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The World Bank on Poverty in latin America

Por Henry Veltmeyer¹

For over three decades the World Bank has led the war against poverty waged by international organizations for development. This fact, as well as the incontrovertible fact that the problem of poverty has defeated all of the efforts, all of the resources, that the Bank and the 'world community' of concerned organizations, governments and individuals, have marshaled in this war, raises serious questions about if not the nature of the problem, which has been heavily studied and is well enough understood, then about the dynamics of the war itself. Is the failure one of understanding –an inability to theoretically grasp the true nature of the problem, the obstacles involved or the forces at play? Or is the matter one of inadequate or misdirected, improperly targeted, resources? In all the twists and turns of the war against world poverty, fought as it has been in so many diverse theatres and contexts all over the world, without (it would seem) any tangible results, no dint has been in the scope and devastating social effects of the problem, lived today by hundreds of millions of people as it was in the early 1970s when the problem was first 'discovered' by the World Bank under McNamara's Presidency. At the point of 'discovery' two-fifths of the world's population was deemed to be poor, that is, unable to meet their basic needs, deprived the income and other resources needed to live decently. Today, after three decades of concerted albeit diverse efforts to tackle and redress the problem, to reduce if not eradicate poverty in its extreme or absolute form and to alleviate its effects, the percentage of the world population –and that of Latin America, of central concern in this chapter– deemed to be poor is almost identical. Has the Bank and the world community of concerned organizations and governments perhaps not so much misunderstood the problem as attacked it in the wrong way, using inappropriate or ineffective tools and weapons? Or is the failure one of strategy –not knowing how and with what to fight it?

In this chapter we attempt to get closer to some of these questions, to figure out how the problem should be posed – not that of poverty but the failure to redress it, a failure of colossal proportions. If poverty had been well-understood and correctly conceived as to its fundamental causes then it is most unlikely that three decades of concerted systematic efforts to fight it, to win the war on poverty, would have ended up in such abysmal failure. The problem as we see it can be viewed as either theoretical or political but in any case it points to the poverty of economics and politics: a

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failure to address the fundamental structural conditions involved, an inability or unwillingness to engage, or help bring about, the fundamental structural changes needed to eradicate or reduce poverty to livable proportions. In this the World Bank is not innocent. It appears to unwittingly or willingly act –and think– as a guardian of those economic interests that are served by the very ‘economic growth’ policies that the Bank advances and promotes as ‘pro-poor’.

Macroeconomic Policy and Poverty: Learning from Mexico

World Bank economists have been fairly consistent in their understanding about the causes of poverty if not the best way of attacking it. Throughout the years of tacking this way and that with the wind of the latest ideas about how to remedy the problem, and close to fifty years of failed efforts, the Bank has held firm to the belief that the best way to tackle the problem of poverty is for the economy to grow –to raise GNP via a growth-first and foremost approach towards macroeconomic policy and increasing overall productivity via policies of productive investment and an appropriate (supportive) institutional framework. In recent years, however, the analysis of World Bank economists have become somewhat nuanced in their analysis as poor country after poor country turned towards the Washington consensus on the most appropriate and best policies needed to promote growth.

In many cases a turn towards these policies did not bring about the anticipated or desired increase in the rate of growth, a problem that the Bank has interpreted as the result of a lack of consistency or rigour in application of these policies or alternatively in problems in the domestic society such as insufficient participation on part of the poor themselves, their relative lack of needed resources or their exclusion from services needed to convert them into productive actors – to improve access to society’s stock of productive resources or build on their limited assets.

As for the arguments of critics that it is the Bank’s own policies that are responsible for either exacerbating existing problems or creating new forms of poverty –poverty directly linked to these very policies that the Bank presents as the solution– the bank’s response has been twofold. First, the Bank continues to insist that ‘growth is good for the poor’ (Dollar and Kray, 2000) and that ‘structural reforms’ constitute the fundamental cornerstone of progress but it recognizes that economic growth is nor necessarily ‘pro-poor’ and that an economic growth approach should be accompanied by policies that ensure that the poor do indeed share in the benefits; recognizing that, in other words, the benefits of growth do not automatically trickle down to the poor). This concern has led to efforts to ‘move beyond’ the Washington Consensus not in regard to the need for macroeconomic stabilization but to adjust policies of macroeconomic stabilization to a new social policy that both targets the poor as beneficiaries, incorporates them as partners and that ‘empowers’ them to act on their own behalf, and that protect them somewhat from the social costs of ‘transition’, which, as Nora Lustig (1999) has argued, particularly relates to the negative effects of economic crisis that particularly bear on the poor.² This perspective allowed the Bank to shift

