deterioration is exacerbated by the consumption of alcohol and drugs and by a proliferation of robbery, assaults, and crime.

*Conclusion*

The issue here is that international competition gives rise to low wages.

- New research and thinking are needed to develop a picture of the differential effects of current economic conditions on men and women.
- Labor exclusion is creating new and highly gendered household patterns wherein men are losing their capacity to perform their socially assigned role of providers and women are emerging as the new breadwinners, albeit at very low wages.
- Female-headed households have managed to protect their consumption patterns during this economic crisis, and male-headed households consistently displayed a higher risk of living in poverty.
- Extended and consolidated (mature) households have traditionally been more successful at protecting their incomes, but with the devaluation of labor as a household resource, their comparative advantage has withered and they face mounting difficulties in putting family members to work.
- The emphasis on the multiplicity of income sources that was part of the resources-of-poverty model and the data gathered on households' responses to the 1980s crisis helped to create the impression that the poor would survive even without employment—this view is wrong.
- Past analyses did not emphasize enough the real importance of wages coming from the market as the trigger for other activities and therefore the motor of reproduction, and they did not predict the erosion of other sources of income when wages were absent.

NOTE: A huge gap between the very privileged who can obtain permanent employment and those excluded from permanent employment is increasing. New segmentation features are emerging, and this time households seem to be less able to counterbalance them.

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## Consequences of Structural Adjustment on Economic and Social Domains: Two Decades in the Life of Peru

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*Background*

This article addresses the question, “Was the situation of small producers in Peru generally better after adjustment measures?”

- Economists employ various criteria to assess growth.
  - Sometimes the key indicator is the volume of production.
  - At other times, it is diffusion of a cash economy.
  - And still at other times, it is the growth of revenue.
- This article considers a comprehensive set of indicators of production, diffusion, and revenue, examining trends among different types of producers, classified according to what they produce and the organization of production.
- The focus is on six aggregate indicators: the relative number of poor and extremely poor families, real wages, prices, employment and unemployment rates, the terms of trade between agriculture and industry, and the import/export ratio of food.
  - The first four indicators show the situation of rural families and their capacity to attain food security.
  - The remaining two show the degree to which agriculture contributes to the national economy as a dynamic sector, as well the extent to which it offers food security.
  - Data at the family level captures the amount, type, and source of income for different-sized farm households.

*Economic  
Indicators*

The economic indicators looked at to answer the question posed at the beginning of this article include the following factors:

- Most agricultural products' prices declined in recent years.
- The terms of exchange between agriculture and industry remained stable for most of the 1990s but fell to preadjustment levels in 1999.
- The data offer little evidence of significant improvement in the economic fortunes of farm producers under structural adjustment.
- The proportion of people adequately employed suffered drastic declines between 1988 and 1990 and then remained at this new, lower level for the next decade.
  - Real wages decreased in parallel with the decline in adequate employment.
  - The richest 10 percent of workers earned eighteen times more than the poorest 10 percent in 1994, and this differential fell to fourteen times by 2000. Thus, the decline in wages was accompanied by a slight decline in income inequality.
- Although the poor performance of the urban economy cannot be attributed categorically to structural adjustment, the program was at the very least unable to counter broader downward economic trends.
- Only in cocoa beans, coffee, cotton, and rice—products that are either exported or have significant urban consumption—was there a slight recovery in prices, though in no case were 1989 prices ever regained.
- Five years after the implementation of structural adjustment, the percentage of poor rose once again to reach 54.1 percent in the year 2000. In other words, the highly urbanized area of Lima was better able to resist the economic adversity and dislocation that accompanied structural adjustment.

NOTE: The Peruvian economy was stabilized at a very low and precarious level of performance, with widespread impoverishment, falling wages, lagging prices, and the loss of adequate jobs. This led to a situation of food insecurity severe enough for the government to begin engaging in the provision of food assistance to almost half of the Peruvians six years after the implementation of structural adjustment.

### *Agriculture*

Farmers faced not only a decrease in the price of agricultural products but also a withdrawal of significant investment in infrastructure, technological improvements, and technical assistance.

- Given that the country did not have an agrarian policy, a strategy for rural development, or a meaningful policy for international trade of agricultural products, the high subsidies provided by industrialized country governments to their own agricultural sectors undermined the situation of Peruvian farmers.
- National and household economies stabilized at precarious levels are not simply unable to grow, but usually they fall behind, given technological and productive advances in other countries.
- Income never reached an adequate level within any state or stratum—Peruvian farmers are barely making a living.
  - What *has* changed over the decade is the intensity of family labor and the extent of engagement in multiple tasks in order to reduce the consumption of urban products and/or to seek refuge by increasing self-consumption.
  - Sixty-three percent of children presented either one or two types of malnutrition, an untenable proportion by most standards.

### *Gender*

Under structural adjustment programs, women are generally the ones who end up compensating for deficiencies in state and market provisions by increasing the production and supply of food for their families; rural women in particular absorb the greatest costs of social reproduction.

- Rural women are also vulnerable to increasing violence created as transnational corporations (in mining and agroindustry) and local elites use force to dislodge peasants and native Americans from their traditional lands to gain control of subsoil resources.
- Since women have a much lower level of literacy than men, especially in rural areas, and given that they own less land than men, their situation must be quite precarious at home, for women's land ownership is associated with having a greater role in both household and farm decision making and with lower rates of domestic violence.
- Peruvian women unduly bear the burden of growing food for subsistence and have children whose health and nutritional conditions leave them vulnerable to illness and stunted development.

### *Conclusions*

In the past two decades, the agricultural economy of Peru has not performed well. Although it did become stable, as anticipated by structural adjustment measures, it did so with widespread poverty and underemployment.

- Rural areas have suffered the most—all the indicators together document the poor economic performance of agricultural producers during the years when structural adjustment policies were applied.

- Lima employs close to 30 percent of the nation's workers; and whereas wages in Lima's private sector also stabilized after 1989, they did so at just 25 percent of what they were in 1990.
- It is clear that Peru as a whole has gone through a process of deindustrialization and "reprimarization" of the economy.
- Structural adjustment has tended to increase the economic vulnerability of Peruvians while reducing basic safeguards to a minimum.
- Growth depends on technological investment, which in turn depends on the culture and education. Technological innovation is positively correlated with the application of new sources of energy and knowledge to the productive process.
- The deteriorating agricultural situation in Peru is not due to any reluctance of producers and farmers to change or take risks; it is mostly because of the type of land they occupy, the lack of productive technologies and management suitable to their situation, and the institutional weakness of markets in rural areas.
  - What is needed are policies and strategies that recognize the diversity of agricultural producers.
- The key is how to improve the conditions under which farmers become integrated into markets, and to improve their functioning, which cannot be accomplished with macroeconomic policies alone.
- The revitalization of markets will occur only if people have enough money to enter the economy, and leaders cannot assume that all markets function in the same way.
- Given current relations of power between developed and developing countries, it is an open question whether structural adjustment policies can be reconfigured to work in the interests of the Third World.

## *Sálvese Quien Pueda: Structural Adjustment and Emigration from Lima*

Douglas S. Massey and Chiara Capoferro,  
Princeton University

### *Policy Changes in Peru*

The failure of the labor market after the imposition of structural adjustment policies was predicted to produce a higher rate of out-migration to a larger number of areas by a wider cross-section of Peruvian society.

- After the introduction of structural adjustment policies in 1987, inflation surged to record levels, averaging more than 4,000 percent during 1988 through 1990 and peaking at more than 7,000 percent in the latter year.
- These rates of inflation had catastrophic effects on the real wages of Peruvian workers. From 1988 to 1992, real incomes dropped more than 40 percent.
- After 1993, an economic recovery did not yield a return to former levels of employment, and joblessness rates were higher.

*Migration  
Study*

- Although incomes for employed Peruvians have risen from the depths of the postadjustment crisis, fewer were employed and able to earn those incomes, yielding lower “expected earnings” for the typical worker.

The general strategy employed in the study was to estimate separate migration models before and after the imposition of structural adjustment policies in 1987.