² Nora Lustig, a Mexican-born development economist closely associated with the World bank and the IDB in the 1990s, broke ground in 1999 with the concept pf ‘socially responsible macroeconomics’ –a call for policies that protects the poor during times of crisis and simultaneously help lower chronic poverty (Finance & Development, December 2005: 4). In the 1998 update of her 1992 book on *Mexico: The Remaking of an Economy* (Washington: Brookings Institution Press), that brought her to attention of the world of ‘multilateral institutions’ engaged in the development process (*Mexico: The Remaking of an Economy*) she made reference to the sharp rise of poverty in Mexico from 1994 and 1996 in the wake of Mexico’s biggest crisis since 1982. Despite an unprecedented rescue package of more than USD 50 billion, which effectively ‘protected’ investors (mostly Us) in Mexico’s stock market, the crisis devastated the country’s poor. Indeed, she argued, the biggest losers in any economic crisis are always the poor and ‘the most common reason for large increases in poverty in the short term is economic crisis’.



attention towards what former World Bank President James Wolfensohn termed 'the tragedy of exclusion' and away from the perverse negative effects of the Bank's economic growth policies. An emphasis on 'social exclusion' and a concern with what the UN Department of Economic and Social Affairs (2005) has termed 'the predicament of inequality' constitutes another important shift in the World Bank's long declared war on poverty. Prior to the 1990s the Bank's was to emphasise the legacy of long-entrenched social and economic structures, and the failure of poor societies to modernize because of a deficit of financial, physical and human resources. In the late 1990s, however, in the context of a generalised failure of both the development state and subsequently a free market approach towards development and global integration, the Bank and affiliated multilateral institutions turned towards *social exclusion* as the central problem, the primary cause of poverty, and *social capital*, the productive asset that the poor were deemed to have in abundance, as a large part of the solution.³

A Snapshot of the Problem: Poverty Behind the Lines of a Class War

Poverty measurement is a challenge for analysts and policymakers. International organizations today use 'purchasing power parity (PPP) statistics, as they facilitate international comparisons. Using a level of U\$S 1 PPP a day, an admittedly very conservative measure, the World Bank estimates that extreme poverty in Latin America decline4d from 11.3% in 1990 to 9.5% in 2001 – although, because of population growth, the number of people living on U\$S 1a day has actually increased. For more recent years, preliminary estimates show a slight increase in the poverty rate, even with an 'impressive turnaround' (a 'swift and robust increase) in the rate of economic growth (Fraga, 2005: 14).

Based on a benchmark of U\$S 2 a day (the Bank's now standard measure of poverty), the region has not made much of a dint in poverty, and this despite a huge army of anti-poverty fighters marshalled by the Bank and at war against poverty for some two decades if not longer (since 1973 actually). The World Bank estimates that poverty has held at around 25% of the population since the mid-1990s. And again because of population growth, according to the Bank, the number of the poor in Latin America actually increased to around 128 million in the early years of the new millennium (222 million in more recent estimates). Taking a longer view, Nancy Birdsall, Executive Vice-President of the Inter-American Development Bank, points out that while 'growth in the 1960s and 1970s did [actually] reduce poverty ... in the 1980s the number of poor more than doubled ... [while] in the 1990s, despite more than a decade of economic and social reforms, the return to growth has been modest at best and unsteady, and ... the number of the poor has failed to fall.' (1997).