- The implementation of structural adjustment measures in Peru led to a sharp acceleration in the extent of international out-migration during the period 1988 to 2000.
  - There was, it seems, a migratory response to the economic dislocations caused by neoliberal economic policies.
- As the structural adjustment of the Peruvian economy proceeded, residents of Lima reacted by leaving in greater numbers and going to a greater diversity of destinations.
  - The diversification of receiving country labor markets is an outcome predicted by the new economics of labor migration and suggests that migrants indeed were seeking to overcome domestic market failures rather than leaving to maximize earnings by garnering higher returns to human capital.
- As the prevalence of international migrants in the neighborhood increases (an aspiring migrant now knows someone with prior international experience to draw upon for assistance), the odds of leaving Lima for a foreign destination rise accordingly.
- Given the ongoing failure of Lima’s labor market after 1987, older sons and daughters ceased making strategic moves to maximize the returns to human capital and became much less selected according to age and prior migratory experience.
  - Instead, they turned to their social networks to take advantage of any connection to a migrant to move to any possible location outside Peru and, preferably, out of Latin America, where many nations were themselves experiencing problems.

*Conclusion  
after Analysis*

Analysis suggests both in the odds of international migration and the motivations for leaving among inhabitants of Peru’s largest labor market shifted after the imposition of structural adjustment policies in 1987.

- Before this date, under the regime of import substitution industrialization, jobs at wages capable of sustaining a basic standard of living were widely available and those few who left the country were moving abroad to improve their earnings.
- Under neoliberalism, however, both employment and wages fell to levels that made it difficult for families to sustain themselves, and in response households sought to diversify their labor portfolios away from an exclusive reliance on the local job market.
- Many families turned to social connections to enlist the assistance of friends and relatives with foreign experience to help them relocate to labor markets away from zones undergoing structural adjustment.

NOTE: In the aftermath of structural adjustment, the operative principle in Lima seemed to be “every man for himself.”

## Frustrated Achievers: Winners, Losers, and Subjective Well-Being in Peru's Emerging Economy

Carol Graham, University of Maryland;  
and Stefano Pettinato, UN Development Programme

### *Background*

In general, the effects of wealth on people's happiness within developed countries are far less important than the effects of other factors such as employment, health, marriage, and age.

- In Europe and North America, being employed, female, young, or old (as opposed to middle-aged), educated, married, and having few children are all associated with happiness.
- Macroeconomic variables other than income growth, such as inflation, unemployment, and volatility have even stronger negative effects on average happiness.
- Findings suggest that factors other than income growth affect individuals' assessments of personal welfare, and these same factors may also influence their responses to economic incentives and policies.
- In affluent societies, spending increasingly becomes a means to achieve social status rather than to meet needs—people tend to spend more and save less when they have wealthier friends and neighbors.
- Several factors that have been shown to influence subjective well-being, such as income inequality, macroeconomic volatility, and occupational status, fluctuate more sharply in developing countries.

### *Structural Variables*

In addition to the individual and country-level variables that are known to influence happiness, structural variables related to international economic integration (macroeconomic volatility, globalized information, income mobility, and equality) also have important effects on perceived well-being.

- This article focuses on the emerging market countries.
- The effects of structural variables appear to be stronger in developing countries (particularly those that are opening up their economies to the rest of the world) than in developed economies, as the former are still in the process of integrating into the international economy.
  - Also, fluctuations in the distribution of income and in socioeconomic mobility are likely to be more severe.
- Arguably, the relative degree of happiness among citizens in developing countries can have strong implications for the political sustainability of market reforms and for the stability of societies generally.
- This article explores three propositions using panel data from Peru:
  - That relative income differences affect subjective well-being or happiness more than absolute differences in income, at least above a certain income threshold.
  - That people's position in an income hierarchy matters a great deal and that those in the middle, rather than those at the bottom, are more likely to be dissatisfied.
  - That changes in status—conceptualized here as income mobility—have significant effects on happiness.

*Easterlin*

Easterlin posited that absolute income levels matter up to a certain point, after which relative income differences matter more.

- Because the rich derive much of their satisfaction from their relative position in society, their happiness would not be reduced much if all their incomes were cut simultaneously—justifying redistributive taxation.
- The importance of relative income depends in part on social norms, which vary among societies—some societies, such as the United States, are willing to tolerate higher levels of inequality in exchange for real or perceived benefits, such as greater freedom and opportunity.
- Perceptions of differences in circumstances, rather than objective differences, have negative effects on happiness—those at the bottom feel less well off, but as economic conditions improve, so do the reference norms, causing a weak positive correlation between wealth or income and happiness within and between countries.
- Consistent with the above, economic growth in developed countries has not been accompanied historically by an increase in subjective well-being.
- Other studies support the proposition that relative income and reference groups have stronger effects than absolute ones.

*Perceived Needs*

The importance of relative income and reference groups in determining happiness can lead to an ever-rising bar of perceived needs.

- Schor (1998) cited survey data to indicate that more than half the people in the United States say they cannot afford everything they really need.
- Conditions that increase the average level or intensity of expectations without increasing capabilities increase the intensity of discontent.
- Early in the course of a country's economic development, one individual's perceived welfare is enhanced by the advancement of another, because it offers a bright future for both.
- In the short run, these positive effects are stronger than the negative feelings of envy, yet if the first individual does not realize gains, these feelings can result in frustrations.
- Not surprisingly, being unemployed and in poor health both are negatively correlated with happiness in the United States and Britain, while marriage has a positive effect.
- In Latin America, unemployment and inflation seem to undermine average levels of happiness.
- The relative importance of past, present, and future income varies by age—the young and old place great weight on past income, while the middle-aged derive their norms from present and anticipated income.
- Koszegi (200) showed that people who assess their capabilities optimistically are also likely to process information in a biased manner, one that supports their optimistic assessments.

*Research Needed on the Effects of Happiness*

The effects of happiness or subjective well-being on future economic—and possibly also on political—behavior is an area where much more theoretical and empirical work is needed and will ultimately determine the importance of the study of subjective well-being to future social science research and policy.

- Rapid economic growth is accompanied by growing happiness.
- In Latin America, wealthy individuals assess their past progress and future ones more positively than the poor.

- Income has a positive effect on happiness for all groups, but the effect is stronger for poor respondents in the study.
- Demographic variables—age, marital status, and education levels—had the same effects on happiness in Latin America as in Russia.

*Peru*

Peru has been affected by the broader structural trends buffeting most emerging market economies.

- Market reforms and globalization brought about economic growth and created new opportunities for many individuals, but they also increased economic vulnerability and the risk of poverty for many others, including those who fit securely in the middle class.
- In Peru, as in much of Latin America during the 1980s and 1990s, a significant number of people were able to exit poverty—yet a similar number of people fell into poverty at some point.
- Moreover, those workers who were most integrated into the formal economy, not the poorest workers, were most vulnerable.

*Income  
Distribution*

The distribution of income is changing rapidly in many emerging market countries and is characterized by particularly large gains at the top accompanied by stagnant or falling incomes at the bottom.

- Latin America's overall high levels of income inequality appear to be dominated by the difference between the top decile and the rest of the distribution; in most countries, there are large gaps between the tenth and ninth deciles.
- If one compares points other than the top tail of the distribution for Latin America to other developed countries, there is lower inequality than in developed countries that appear to be more equal on the whole.
- Precisely these uncaptured and dynamic trends are likely to have the strongest effects on perceptions of well-being in Peru (for which the authors have panel data on individuals).
- The data reveal a tremendous amount of movement up and down the income ladder, suggesting that particularly those in the middle of the income distribution experienced huge fluctuations in economic status over time, with consequent effects on perceived well-being.

*Happiness by  
Income Groups*

Past economic trends in Peru, as in most emerging market countries, have played out differently among different income groups.

- The wealthy have and will continue to benefit from the rewards that the market is yielding for those with skills and education, while the poor benefit from expansion of transfers and public expenditures.
- Those in the middle had more differential rewards, however, depending on skill and education levels—they are also more likely to rely on the wealthy as a reference group than are the very poor.
- Thus, some upward mobility can still result in frustration.
- In contrast, absolute income gains among the poorest quintiles have a consistent and positive influence on life satisfaction.
- Happiness shows a log-linear relationship with income, with the effect on happiness of a marginal increase in income decreasing as income rises.
- The authors found that mean education and expenditure levels were virtually the same for frustrated achievers as for their nonfrustrated counterparts; and surprisingly, the frustrated achievers experienced *less* volatility in income than their nonfrustrated counterparts.

*Job Satisfaction* Strongly related to job satisfaction in Peru were expenditure (modeled using a logarithmic function) and age.