Despite this dismal situation and the apparently intractability of the poverty, many analysts and regional organizations frequently cite poverty levels that are much higher. This is because they tend to adopt national poverty lines, generally measured in terms of the cost of a basket of goods and services required to meet basic needs, that take account of domestic social conditions and living standards that are actually 'lived' by the people. Using such nationally defined poverty lines

³ This shift in the World Bank's approach was personified in James Wolfensohn's Presidency and reflected in the approach of Ravi Kanbur, lead author of the Bank's 2000/01 *World Development (WDR)*, to understanding and tackling the war on poverty. In 2000, however, two World Bank economists, David Dollar and Aart Kray, published a report that turned away from this revisionism in the World Bank thinking and policy. It rejected the focus on equity considerations and the implication that the Bank's own policies might have the perverse effect of reinforcing the structure that perpetuates poverty. The report seems to have had a major impact both inside and outside the Bank, resulting in various casualties. In addition to Joseph Stiglitz, former Head of the Bank's Research Division and now a leading critic of World Bank and IMF economic orthodoxy, the re-established hegemony of anti-revisionist thinking within the Bank led to the early departure of Wolfensohn as well as the resignation of Ravi Kabur as lead author of the 2000/01 WDR on poverty.



(based on data from the Socio-economic Database for Latin America and the Caribbean), poverty affects 39% of the population, meaning that more than 200 million (222 million in the most recent estimates) lack incomes sufficient to cover basic food and non-food expenditures. As for extreme poverty – which, for example, attempts to measure the inability to pay for a food basket of minimum caloric intake – the rate dropped slightly from 22.5% in the early 1990s to 18.6% in the early 2000s, with the actual number of people living in extreme poverty now standing at around 96 million (Banco Mundial, 2006).

These statistics capture only a part of the problem of income poverty and tell only a small part of the story. In fact, regional averages hide considerable differences in the levels and trends among and within countries. For example, according to national poverty data, then poverty rate ranges from above 60% in Bolivia and Honduras to below 30% in Chile and Uruguay. Moreover, within countries these rates vary significantly, both along class and ethnic lines. In this connection, recent data for Mexico show that 90% of the indigenous population live below the national poverty line compared to 47% for the non-indigenous population. In Guatemala, comparable figures are 74% and 38%. And in Brazil, the largest country in then region and exhibiting the largest disparities in income distribution, poverty among Afro-descendants is 41% versus 17% for the whites (Psacharopoulos and Patrinos, 2004).

These figures on the income poor are related to, although not fully explained by, the gross disparities in the social distribution of incomes in the region. The facts are startling. According to CEPAL (1998) the richest one tenth of the population in the region appropriate 48% of overall income –in the case of Brazil up to one half– while the poorest tenth receives only 1.6%. And the ratio of the income share of the richest fifth of households to the poorest is 22 to one, twice the ratio found in sub-Saharan Africa and three times that of the industrialized countries (in countries such as South Korea with associated with a growth-with-equity approach towards national development the ratio is closer to 4 to 1).⁴

There are several points that can be made about this evidence of what the UN in a recent report termed ‘the inequality predicament’. First, it is worse today, after two decades of neoliberal globalization and ‘structural reform’, than it was at the outset of this process in the early 1980s. As observed by researchers at the *Instituto del Tercer Mundo* (Roque and Correa, 2001), an NGO watchdog that monitors commitments made by governments at the World Summit for Social Development, Brazil, the country with the greatest population and biggest economy in the region, has the ‘highest index of income concentration’ in the world, ‘much higher than in the first half of the 1980s’ (2001: 2).⁵ Recent studies (Cohn, 2001; IDB, 1998) show that the richest tenth of income earners in Brazil appropriate more than a half of the national income, leaving but 7% for the bottom two fifths of income earners. According to the World Bank (1998/99: 198-99) only Sierra Leone has a higher Gini Coefficient, pointing towards a staggering degree of social inequality in the distribution of productive resources, wealth and income both in Brazil and Latin America generally.

⁴ In the US the distribution of national income exhibits a greater disparity than the norm for the industrialized countries, and over the past two decades there has been a trend towards increased disparity to the point that today the top 1% receive more income than the bottom 40%. According to Paul Krugman, economist and *New York Times* columnist (*La Jornada*, March 3, 2006) virtually 100% of the wealth generated over the past decade has been appropriated by the richest tenth of the US population and, he adds this has been a long-term trend. From 1972 to 2001, he notes, the income of the richest one percent increased by 87% while the income of the richest .1% increased by 181% and .01% increased by 497%. At the same time, from 2001 to 2004 fell 3.6%.

⁵ As for the incidence of poverty, at the bottom end of this income distribution, the relevant index peaked in 1994-1995 during the initial implementation of the *Plano Real*, but even though the poverty index in subsequent years (1996-1997) for which data are available is somewhat lower than the indices for 1994 it is still higher than the indices for 1993 (Roque and Correa, 2001:1). And, the authors note, a similar pattern exists for wealth distribution indicators.



A critical feature of this social inequality in income distribution is its association with unparalleled extremes of poverty and wealth. To appreciate how extreme the conditions of poverty and wealth are, and the enormity of the gap between the rich and the poor, we need but look at the data collected by *Forbes* on the billionaires in the region, all of whose fortunes can be directly attributed to the 'favourable conditions' created by neoliberal 'market-friendly' pro-business policies. According to *Forbes*, the 33 'men of business' on its list of Latin American billionaires share a collective fortune of US\$ 114 billion, double the total of FDI inflows in 2005 and equivalent to the annual combined income of the 160 million 'poor' in the region (those forced to subsist on less than US\$2 a day).

Not all of this disparity can be connected to the policies and 'bold reforms' implemented by virtually all Latin American governments over the past two decades under the rubric of the 'new economic model' (Bulmer-Thomas, 1996). No doubt this gross disparity in access to society's productive resources and income distribution, and the associated extremes of poverty and wealth, has deep historical roots, the legacy of decades, if not centuries in the case of the region's indigenous communities and peoples, of discrimination, exploitation and oppression. However, it is just as evident that a good part of the 'inequality predicament' can be traced back to the 'free market' policies and the structural adjustment model designed by World Bank economists and either adopted or imposed on governments in the region over the past two decades. Conditions resulting from and attributable to these policies include the growth of unemployment; with a burgeoning informal sector that provides relatively fewer opportunities for formal sector jobs with decent work conditions and that pay decent wages; an increase in the rate of un- and -under employment as well as trend toward 'wage dispersal' (deviation from the mean), which, according to CEPAL, has been a major source of increased income inequalities; a fall in the value of the minimum wage and an increase in the number of workers remunerated at or below this level; and a decline in the social wage- benefits to the working population channelled through government social programs.

Growth, Inequality and Poverty Reduction

Recent policy research has discovered the obvious: that 'the pace of poverty reduction... depend[s] both on the rate of average income growth, the initial level of inequality [in incomes and assets] and changes in the level of inequality (World Bank, 2000, Bourguignon, 2003, Klasen, 2003). In addition, the 'balance of evidence' suggests that 'high initial inequality is harmful for overall economic growth, and thus for poverty reduction, at least in environments of very high inequality (World Bank, 2000; Deininger and Squire, 1998; Klasen, 2003; Ravallion, 2000).⁶ Thus the conclusion that a strategy of poverty reduction should focus on reducing inequalities. Doing so, Klasen notes, has a triple 'payoff': it reduces poverty immediately; it increases the 'poverty elasticity' of growth (to use the language of economics) and it 'apparently increases' economic growth.

The connection between inequality and poverty, and between poverty reduction and the reduction in inequality is so clear and obvious one might wonder why the World Bank and other agencies engaged in the fight against poverty do not reorient their approach. Poverty reduction strategies are (i) local development via social capital; microfinance - financing micro enterprises] towards

⁶ A theoretical and policy debate emerged in the 1970s as to whether social inequality inhibited or promoted economic growth. But in the 1990s in a new context (neoliberal globalization) the debate was re-opened, mostly involving economists at or associated with the World Bank (Banerjee and Duflo, 2003; Christiaensen, Demery and Paternostro, 2002; Deininger and Squire, 1998; Dollar and Kraay, 2002; Forbes, 2000; Klasen, Stephan, 2005; Ravallion, 2000).



either structural change in regard to access of the poor to productive resources such as land (land reform etc.) or a return to the 'redistributive growth' or 'growth with redistribution' approach of the Bank back in the 1970s. The answer to this question might be found in the Bank's commitment to pro-growth/pro-poor free market policies that preclude state action regarding substantive structural change and progressive, that is, redistributive policies. The Bank itself justifies its position in this regard by reference to findings that the growth implications of existing or initial income inequalities 'do not...necessarily imply that redistribution (i.e. changes in inequality *within* a country) will necessarily have a growth-enhancing effect' (Klasen, 2005: 3).