- Education levels were insignificant, which supports the findings of other studies of job satisfaction in advanced industrial countries.
- People may either be, or perceive, that they are overqualified for the jobs that they hold.
- In the late 1990s in Peru, as in much of Latin America, the rewards to secondary education were diminishing with respect to rewards to either primary or higher education.
- Future expectations, even more than subjective assessments, are determined by noneconomic factors such as hope and determination.
- Around 17 percent of respondents thought that their future opportunities for improvement were bad or very bad, 61 percent thought they were regular, and 22 percent thought they were good or very good.
- Expectations for children remained higher, however: some 59 percent expected greater opportunities, and only 13 percent thought that their children would have fewer opportunities.

NOTE: The authors find that having a positive assessment of one's present economic situation versus one's past situation (prospects of past mobility, or PPM) has a significant and positive correlation with happiness (controlling for other variables), suggesting that frustrated achievers are less happy than other respondents. Similarly, having a positive PPM in Peru was correlated positively with economic satisfaction. Having a promarket attitude also displays a similar strong, positive, and consistent effect on happiness.

*Reference Groups*

Years of education, being married, and the log of expenditures were all positively correlated with perceived position on the economic ladder.

- Rather surprisingly, age and changes in income (regardless of whether measured using logs) were insignificant with that variable, as was the variable that captures living in urban areas, once income levels were controlled.
- The frustrated achievers, meanwhile, had slightly lower mean ELQ (economic ladder question) scores than did their nonfrustrated counterparts.
- People were more optimistic when they assessed themselves vis-à-vis their community than their country.
- These results suggest that reference norms for income at the community level are lower than those outside the community.
- Years of education was the only variable significantly and positively correlated to one having done better than others in one's community.

*Conclusions*

The results clearly reflect the importance of relative income differences.

- Upwardly mobile individuals are more likely to look beyond their original cohort for reference groups (similarly to when one goes up a ladder one looks up); and in very unequal societies that have adopted international consumption standards, the reference point for the upwardly mobile may seem unattainable regardless of the absolute amount of income gain.
- Respondents tended to be much more critical when assessing their progress vis-à-vis their country than they were vis-à-vis their community, and frustrated achievers were far more critical than the average respondent.

- These differences are more important for those in the middle of the income distribution than for the wealthy or the poor.
- Income mobility also had effects on “happiness,” with greater objective gains often associated with increased frustration rather than increased subjective well being.

*Final Notes*

Granting some limitations the results make three general contributions:

- They support conclusions emanating from the literature on happiness in developed countries, which highlight the importance of variables other than absolute income gains in enhancing welfare, such as relative income, changes in employment, and age.
- The analysis links findings from the happiness literature to the broader debates on the effects of increasing international economic integration on social welfare within countries, highlighting the effects of volatility and distributional shifts, which seem to have the strongest effects on the attitudes of lower and middle-income urban groups.
- The large and consistent gap found between objective income trends and subjective assessments among the upwardly mobile have implications for future economic and political behavior of precisely the group that is most critical to the sustainability of market policies.

## The Metamorphosis of Marginality: Four Generations in the Favelas of Rio de Janeiro

Janice E. Perlman, Columbia University

*Growth of the Favelas*

Despite decades of government efforts to address urban poverty in Brazil, the number of squatter settlements (favelas) and people living in them continues to grow. In the case of Rio de Janeiro,

- The total number of favelas grew from 300 in 1969 to 725 in 2005.
- The growth rate of the favela population exceeded the growth rate of the city as a whole in all but one decade from 1950 to the present.
- Between 1990 and 2000, when Rio’s growth rate leveled off at 7 percent per year, the favelas grew 24 percent per year, with much higher rates in the newly settled area of the West Zone.
- As the favelas expanded spatially, many have merged to form vast connected “complexes” with populations upwards of 115,000, the size of entire cities elsewhere.

*Mobility Out and Up*

As of 2001, only 37 percent of the original interviewees (random sample) still lived in favelas, as did 36 percent of their children and 32 percent of their grandchildren. More than one-third of them (34 percent) succeeded in moving out into legitimate neighborhoods, and their children and grandchildren did even better (44 percent and 51 percent respectively).

- Even fewer of the community leaders (11 percent) were still in favelas in 2001, but this went up to 24 percent and 28 percent for their children and grandchildren, respectively. A full 61 percent moved into neighborhoods, as did 56 percent and 58 percent of their children and grandchildren, respectively.
- Exit from the favela (spatial mobility) was strongly related to increased job opportunities and income and higher socioeconomic status (social mobility).
- There was a trade-off between staying in the more centrally located favelas (cost-free but plagued with the danger and stigma) or moving to a neighborhood in the periphery (where it was affordable), further from social networks, job opportunities, schools and clinics.
- Families fled in greater numbers over the course of the restudy as the violence increased, but the drug traffickers eventually follow them to the low-income neighborhoods.

*Public Policies*

Both geographically targeted and poverty-targeted programs are currently being implemented, and time will tell the degree to which they reach scale and reduce poverty.

- The Favela-Bairro Project (over ten years) focused on upgrading the physical urban infrastructure in an effort to integrate the favelas into their surrounding neighborhoods but did not lead to social integration.
- The conditional cash transfer programs, such as the Family Grant Program (Bolsa Família), offer debit cards with monthly stipends to poor families on the condition that they keep their children in school, have them vaccinated, and so on. This just recently started in urban areas.
- Unlike some American and European countries, the welfare state in Brazil is expanding, but it has a long way to go as Brazil remains the second most unequal country in the world.

*Intra-  
generational  
Mobility*

To measure mobility of the original study participants, the analysis compared each person's SES, or socioeconomic status (education, consumption, and household crowding) in 1969 and 2001.

- The entire sample experienced upward mobility in SES relative to the city of Rio as a whole, and nearly everyone was better off in 2001 than in 1969.
  - Those who managed to move at all in the intervening years were the most likely to have upward SES mobility, and the most successful were those who moved into neighborhoods.
  - Community leaders who already had higher SES in 1969 experienced even greater improvement thereafter (but were unable to fully transfer this advantage to their descendents).

*Inter-  
generational  
Mobility:  
Education*

As the original interviewees had hoped, education improved dramatically with the move to the city and continued improving with each generation.

- Illiteracy dropped from 79 percent among parents of the original interviewees, to 45 percent in their generation, to 6 percent among their children, and to 0 percent among grandchildren.

- Only 2 percent of original interviewees completed elementary school; 36 percent of the original interviewees had completed elementary school or more; 51 percent of their children completed junior high school or more; and 77 percent of the grandchildren had completed junior high or more (with 36 percent completing high school or going to university).
- However, educational gains were not fully reflected in occupational gains; whereas 85 percent of children had more education than their parents, only 56 percent had better jobs.

*Barriers to  
Mobility*

Among the many obstacles faced by the favelados we studied in Rio are the following:

- the pervasive stigma against favela residents (more prejudice of place than race),
- the drug-related violence within their communities,
- higher educational standards for the same jobs,
- dramatic loss of manufacturing jobs with the deindustrialization,
- reduction in construction jobs as the urban fabric consolidated,
- less demand for full-time domestic help, and
- technology replacing manual jobs and requiring university education.

NOTE: Unemployment in the study communities in 2003 was twice that of 1969 (65 vs. 31 percent), in part due to the barriers above and in part because some of the descendants of migrants prefer to live at home on their parents' pensions rather than accept demeaning jobs without living wages as their parents did.

*Fear and  
Violence as  
Barrier*

The biggest change over the three decades has been the rise of drug-related violence and the fear of dying in the crossfire between drug dealers and police or between rival drug gangs.

- This new "sphere of fear" has decreased social capital which made favela life convivial and afforded coping and survival mechanisms.
- Membership in all community organizations has dropped sharply, and the Residents' Associations have been taken over by dealers.
- There is less use of public space, less socializing, and less networking.
- As a result, information about informal jobs and casual work has become more difficult to acquire.

*Sense of  
Community*

Decline in community unity and lack of trust reflect changing times and the menace of drug dealers and gangs.

- People have lower trust in their neighbors due to fear of any gang connections.
- They feel trapped between the police and the dealers, both assessed as doing more harm than good. The police are seen as even more abusive and disrespectful of life in the community.
- Nonetheless, the degree of community unity is still greater in the favelas than in neighborhoods or housing projects.

*Citizenship  
and Voice*

After the end of the twenty-year dictatorship in 1985 and the return of direct vote for mayor, president, and governor, favela residents expected to have greater clout to fight for community improvements.