In fact, Klasen argues, with reference to findings by other World Bank economists (Forbes, 2000; Banerjee and Duffo, 2003) that 'redistribution can [actually] lower subsequent growth in the short-term'. Klasen admits that these findings are subject to methodological problems such as 'very weak data'. But he also notes (p.3) that 'the fact there have been very few significant changes in inequality' means that 'we have very few data points to base our assessment on'. Nevertheless, he adds, 'while it is quite likely that lower inequality will promote growth in the longer-term...it is equally likely that the short-term effects of redistribution on growth depend greatly on the type of policy chosen for redistribution'. In this connection, he concludes (or asserts, given the lack of data) that 'policies that operate mainly by investing in poor people's human capital and their access to physical and financial assets [?] have a positive impact' (p.4). Presumably there reference here is to program expenditures on health and education ('human capital) and to the Bank's micro-finance approach to development. At 'the other extreme (of policy choice)', Klasen points out, 'arbitrary and violent asset redistribution...currently reduces economic growth'. Clearly, a revolutionary approach towards asset redistribution (such as that employed in Zimbabwe) is out of the question, as is any attempt by the government to legislate substantive change in asset distribution (land reform, etc.). The policy implications drawn by Klasen from this 'analysis' is that 'policies that promote growth as well as policies that improve the income distribution (without)...short-term trade-offs...would promote pro-poor growth and poverty reduction' (p. 4). In other words, 'pro-growth (World Bank) policies...promote pro-poor growth', an assertion made repeatedly in the World Bank website and forum on poverty (poverty net).

The policy implications of this reasoning (pro-growth is pro-poor) are predictable: 'the importance of building a pro-growth institutional environment' (secure property rights, a stable economic environment, predictable state policies, and appropriate i.e. market-assisted incentives'). In other words, the poor are best served not by direct action or government intervention vis-à-vis asset or income redistribution but by 'careful and difficult institutional change'. This 'new policy consensus' (Klasen, 2003) implies 'short to medium policies that reduce severe [market] distortions, improve incentives to producers [?] and free up markets'. In addition to these necessary but insufficient conditions of policy reform, Klasen notes, it is necessary to provide 'more direct support' to the poor to 'enable (them) to *participate in the growth process* and to make use of the improved incentives'. In effect, the proposed solution to the problem of social inequality in asset and income distribution is to self-capacitate or empower the poor by providing them 'direct support' in the form of 'improved incentives' and a participatory approach to development.⁷

Non-Income Conditions of Poverty

Low income is but one indicator of poverty; other conditions, and indicators, include lack of access to nutritious food and potable water; a number of diseases and conditions of ill-health that are

⁷ These 'challenges' and 'policy findings' are summarised by Klasen (2003) in the form of a matrix reproduced in the appendix of his 2005 review.



reflected in statistics of child and maternal mortality, and a relatively short lease on life; the lack of education and access to educational services; insufficient or poor shelter; and the lack of economic and social security. In these terms, that is, conditions of social exclusion, according to the World Bank, there has been somewhat more progress (). However, even at this level, and discounting the well-established correlation between income and social conditions of development such as lack of access to potable water, decent housing or jobs and vulnerability to a broad range of health issues, the problem of poverty is serious indeed, with very little manifest improvement in the quality of people's lives...

Accounting for High Poverty Rates: Poverty as Low Growth and Social Exclusion⁸

From 1995 to 1998, Brazil achieved an accumulated growth rate of 16% in the capital goods sector of industrial production and 11% in the consumer goods sector. But this represented an annually averaged overall growth rate of only 1.4% versus 1.7% in the 1980s, the decade 'lost to development,' and 2.6% for the Latin America overall in the 1990s.⁹ In 1997 the persistence of a trend towards low-growth in average per capita led CEPAL to identify a propensity towards economic and financial crisis¹⁰ and to predict the beginnings of 'another decade lost to development'. These and other such macroeconomic indicators suggest a relatively stagnant development path, one taken by virtually every other country in the region (Chile being a possible, even notable exception) and a far cry from the years of rapid growth from the 1950s to the 1970s under the rubric of the old' model of state-led development. In recent years, World Bank analysts have identified a 'robust recovery' in the rate of economic growth –up from a regional average of less than 1% in the 1980s and 2.3% in the 1990s to 4.8% in 2004-05 and a forecast 3.8% for 2006 (Fraga, 2005: 14). But it is evident that this economic growth has not translated into a reduction in regional poverty rates, meaning (in the World Bank's language) that the growth has not been 'pro-poor' and that therefore the solution is to ensure that economic growth is redesigned, with new policy instruments, in such a way as to ensure that the poor reap a greater part (that is, some) of the benefits of economic growth process. It is in this context that Ferreira and Walton, two World Bank economists, point to the centrality of equity, understood as equality of economic opportunity

⁸ The term 'social exclusion' (Steifel and Wolfe, 1994) carries with it some of the connotations of the term 'marginality' in former years. In the 1960s and 1970s the concept of 'marginality' denoted the existence of a mass of labour-power that was surplus to the requirements of capitalist development and that in Marxist terms constituted an 'industrial reserve army.' In the 1990s a number of analysts have turned towards the term 'social exclusion' to essentially describe the same and other associated social conditions (Escoral, 1996; Freund in the preface to Xiberras, 1996:12). In their use of the concept they reached back to the earlier studies such as Castell (1995), Pargam (1994; 1996), Nascimento (1994) and Klanfar (1965), possibly the first to use the term in the sense of marginality. More recently, the CEPAL and ILO scholars, Stiefel and Wolfe (1994) and Xiberras (1996), among others have expanded on the notion of social exclusion in terms of more general sociological processes and conditions of exclusion from participation in the economic, social and political institutions of the broader society, i.e. lack of participation in the benefits of the development and modernization process. In this context, Stiefel and Wolfe (1994) and Escoral (1997) treat social exclusion as 'a process that involves the trajectory of vulnerability, fragility and precariousness, a breaking of ties along [diverse] dimensions of human existence – work, socio-familiar, cultural, and human.'

⁹ While Brazil led Latin America in annualized rates of growth throughout the 1950s, 1960s and 1970s (from 6.8 to 8.7 versus 4.8 to 4.9), and even in the 1980s, in the 1990s Brazil's annual growth rate was barely two-thirds of the Latin American growth rate.

¹⁰ According to an index elaborated by Goldstein, Kaminsky and Reinhart (2000), the number of crises in the seven largest countries in the region declined from 26 in the 1980s to 9 in the 1990s, but these crises (the latest from 2000-2001) have increased in their intensity or length (*Finance & Development*, September, 2005: 14).



and access to the resources needed to take advantage of these opportunities, in the design of development policy. As they see it (Ferreira and Walton, 2005) 'growth with equity' is the only way out of the 'inequality trap' and its vicious circle of poverty.

Economic growth data tell but a part of the story. Other indicators tell another part. They point towards a revolutionary process of 'productive transformation' (without the 'equity' called for by CEPAL) and a deep restructuring of the economy with a major impact on the lives of most people in the country, particularly the working classes (Boom, Gerard and Alfonso Mercado, 1990; Camargo and Neri, 1999); Katz, 2000; Leiva and Agacino, 1995).¹¹ Of particular significance in this regard are the extraordinarily high social costs of this restructuring process, most of which have been borne by the working and producing classes in the popular sector of 'civil society', not to mention the indigenous communities in a number of countries. By many accounts, this social debt exceeds even the large dimensions of the external debt accumulated over the same period.

The dimensions of this social debt (the social costs of structural adjustment) are evident throughout the social structure of Latin American societies and reflected in various conditions of poverty, indicators of *social exclusion*, arguably the most critical dimension of the economic restructuring process underway.¹² In terms of the conditions generated in this process it is possible to identify four major structural pillars of poverty in Latin America, that is, forms of social exclusion:

- Lack of opportunity in regard to labour markets and what the ILO defines as 'good quality or decent jobs,' reflected in the low rates of labourforce participation and high rates of unemployment and super- and under-employment, as well as the prevalence of jobs that are contingent in form (involuntary part-time, short-term, et cetera.) with a high degree of informality and low pay, as well as employment on 'one's own account.'
- Reduced access to social services and forms of social and human resource development such as education, health and social security (pensions, etc.);
- lack of access to any means of social production and society's productive resources (investment capital or credit, productive technology, etc.); and
- incapacity of household members to meet their basic needs, reflected in indicators of relative and absolute poverty.¹³