*Concluding Thoughts*

- On the contrary, they found that exclusion and bargaining power got *worse*, in addition to economic decline and less personal safety.
- They are disillusioned by the lack of accountability in their supposed democracy and cynical about the rampant corruption, clientelism, and cronyism.
- Some privately expressed nostalgia for the safety and order of the military regime.
- Among the original interviewees, the percentage that saw government as helpful declined from a low 21 percent for federal government and 27 percent for city and state government to an even lower 13 percent for federal government and only 3 percent for international aid agencies.

What seems to be emerging is the transformation from the “myth of marginality” to the “reality of marginality.”

- The hope was that the sacrifices made by the migrants would open up wider opportunities for their children and integrate them into the city as “*gente*” (people), rather than marginalized “other.”
- While their children do have more education, better living conditions, and greater consumption than their parents or grandparents, they suffer from the devaluation of that education in a changed job market, the continued stigma of being poor (particularly those in favelas), political exclusion, and daily threats of violent death.
- When asked what they consider the single most important thing for a successful life, the answer is no longer *education* as in the 1960s but *jobs*, or *work with decent pay*.

## Insecurity and Violence as a New Power Relation in Latin America

Magaly Sanchez R., Princeton University

*Background*

Violence has become a prominent social response to the application of structural adjustment policies throughout Latin America.

- Latin states became less able to negotiate with mobilized social sectors and have increasingly imposed violence for social control and to justify their legitimacy.
- The coercive power of the state has been applied widely and has inevitably affected the interests and well-being of the middle and professional classes, whose members, in turn, have risen in resistance along with other segments of the population that historically have been segregated and excluded in Latin America.
- A paradoxical consequence of structural reform is that as regimes turn to force, nominally “democratic” states find themselves relying on violence to maintain political control and achieve stability.
- As the urgency of circumstances facing middle- and working-class people increased, many turned to radical violence, leading to successive waves of strikes, demonstrations, and insurrections.

- The situation of the poor and the young has deteriorated, and many turn to crime in youth gangs, criminal mafias, and drug cartels.
- There is a new “social disequilibrium” and a progressive loss of control—disorder and violence become part of daily life.

*Neoliberalism  
Effects*

Neoliberalism ends up producing more polarization and less democracy than the state-centered development models once prominent in Latin America.

- A structural perspective views the reform of the state itself as the best means to reduce violence and restore social stability.
- Under conditions of extreme social exclusion and economic isolation, interpersonal relations and institutions adapt to the crime and disorder to render violent behavior common and socially legitimate.
- In Latin America and the Caribbean, the richest one-tenth of families earn 48 percent of total income, whereas the poorest 10 percent earn just 1.6 percent.
- Violence in Latin America follows directly from underlying inequalities brought about by the imposition of neoliberal policies, and if it continues, new and more dramatic forms of violence can be expected to arise and spread, touching the lives of millions more.
  - The poor come to rely on violence as a basic tool for survival, which leads to a growing criminal economy.
- After decades of economic crisis, slums have become so common and so endemic that they are presently the norm.
  - The boundaries between legal and illegal, formal and informal, legitimate and criminal have blurred.
  - Informal activities now constitute an essential and integral part of urban economic structure in Latin America.

*Violence*

The structural violence and imposition of the neoliberalism model produce new violence.

- Among teenagers and adults, the combination of no documents and concentrated poverty explains the rise of more advanced and radicalized forms of violence.
- The spiral of violence is well indicated by the spiraling homicide rate.
- The exclusion of larger numbers of people from the formal economy gave authorities fewer options to achieve social and political control.
- The usual mechanisms of integration were no longer relevant because a growing number of people lived outside of government influence, and any form of radicalization or anarchy is possible.
- As inequality has deepened, differences between neighborhoods have become extreme—the number of people in chaos and exclusion grows, making it more difficult to control them using traditional mechanisms.

*Violence and  
the Economy*

As violence has become more important in the social sphere, it has also become more central to the urban economy.

- The robbery and kidnapping of individuals with money, contract killing for a price, and carjacking and abductions have become big business, as have protection and security services to guard the wealthy.
- All violence is not random acts by isolated individuals, but actions taken by organized social groups, often connected through important networks

*New Nexus  
of Power*

of information at both the national and international levels, at times yielding great accumulations of capital.

- Free enterprise with funding from illegal sources reproduces and continues to generate violence in Latin American cities.
- Rising violence not only engulfs the excluded but also those who possess wealth, power, and social control—the inability of the state to control public violence accounts for the emergence of private security groups, whose services are increasingly purchased by the wealthy.
- Violence is thus expanding throughout the region, calling into question the legitimacy and relevance of the police and military.

The picture today is very complex, with multiple formal and informal connections between legal and illegal groups—it is difficult to distinguish legitimate security firms from paramilitary groups running protection rackets.

- Activities connected to drugs and arms trafficking interact to increase violence and insecurity in other venues of social life.
- Private groups moving back and forth between the formal and informal, legal and illegal worlds constitute a new nexus of power.

*Children*

Children in conditions of concentrated poverty and social isolation become differentiated from the rest of society culturally, socially, and technologically.

- They are alienated from the new technologies of information and blocked from the formal mechanisms of participation within society.
- The growing phenomenon of street children is the perhaps most dramatic expression of structural violence.
- Laws passed to deal with the problem of undocumented children have so far been unable solve the problem because they overlook the inability of children raised on the streets to adapt to formal institutions.

*Hired Killers*

In addition to theft, kidnapping, robbery, and carjacking, a recent innovation is an institution known as the “*sicariato*” (people hired to kill).

- Street children become sicarios because they know that death looms over them as part of life and that the future exists only in the present.
- The street corner substitutes for the classroom and overrides traditional models of family, school, and work.
- The process of social exclusion and the lack of means to integrate poor children socially yield a perverse process of integration wherein crime becomes a job and they become a part of the criminal economy.
- The inability of the state to control violence has led to the privatization of security, which serves to reinforce boundaries between the excluded and the included. This also created new spaces for insecurity, violence, and terror to flourish.

*Privatization  
of Social  
Control*

The privatization of social control is associated with considerable corruption.

- The emergence of private security groups has expanded the informal economy to yield a large accumulation of profits; simply by existing, private security confirms the incapacity of the nation-state.
- As with any economic activity, the security industry generates new jobs, often incorporating those who are violent as well as the excluded.

*Migration*

Insecurity and violence are connected to migratory processes as well, for sometimes the only means of escape is physical departure.

- The structural violence and ensuing insecurity associated with private militias have brought about the forced migration of a growing number of displaced people from their places of origin.
- Violence and exclusion are not the only, or even the most important, factors explaining emigration to the United States, but in the age of information, values from the north are spread massively southward to offer desperate young people the dream of “making it” in the north.
- Emigration continues to grow larger and the importance of the Latino population in the United States grows steadily, not only because of the presence of Mexican migrants, but also from newer arrivals who are fleeing violence and urban poverty in many Latino countries.
- This new immigration represents globalization from below and is part and parcel of the broader internationalization of the economy.

*Conclusion*

Two possible scenarios for the future:

- The grimmest scenario sees the continuation of current conditions with a decline in security not only for those already structurally excluded, but for professional and technical sectors that are becoming excluded, forcing nation-states to militarize their societies as the only way to maintain order and continue policies of structural adjustment.
- The second scenario is less dramatic and envisions a reconsideration and renegotiation of the structural adjustments in the region while fortifying the nation-state to establish new alliances and more direct political interventions that provide young people with options other than the informal or illegal economy.

## Lula’s Political Economy: Changes and Challenges

Paolo Paiva, Federal University of Minas Gerais

*Background*

Brazil has one of Latin America’s widest disparities in income distribution.

- The strong presence of the state in the country’s economy was shaken in the 1980s, when the policy of import substitution came to an end.
- High inflation, growing public deficits, and external imbalances brought about a recession that lasted throughout the 1980s.
- The country made a transition from a military regime to a democracy.
  - First, with indirect election of a civilian president in 1984.
  - Second, with the approval of a new constitution in 1988.
  - Third, with the reestablishment of direct elections for president.
- In 1993-1994, Fernando Henrique Cardoso carried out a macroeconomic adjustment program that controlled inflation and laid the groundwork for the transitioning of Brazil into a more market-oriented economy.
- Elected president Fernando Henrique Cardoso in eight years led an economic reform process that promoted greater integration with international markets and privatization of some companies.