Some of these social conditions and their indicators relate to the contraction of the industrial sector as a base for formal employment – the reduction in the number of well-paid full-time industrial workers. The statistics on this development across Latin America in the context of neoliberal globalization are clear. In the case of Brazil, for example, over the course of Cardoso's first term in

¹¹ Since its publication of *Productive Transformation with Equity* (1990), CEPAL has been a major advocate of this process, seeing it as the possible and desired outcome of a process of 'globalization and development', or integration into the global economy – a process fuelled by foreign direct investment and facilitated by a policy of financial and trade liberalization (CEPAL, 2003).

¹² According to Rodgers, Gore and Figueriedo (1995), the concept of 'social exclusion' captures the form and content of the interaction between economic restructuring and a society's social institutions; thus they can be identified in both the worlds of work and family life.

¹³ A poverty-oriented Basic Needs approach dominated the study of international development in the 1970s. Originating in the 1973 discovery of the World Bank that upwards of 2/5 of the world's population was in a state of relative deprivation, unable to meet its basic needs. According to Amartya Sen a household without sufficient income to meet the basic needs of its members is poor, a condition that can be measured in terms of a head count, that is, the number and percentage of the population that falls below a defined income poverty line; or, according to Sen (1986), by an index of disparity in income distribution, viz. income gap ratio multiplied by the number of the poor, which provides a coefficient of specific poverty.



office (1994-98), at least 897,000 formal sector jobs were lost (Mattosa, 1999). These labour-related indicators also refer to the gradual but persistent rise in the rate of unemployment – from 6 to 8% over the course of Fernando Cardoso's two terms in office – up to 20.3% in the ABC region of Sao Paulo (SEADE, 2000a/b). In the case of Argentina the evolution of this pattern, found with variations across the region, was particularly dramatic – from 6 to 8% at the beginning of the 1990s to 18.4% at the end of the decade and 20% in the first three years of the new millennium (2001-2003). Only in 2005 was it possible to detect a pattern of improvement in the social conditions of low income, unemployment and access to government services in the areas of health and education. This improvement is clearly the result of a decision by the Kirchner government to suspend payments on the external debt in 2004, redirecting the subsequent savings on revenue into diverse social and development programs.

In addition, the policies of structural adjustment and neoliberal globalization brought about a persistent increase in informal work relations and conditions. In the case of Brazil, the region's largest economy, the informal sector was 36% of the labourforce in 1990, up considerably from 1980, but by 2000 it accounted for 53% of economic activity in the urban centres, an increase of 34% in barely a decade (*Folha do S. Paulo*, May 23, 2000: 9A; SEADE, 2000a/b).¹⁴ As Cibils, Weisrot and Kar (2002) have shown, the statistics on these 'developments' have been even more striking in Argentina, with estimated rates of unemployment that in some parts of Gran Buenos Aires reached 60% in 2003 and a dramatic increase in the spread and depth of income-related poverty, and what statisticians in Argentina term 'the newly poor', the 'new poverty'.

As for the conditions of social exclusion connected to the retreat of the state in the area of social programs (health, education, social security) the statistics are staggering. Studies by CEPAL, the ILO and university-based researchers in different countries have documented a regional pattern of deteriorating conditions and reduced coverage by government programs (CEPAL, 1998; ILO, 2000). Other income-based or related indicators of widespread social exclusion include a persistent decrease in the share of labour in national income (as well as value added to production); a reduction in the real value of wages; and a corresponding increase of social inequality in the distribution of household incomes as well as the increasing incidence of poverty, both relative and absolute. The social conditions of this inequality and poverty are also reflected in statistics that show a rise in crime and other forms of social disorganization.

The evidence is clear enough. Not only are Latin American societies characterised by persistently low per capita income growth,¹⁵ high or even rising poverty, and rates of social inequality that remain among the highest in the world, but it is evident that in many societies 'the benefits of global integration have been unevenly distributed – or, as pointed out in *Finance & Development* (December 2005: 9), there 'has been a growing sense' in the region that this is the case: that the benefits have accrued primarily to 'those in the upper-income brackets, while the costs have been borne by 'the less wealthy majority' (sic). In a few countries, the authors of the article "Latin America's Resurgence' point out, 'there has even been a growing militancy among disenfranchised

¹⁴ Official statistics compiled by IGBE show considerably lower rates of unemployment, but most observers take as more reliable the statistics compiled by the Departamento Intersindical de estadístico e Estudos Sócio-económicos of SEADE (*Fundação Sistema Estadual de Análise de Dados*).