*Cardoso  
Administration*

Important macroeconomic changes took place under Cardoso. More permanent fiscal adjustments, the results of which would have signaled to the market the consolidation of a new fiscal regime, did not occur adequately.

- Reorganization of the state's fiscal accounts, privatization of public banks, and implementation of the fiscal responsibility law were not complemented by effective control of federal spending.
- Primary federal spending grew in real terms, and the surplus achieved was basically due to revenue growth.
- In the subsequent period, 1998-2002, the real growth of nonfinancial spending (5.1 percent) remained above the growth rate of GDP.
  - However, the real rate of discretionary spending declined to 1.1 percent because of adjustments in the federal budget of 1999.
  - The effects of the 1999 adjustments were partially eliminated in the following years as spending increased, owing to earmarking of revenues for specific spending lines, such as those in the health sector and the "Fund against Poverty."
- The fiscal situation remained a central element of vulnerability in the country's macroeconomic adjustment and contributed to the Brazilian economy's vulnerability to external and internal adverse shocks.
- With polls indicating a Lula election victory, financial markets reacted by raising the country's risk rating and devaluing currency.
- The biggest problem at the time was adverse expectations about the possibility of electing a socialist party candidate, which depressed the country's financial indicators and its economy in general.
- The markets were afraid that earlier reforms might be scuttled.

*Policy Changes*

Lula made a commitment to four key elements of macroeconomic policy:

- To maintain the primary fiscal surplus.
- To maintain an anti-inflationary policy.
- To maintain the floating exchange rate.
- To respect existing contracts.

NOTE: In effect, these measures established his commitment to continue the basic economic course set by the government of Fernando Henrique Cardoso.

*Reform*

The government also adopted the reform agenda set by the previous administration.

- During its first months in office, they passed a constitutional amendment that opened the door for resubmitting draft legislation to the National Congress to make the Central Bank more independent.
- This was followed by reform of the pension regime and the tax system.
- The tax reforms brought the government into direct conflict with mayors and governors since the changes affect the distribution of tax revenues among the various levels of government.
- The government signaled its determination by opting for fiscal discretion over the opposition of economists and grassroots in its party.
  - As of 2003, however, the economy was still not performing up to its potential and unemployment remained high.
  - In Lula's first year, the first signs of growth began to appear.

*Challenges*

Although the macroeconomic policies of Lula's government appear to be solid, there are still many important challenges to achieving a favorable domestic environment for increased private investment and economic growth.

- For example, there is no sign of reinitiating the privatization process.
- The risks of submitting regulatory agencies to interference by the executive branch could affect investments in infrastructure.
- Regulatory frameworks conducive to investment, the consolidation of stable rules for respecting contracts, and generally upholding the rule of law are necessary for achieving a favorable growth environment.
- The external sector also imposes challenges to continued economic growth—foreign markets need to be opened for Brazilian products.

NOTE: Perhaps a more pragmatic and less ideological attitude in conducting external policy would make a more significant contribution to macroeconomic stability and sustainable growth. The maintenance of current macroeconomic policies and the deepening of reforms remain necessary conditions for the Brazilian economy to face future challenges.

*Social Demands*

One challenge for the government is how to maintain macroeconomic stability while meeting rising social demands on the part of citizens.

- In the 2003 budget, discretionary expenditures represented just 2.1 percent of GDP, and of this total 72 percent was allocated for social development.
- Moreover for every R\$100 in revenues, excluding constitutionally mandated transfers and social security funding, R\$34 went to cover the social security deficit and primary surplus.
- Given the rigidity of the budget and its imbalances, any further increases in social spending will be hard to come by.
- There are also calls for increasing the salaries of public servants in line with longstanding Workers' Party demands.
- Another potential friction point between the government and its supporters has to do with increasing the minimum wage.
- Some resources are being misdirected—the majority of the resources are not well targeted with respect to poverty reduction.
- Any change in the way public resources are directed may affect the living standards for the middle class—social benefits are thus a very sensitive issue and will require care on the part of the government.
- Pressure to increase spending in the social sector is likely to increase in the next few years.
- Other issues are the land settlement and agrarian reform issues, job creation, and relations with the trade union movement.

NOTE: There are two needs in determining the success of the social programs.

- One is the need to dismantle the old welfare state and replace it with another state model better adapted to the market economy and the country's current fiscal constraints.
- The other is to tackle the enormous social and income inequalities.

*Congress*

Lula's election was not accompanied by a significant increase in his parliamentary base, and building a base of support in the National Congress was therefore his first major political challenge.

- The government has taken three steps to expand its support:
  - It succeeded in having a large number of legislators transfer from opposition parties to parties supporting the government.
  - It attracted to its alliance a large party, the PMDB.
  - It is building other alliances and support.
- While the government can take solace in the fact that it holds the necessary majority for passing its main initiatives, it must also bear in mind the risk of having to mount last-minute negotiations on any vote, especially on controversial issues such as constitutional amendments.
- To maintain a good relationship with Congress is basic to be able to govern, and this means reaching agreements by making concessions.

*Corporatism*

Perhaps one of the main innovations of the Lula government was to reintroduce or, in other words, to build a new corporatism in Brazil.

- The new corporatism is not simply a direct copy of the corporatism of the past but rather an alternative means of opening a dialogue between the government and civil society.
- While the broader composition of the new cabinet may provide greater representation for the different segments of society, allowing such a wide diversity of interests to be represented increases the potential for conflict in the very heart of the administration.
- A more interesting expression of the new corporatism is the creation of the Social and Economic Development Council.
  - The Council has submitted proposals for stimulating economic growth like reforming the pension and tax systems. A proposal to reform the labor system is being discussed.
  - The Council may turn out to be a very positive development, allowing the Workers' Party to build a consensus within society on highly controversial issues.
  - A problem is that reforms and policies to redistribute income distribution in favor of the poor will encounter difficulties in a council where those who would receive benefits have no voice.
  - Also, there is a risk of conflict between an experiment in "direct democracy" conducted by the executive branch under the council and the forces of representative democracy exercised through political parties and their designated representatives in the National Congress.

*Final Notes*

Promoting sustainable economic growth with social inclusion represents the central challenge for Lula.

- To do so, he must create a new Brazil, ending the years of recession, unemployment, and poverty stimulated by globalization.
- The performance in achieving economic growth and social improvement have been less than brilliant—GDP declined by 0.2 percent and unemployment remained high during the first year.
- A disorganized administration has sown confusion in the microeconomic arena of privatization, regulation, and labor reform.

- In short, Lula's economic gains have come at a price in the social and political fields.

NOTE: The one significant change is the adoption of the corporatism that involves increased consultation with civil society and the creation of a Social and Economic Development Council. Nonetheless, by the end of the first year, few great changes had taken place. Early in Lula's presidency, his policies appear quite similar to those of earlier governments.

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## Public and Private Responses to Social Exclusion among Youth in São Paulo

Pedro Jacobi, University of São Paulo

### *Background*

In cities such as São Paulo, Brazil, successful experiments show that programs to foster cooperation between local actors, NGOs, community organizations, and municipal governments have very positive effects.

- The challenge is to increase social capital available to poor urban dwellers by creating and reinforcing dense networks of intermediate organizations—civil associations, churches, community groups, and so on.
- The dynamic practices reviewed here offer different ways of reducing social exclusion.
- All depend significantly on local organizational capacities and the potential individual mobilization.

NOTE: São Paulo's problems are varied and complex. In the 1980s and 1990s, it went from a manufacturing to a service-based economy, a change that accelerated social polarization by creating large numbers of unskilled jobs.

### *Internal Migration*

With the end of the economic boom, people in the central city gravitated to other municipalities in the metropolitan area during the 1980s.

- First, with the need for low-cost housing, was the movement of low-income families from peripheral areas to dormitory cities in the region.
- Next were higher-income people, who left upper-class neighborhoods in the city and moved outward in search of a higher quality of life.
- After 1980 fertility fell, population growth slowed, and the metropolitan population reached just 15.4 million in 1991 and 17.8 million in 2000, yielding a growth rate of only 1.9 percent during the 1980s and just 1.6 percent during the 1990s.
- At the same time, the parallel development of new poles of economic attraction within metropolitan São Paulo brought in new migrants, redirecting currents that before had gone to the central city.
- During the 1990s, peripheral settlements increasingly attracted unemployed workers from the center.
- The stagnation of per capita income, when combined with high inflation, economic recession, and rising unemployment, produced an increase in slum dwellings and created new pockets of urban poverty.

*Global Market Forces*

The shock of opening up the economy to global market forces, coupled with the negative taxation of income through inflation, produced unemployment averaging 6 percent within the nation as a whole.

- As industrial employment fell, production contracted and factories closed, forcing workers into the informal service economy.
- As of 2002, unemployment stood at 19 percent and the economy was hit by credit shortages and cuts in public expenditures as a result of structural adjustment policies from the IMF and other foreign lenders.
- From 1997 to 2002, employment in São Paulo rose by only 0.4 percent.

*Distribution of Income*

The shift in the rate and structure of employment was accompanied by change in the distribution of income toward greater inequality.

- Whereas in 1998, the 10 percent wealthiest families controlled 36 percent of the total wealth produced, by 2000 the figure had increased 38 percent.
- Industrial restructuring played the central role in this transformation of living standards. Environmental factors were also important. By the 1990s, urban growth had run into the region's ecological limits, putting communities at odds with the capacity of the environment.
- A striking feature of the present socioeconomic reality is the escalating cycle of urban violence, especially homicides.
- Social disorder and violence affect the population unequally, concentrating in the poorest settlements.
- Violence created a new ideology of fear, leading to the abandonment of public spaces and the decline of older and poorer neighborhoods.

*Fragmentation*

In the process of structural transformation, the metropolitan region grew more fragmented, divided, and polarized both socially and spatially.

- The result is a new, multifaceted urban mosaic characterized by social and economic heterogeneity between neighborhoods and municipalities.
- At present, the poor are concentrated at the periphery of the city and within certain satellite suburban communities.
- Whereas the city grew by an annual rate of 1.5 percent between 1996 and 2002, its peripheral areas increased by rates of 3 to 5 percent per year.
- The latest data indicate that more than 1 million people live in squatter settlements, constituting around 8 percent of the municipal population.

*Violence*

In general, neighborhoods with the highest percentage of squatters also display the highest rates of violence.

- The larger the increase in poor households over the past decade, the greater the rise in violent deaths, mostly through drug-related violence.
- The increase in violent death has been especially pronounced among young males, yielding a "new pattern of juvenile mortality."
- Urban poverty produces a desperate accumulation of social needs that can only be addressed through policies of inclusion and integration.

*Capacity Building*

Throughout Brazil, but particularly in São Paulo, the struggle to increase social participation and reduce inequality has proven enormously challenging.

- Political participation has nonetheless been institutionalized through representative democratic government.

- As a result, public policies in Brazil reflected demands that were made earlier by popular movements for social rights and citizenship.
- The restoration of democracy also brought about a resurgence of civil society (meaning the growth of a network of autonomous associations that are independent of the state and characterized by relations of solidarity and cooperation rather than competition).
  - Civil society is composed of social actors who work with others in ways that influence policies.
  - The role of these organizations has diminished, being reduced to making local demands and representing neighborhoods in participatory budgeting.
  - A significant number of other sorts of voluntary organizations operate in the metropolitan region.
- Another type of social organization is concerned with civil and human rights, organized under the Centers for the Defense of Human Rights.
  - They provide an important source of social capital for residents of the region's poorest urban neighborhoods.

*New  
Movements*

The new social spaces and forms of interaction spawned new movements for the improvement of health, housing, water quality, and sanitation during the late 1970s and 1980s.

- They have renegotiated the relationship with state actors by articulating demands and forming new alliances for civil and social rights.
- The knowledge and political culture have helped establish a new frame of reference and give people new capacities for autonomy and self-organization.
- Together they transformed political practice by organizing popular councils and other participatory vehicles.
- As participatory practices became more institutionalized, social movements based on alternative issues also emerged to address problems such as unemployment, violence, and cultural exclusion.

*Challenge*

The principal challenge for progressive government in the metropolitan region is to develop administrative structures that create public spaces where issues can be explicated and differences discussed, thereby institutionalizing popular influence on the state to overcome a legacy of clientelism and paternalism.

- The new approach is visible in the practice of “participatory budgeting,” wherein local administrators create legitimate channels for comment by the public, thereby reducing territorial corporatism and stimulating universalism in public administration.
- Applied widely, participatory administration reinforces the opening of decision-making processes and a new culture of human and social rights.
- The region's most innovative programs have drawn upon the skills of professionals to strengthen critical faculties and participation by the poor, both through pedagogy and hands-on apprenticeships, expanding the size and number of communities involved in decision making.
  - Despite their promise, these experiments in social action still represent the exception rather than the rule, owing to a lack of “political will” among governmental leaders and the fragility of networks in civil society.

- The groups, which have organized effectively to pressure public officials and influence policies, are still fragmented and have yet to penetrate the mainstream of a political culture that is resistant to collective political mobilization.
- The real picture is thus of a society that is weakly mobilized, with only modest institutionalization of political participation.
  - Actors in some social organizations have simply tried to establish particularistic links with public officials, seeking to reach private accommodations for public social problems, thereby replicating the paternalism of the past.
  - In addition, several indicators show efforts to mobilize actors in civil society continue to be met by exclusionary efforts.
  - The reality of these neighborhoods is one of a growing prevalence of social disorder, crime, and violence and the disintegration of families that lack access to voluntary organizations and the social capital they produce.
- In this context of inequality and exclusion, poor neighborhoods come to exemplify violence and immorality as a result of the perverse images shown by the media about the destructive behaviors by residents.
- Recent legislation has improved access to financial resources and enhanced community engagement, but the greatest challenge is to form partnerships between civil institutions and public organizations, as well as between NGOs and private entrepreneurial foundations, to create stronger and more efficient policies at the metropolitan level.

*Social  
Inclusion*

The goal for actors in civil society is to develop effective, coordinated actions.

- Toward this end, municipalities throughout the metropolitan region have sought to create “incubators” of cooperative action by supporting programs to train entrepreneurs, extend microcredit enterprises, train workers, and subsidize the labor of the poor.
- Within squatter settlements, authorities have improved solid waste disposal and established new social programs on literacy, family health, culture, and recreation, with the latter targeted to the street child.
- Perhaps the most intractable problem is the destruction of bridges of social trust by violence.
  - To combat crime and violence, initiatives have sought to strengthen connections between people and emphasize the importance of collective citizenship.
  - An objective is to engage an ever-growing segment of the community in the cooperative creation of social capital to reduce rates of violence and encourage conviviality.

*Community  
Policing*

An interesting example is “community policing,” which was implemented in some of the poorest neighborhoods and municipalities in the metropolis.

- Community policing programs seek to create cooperation and improve communication between the police and community members.
- According to police data, community policing has reduced crime rates even in the worst city neighborhoods.
- So far the outcomes are very encouraging, although the structural problems producing violence continue to exist.

- Digital Inclusion* Another important innovation has been the development of programs seeking to achieve “digital inclusion,” equalizing opportunities by offering access to the new technologies of computation and communication.
- Urban Culture* There has been a growth of organizations that promote cultural activities linked to hip-hop, graffiti, rap, and other popular features of urban culture.
- These activities bring together youngsters to use cultural modalities to express realities in their daily lives—parental joblessness, financial problems, domestic violence, drug trafficking, and alcoholism.
  - They seek to educate and train “social entrepreneurs” by offering young people apprenticeships that teach activities related to citizenship, human rights, community development, communication business formation, management, and environmental education.
- Income Generation* Programs of minimum income seek to promote education by linking family income to educational participation by children.
- Poor families receive a federal income subsidy as long as children remain in school, which props up family income, promotes education, and reduces the number of street children.
  - The city of São Paulo, in particular, has sought to consolidate a new generation of social, cultural, and work-oriented policies with a broader program of social inclusion based on three programs:
    - Redistributive programs targeted separately to unemployed workers aged sixteen to twenty, twenty-one to thirty-nine, and forty and older.
    - Emancipatory programs offering support for various solidarity-building initiatives, such as incubators for social solidarity, microcredit enterprises, and occupational training.
    - Programs to promote local economic development.
- Conclusion* Metropolitan São Paulo is also a region that has recently moved to develop important innovations to make democracy work.
- Early indications suggest a slow and steady, but clear, movement toward reconstituting the public sphere through the construction of new institutions and public spaces.
  - Within these spaces, policies are implemented to build institutional networks that bring people together to develop common strategies for linking various interests and resources to achieve common objectives.
  - Seeking to reform the economic relations through structural adjustment, government must focus on the sustainability of policies through a more effective engagement of civil society in defining priorities, monitoring implementation, and evaluating outcomes.
  - Successful experiments show that programs to foster cooperation between local actors, NGOs, community organizations, and municipal governments have very positive effects.
  - Stable households and neighborhoods are associated with the growth of social cohesion and a willingness to become involved in the defense of human rights and interests of the community.
  - The dynamic practices all boil down to different ways of reducing social exclusion. All depend significantly on local organizational capacities and the potential individual mobilization.

NOTE: The challenge is to mobilize more economic agents to work in partnership with community actors to build programs of social inclusion at the local and regional levels. Important changes occur when practices are implemented cooperatively by local actors, government officials, and professionals within organized civil society.

## Reform of the State: An Alternative for Change in Latin America

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- Background* In Latin America and the Caribbean, indicators suggest a progressive deterioration in support for democratic institutions since the 1980s.
- Many citizens have a lack of confidence in democratic principles and skepticism about the democratic process itself.
  - This loss of confidence undermines governability—the problem is not the ability to govern but the legitimacy of government itself.
  - Government must constantly relegitimate itself as representative of the people on an ongoing basis.
- Globalization* Globalization creates a new transnational reality that constrains the behavior of individual countries and their political leaders.
- Democratic governability is challenged because people are, in ever greater measure, citizens of the world, though most of their demands must still be satisfied within the framework of the nation state.
  - Citizens increasingly express demands originating in the political cultures and consumer tastes of advanced postindustrial societies, articulating wants that go well beyond the satisfaction of basic needs.
- International Pressure* National governments are also constrained increasingly by international institutions.
- Nation-states and citizens are challenged by new conflicts reflecting demands, needs, and possibilities originating in the international arena.
- Social Change* The end of the cold war was more than an armistice to avoid an Armageddon; it also involved the implosion of a social system.
- It quickly became clear that the entry of former socialist countries into the global economy was not going to be easy.
  - The transition to capitalism brought worldwide disruptions, even in those nations where democracy and market relations had long prevailed.
  - The resurgence of nationalism, fundamentalism, mass migration, guerilla warfare, terrorism, and new forms of transnational crime such as narcotics trafficking and state-centered mafias produced localized wars that were insoluble using traditional mechanisms.
- Economic Change* As structural economic reforms were implemented, the need to attend to rising social conflict and civil unrest became increasingly apparent and social policies emerged as the order of the day, offering remedial assistance to certain classes to avoid the intensification of social conflict.

- The prevailing approach to social policy was characterized by two important weaknesses:
  - It conceived of social policy as a “tranquilizer” to pacify civil society while making changes in the economic realm.
  - It viewed social reform as ancillary to economic reform and in so doing limited its effectiveness as a political shock absorber.
- Unfortunately, economic benefits did not flow from the policies at the same pace as social demands.
- The deficiencies were quickly revealed by the inability to achieve sustainable democratic governance and human development.
- This weakened democracy by making it synonymous with harsh policies that were divorced from the feelings and needs of citizens, thus provoking authoritarian nostalgia among both citizens and leaders. The public grew disenchanted with political parties and the very institutions of democracy.

*Reform*

Proposals to reform the state implicitly recognize that forces well beyond the market are fomenting change throughout the globe, producing new profiles for societies, nations, and states.

- Reform refers to profound political transformations that produce new institutions, new styles of leadership, and new social relations while eradicating what had existed.
- Such reform inevitably brings conflict and confrontation as certain structures associated with vested interests are dismantled and replaced by new structures that create new vested interests.
- The incapacity of the state is evident in the deterioration of public infrastructure and the decline of services like schooling and sanitation.
- The resulting decline in public health and education represent a reduction in human capital and a decline in the quality of life, putting the state in a weak position to arbitrate solutions.

*Loss of Confidence*

The crisis in public services causes a loss of confidence in the state by important segments of the population, exacerbating problems of governability.

- When the state can no longer carry out its social functions, it leads to the erosion of other functions that rely on its social performance.
- The spread of this pessimistic sentiment deepens citizen’s distrust of government, undermining the ability of state actors to lead, and it reduces the range of functions with which they are entrusted.
- Public dissatisfaction is amplified by frequent examples of corruption that are not adequately punished and the ongoing scandals that follow.

*Crisis of Confidence*

While this crisis of confidence is unfolding underneath the nation state, another is blossoming above it.

- Economic decisions that were formerly considered the sovereign right of state actors have been transferred to multinational institutions.
- States in Latin America, as elsewhere in the world, are weakening in a tangible way and are less and less able to deal with internal discontent.

*Governability Crisis*

When state actors are incapable of developing policies to promote change in desired directions, the ultimate result is a loss of faith in the political system and its prevailing institutions—hence the crisis of democratic governability.

*Change of  
Social Power*

- Large segments of the population are impoverished—this decline in living standards opens the way to neoauthoritarian formulations.
- For segments of society that have borne the brunt of economic readjustment, authoritarianism is now perceived as desirable.
- Needed reforms include democratizing the state and society, increasing the efficiency of public services, and reconfiguring the relationship between public and private sectors.
- Economic development not only requires economic changes but broader transformations of culture, social organization, legal institutions, and public policies.

Meaningful social change presupposes powerful resistance from those who expect to lose status and power under the new arrangements.

- For a reform to occur, a dynamic redistribution of social power is necessary.
- Reforms are political in a double sense.
  - Every economic, political, social, or cultural change requires a redistribution of power, for without such a redistribution the reform would be blocked or delayed.
  - Given that change requires alteration of power relations, reformers must formulate a political strategy to achieve it.
- To attack the problem of governability, it is ultimately necessary to formulate a political program for the redistribution of political power that includes reforming the state, reforming relations between the state and civil society, and reforming political participation.

*A Market  
Economy*

The remaining question is “What are the most efficient and democratic means for constructing a market economy?”

- Under globalism, traditional alliances between elite private interests and state actors often stifle entrepreneurial culture.
- Persistent inequalities in the region have meant that economic restructuring often does not translate immediately and spontaneously into a competitive market among equals.
- On the contrary, opening markets often serves to concentrate wealth and exclude citizens from economic resources, which perpetuates inequalities.
- An institutionally incomplete opening to the market paves the way for the reemergence of authoritarianism as a populist tool to overcome the forces of exclusion emanating from the operation of an increasingly “savage” market economy.
- The creation of a healthy, well-functioning market always involves extra-economic tasks, and for this reason state action is unavoidable in at least five distinct areas. The state must
  - secure the rule of law,
  - create a legal and regulatory apparatus,
  - create conditions conducive to investment,
  - assist in the expansion of markets, and
  - build institutions and create incentives for the training of labor and for the promotion of technological progress.

*Change  
Agenda*

There is a clear agenda for change:

- modernization of parties and personalization of electoral systems;
- decentralization of political systems;
- public administration must be reformed by creating systems of merit and simplifying public administrative procedures;
- the judiciary must be modernized;
- the process of formulating and enacting public policies must be reformed to stimulate greater efficiency in execution;
- new mechanisms of citizen participation must be developed to enable the public to have effective interventions in public decisions;
- reform of the presidencies for more agile and efficient leadership; and
- modernization of the armed forces.

*Conclusion*

Rising dissatisfaction with democracy, the trauma of widespread impoverishment, and the deficient performance of many economies has brought about a crisis of democratic governability throughout Latin America.

## Mitigating Myths about Policy Effectiveness: Evaluation of Mexico's Antipoverty and Human Resource Investment Program

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*Background*

What is known about the effectiveness of many policies is dominated by prior beliefs or myths rather than by careful analyses.

- This article discusses an important exception to this generalization—the Mexican PROGRESA/Oportunidades antipoverty and human resource investment program.
- Antipoverty programs generally tend to lapse or slowly be starved of resources over time, particularly if there has been a change of government or a loss of key governmental proponents of the program.
  - Advocates often have strong beliefs about the strengths and weaknesses of antipoverty programs, but these are generally based on selective, anecdotal observations conditioned strongly on prior beliefs and political positions.
  - Good evaluations are likely to weaken the historical tendency for programs to thrive only as long as their advocates survive in government, even if from a social viewpoint they should have been curtailed or modified earlier, or maintained longer.
- This program has been an important model not only in terms of using conditional cash transfers to induce human resource investments but also in being serious about policy evaluation—serious efforts at evaluation were implemented from the start of PROGRESA.

*PROGRESA/  
Oportunidades*

- The potential gains from program evaluations are enormous, and are likely to outweigh substantially their costs, which are typically just a few percentage points of total program expenses.
  - Benefits also stem from reducing and terminating programs that are poorly functioning and that cannot be improved by feasible modifications.

PROGRESA/Oportunidades is a major program in Mexico, aimed at reducing long-existing poverty and developing human capital within poor households.

- It was targeted to poor rural families in an effort to break the entangling web of malnutrition, morbidity, infant mortality, unwanted fertility, school dropout rates, and unhealthy living conditions.
- PROGRESA's multi-pronged focus offered poor families an integrated package of education, nutrition, and health services.
- Rather than functioning as a cash transfer program, it required active participation by recipient households in exchange for benefits.
- A hallmark of the program since its inception has been its effort to collect data necessary for its systematic evaluation.
- The educational component of PROGRESA is designed to increase school enrollment among youth in Mexico's poor rural communities.
- In the area of health and nutrition, PROGRESA undertakes free preventive interventions and education on hygiene and nutrition.
- PROGRESA provides finances exclusively to mothers—Mexico has taken the lead in implementing this antipoverty intervention based on the premise that mothers effectively and efficiently deploy resources in a manner that reflects the more important needs of the family.
- The primary evaluation strategy adopted by PROGRESA is an experimental design with random assignment of communities to “treatment” and “control” groups.

*Evaluation*

Evaluation used a framework with three key elements:

- the social objective;
- the economic, political, and social constraints under which the program operated; and
- the range of instruments available to attain program objectives.

*Effect on  
Current  
Poverty*

Two approaches were adopted to assess the effect of PROGRESA's cash transfers on short-run poverty indicators.

- The first used simulations predicting the consumption of each household during November 1997 and then adding in the maximum amount of PROGRESA cash transfers an eligible household could receive assuming full compliance with the program's requirements.
- The second approach used reported household income and consumption data collected in the household socioeconomic census and evaluation surveys, and then determined the amount of cash benefits received by beneficiary households in treatment areas.

NOTE: Results from the simulation analysis show that the headcount ratio (the percentage of households with incomes below the poverty line) was reduced by about 10 percent because of PROGRESA's transfers. Measures of poverty of the poorest households reveal that the depth of poverty is

reduced by 20 percent, and the severity of the poverty index is reduced by 45 percent.

<i>School Enrollment</i>	<p>Evaluation on the effect on school enrollment was done in two ways:</p> <ul style="list-style-type: none"> <li>• First, a comparison of simple differences in average enrollment rates by grade in treatment and control localities.</li> <li>• Second, a comparison in enrollment outcomes between individual program-eligible children and those who did not receive benefits. Family and community factors were controlled in the later analysis.</li> <li>• They concluded that in all cases PROGRESA had positive enrollment effects for both boys and girls at the primary and secondary levels, irrespective of the sample used.</li> <li>• They suggest an overall increase in schooling attainment of about 10 percent.</li> <li>• These children, at adulthood, will have permanently higher earnings of 8 percent as a result of PROGRESA's effect in raising years of schooling.</li> <li>• Whereas many children before PROGRESA would leave school after completing the primary level, an increased fraction now go on to secondary school.</li> </ul>
<i>Retention and Grade Repeats</i>	<p>Participation in the program is associated with earlier ages of school entry, less grade repetition, improved grade progression, lower dropout rates, and higher school reentry rates among students who did drop out.</p> <ul style="list-style-type: none"> <li>• The program was especially effective in reducing dropout rates during the transition from primary to secondary school.</li> <li>• At the secondary level, the program was more effective at inducing boys to enroll in the second and third years of secondary school, despite the fact that the benefit levels were slightly higher for girls.</li> <li>• The study also found the program effective at inducing children who dropped out prior to the initiation of the program to reenter school.</li> </ul> <p>NOTE: Both the quantitative analysis of the school directors' survey and the focus group interviews support the perception that PROGRESA has led to improvements in the attitude of students and their families toward education.</p>
<i>Child Labor</i>	<p>Results show very clear negative effects of PROGRESA on children's labor market participation.</p>
<i>Health Care Visits</i>	<p>By 1998, the first full year in which PROGRESA was operational across all treatment localities, health care visit rates in PROGRESA communities grew faster in treatment than in control areas.</p>
<i>Child Growth</i>	<p>The evaluation data suggest that PROGRESA has had a significant effect on increasing child growth and reducing the probability of stunting for children in the critical age range of twelve to thirty-six months.</p>
<i>Household Consumption</i>	<p>The average level of current consumption (including purchases and consumption from own production) increased by approximately 14.5 percent.</p> <ul style="list-style-type: none"> <li>• Households also chose to improve dietary quality over caloric intake.</li> </ul>
<i>Work Incentives</i>	<p>PROGRESA does not appear to create negative incentives for work.</p>

- Household Decisions* Being in a PROGRESA household decreased the probability that the husband was the sole decision maker in five of eight decisions considered.
- Women's Time* Analysis of time use data revealed that participating in PROGRESA and complying with its rules made significant demands on women's time.
- Women in PROGRESA households were more likely to report spending time taking family members to schools and clinics and in participating in community work and chores.
  - PROGRESA apparently had no significant effect on the leisure time of adult males or females, suggesting that adult beneficiaries did not use program benefits to work less and increase their leisure.
- Women's Empowerment* The vast majority of respondents indicated that women benefited in ways that might be interpreted as "empowerment," defined as increased self-confidence, awareness, and control over personal movements and household resources.
- Cost Analysis* The total costs of a program like PROGRESA can be broken down into program costs and private costs.
- Program costs are those costs associated with the delivery of cash transfers to households.
  - Private costs are those that households incur to receive cash transfers and include the time and financial expense of traveling to schools and health clinics.
  - When the incremental private costs are added to the program costs, the total cost-benefit ratio increases by about 27 percent (from .089 to .113).
- NOTE: In conclusion, the administrative costs involved in getting transfers to poor households appear to be small relative to the costs incurred in previous programs and for targeted programs in other countries, despite the fact that PROGRESA is quite complex.
- Household Welfare* Financing the program through the elimination of distortionary food subsidies is associated with a substantial gain in welfare.
- Benefits derived from more efficient targeting of households are substantial and are reinforced by welfare gains achieved by being able to reform the existing system of inefficient subsidies and taxes.
  - Results also clearly indicate the potential for substantial welfare gains from the expansion of PROGRESA to include the urban poor.
- Evaluation Strategies* For most questions, alternative strategies need to be employed to get estimates of medium-run program effects in rural areas. Below are two:
- One strategy compares those close to but below the eligibility cutoff with those who are close to but above the eligibility cutoff, exploiting the fact that household close to the eligibility cutoff are very similar but some received and others did not receive the program benefits.
  - The second strategy is to compare the original treatment group with a new control group that has not received the program.
- Conclusions* The findings suggest that PROGRESA's combination of education, health, and nutrition interventions into one integrated package had a significant

effect in improving the welfare and human capital of poor rural families in Mexico.

- Whether the vicious cycle of poverty and its intergenerational transmission are indeed broken can only be determined by continuing to assess effects in the medium and long term.
- The expansion of PROGRESA/Oportunidades to poor households in urban areas implies that evaluations are needed to adapt some of the components of the program to the realities of households in urban environments.
- At the same time, the implementation of PROGRESA-like programs in other countries such as Brazil, Colombia, Honduras, and Nicaragua cries out for further systematic evaluation, as PROGRESA's favorable results do not automatically generalize to programs that differ in details and which are implemented in different contexts.
- Nonetheless, based on the evaluations done to date, policy makers have a better sense of what types of programs are effective in alleviating poverty in contexts like rural Mexico.
- Beyond the substantive results of the evaluations carried out to date and of ongoing analyses, PROGRESA/Oportunidades is important because it illustrates the gains from being serious about program evaluation rather than letting prior beliefs and vested interests and "myths" predominate in judgments about program effectiveness.
- This experience reinforces the need to be forward looking in collecting relevant information, including preprogram baseline data and longitudinal data subsequent to the program's initiation, in ways that permit analysis of the difficult question raised in the introduction.

NOTE: The authors hope PROGRESA's successful experience will increase the probability of early involvement by researchers in the design and evaluation of other programs throughout Latin America.