¹⁵ Oddly enough, since the late 1980s both the IMF and the World Bank, in the context of the 'bold (free market) reforms' pioneered by the Pinochet regime but widely adopted in the 1980s and 1990s, have periodically but persistently predicted the beginnings of a high economic growth path in Latin America (see *Finance & Development*, December 2005 for a recent such prediction). Even today (see *Tiempos de Mundo*, 2 de Marzo, 2006: 16), despite the severe income constraints on the growth of its domestic market (prevalence of income poverty and low purchasing power capacity, and the extraordinarily high level of social inequalities) the World Bank continues to define the region as 'the most attractive emerging market in the world (*Informe del Banco Mundial*, 2006).



groups', a militancy that risk 'undermining popular support (sic) for reform programs launched in the 1990s' (*Finance & Development*, Dec 2005: 9).

The source or evidence of this 'popular support' is not clear in that the authors make absolutely no reference to, or betray any knowledge of, the overwhelming lack of support across the region for these policies or the emergence in the region of antisystemic social movements and of regimes explicitly set against the neoliberal reform agenda. Against all the evidence to the contrary, and in a review that brackets any reference to prevailing political dynamics, the authors point to improving economic conditions (a 'swift and robust recovery from...successive financial crisis...[and] 24-year high growth rates) and a political opportunity (upcoming elections) for 'entrench[ing] growth and break[ing a] cycle of crises'. In fact, this type of analysis is all too familiar with readers of *F & D*, which periodically but quite regularly over the years prognosticates a period of 'robust growth' based on 'bold [albeit unpopular] reforms'. As it happens, the only concrete case of successful or stellar 'economic performance' that the authors can and do refer to is Chile, a record and story that they attribute to a program of sound macroeconomic policies as well as a good governance regime anxious to provide a 'business-friendly environment' (p. 11). Never mind those governments in Argentina, Brazil and Mexico, among others in the 1990s, were similarly avid in their hoeing the Washington line on correct or appropriate policy, without the positive results that Chile has exhibited. Never mind also that Argentina in recent years has finally managed to break out of a protracted six-year crippling economic -and political- crisis by virtue of a confrontation with the IMF and the US state and an alternative policy. Never mind that all of the political democratically established regimes in the region since 2003 have explicitly rejected the free market neoliberal model because of widespread perception of its failure. Never mind that the one notable holdout in this tilt to then left in regional politics and economic policies, Mexico under the presidency of Vicente Fox, has the worst record of any major country in the region, posting one of the lowest rates of growth in the entire region.

From Social Exclusion to Poverty Reduction

After the market crises of the 1990s, the message sunk in and the World Bank and the other multilateral agencies realized that the process of eradicating or reducing absolute poverty and alleviating relative poverty -'achieving sustained development' in the lingo- had to involve the poor as 'active participants'. As Lustig (1999) explained: 'it has to do (not with social and economic structures but) with human behaviour, and with the need to empower the poor to gain access to economic development'. Just 15 years before, Lustig noted, poverty was not even peripherally discussed at the G-7 summits (?) but now (as of the late 1990s - after the Asian crisis) the world's economic movers and shakers are 'actively exploring innovative ways to *aid poor people*...investing in early childhood development, educating women and promoting microfinance' (*Finance & Development*, December 2005: 4) -anything, one might add, except change its economic model of macro development policy or the basic social and economic structures perpetuated by these policies.

A likely reason, one of several to be sure, for this newfound concern for poverty among policymakers was the discovery by Lustig and other World Bank researchers that poverty in itself, in addition to the associated social inequalities when extreme or deemed to be excessive, not only breeds widespread social discontent and politically destabilizing opposition to needed policies of macroeconomic stabilization but is an active impediment to economic growth. The relation between social inequalities and macroeconomic policy, and the effect of sharp rises in poverty on long-term growth, had been grossly underestimated, if not entirely neglected, Lustig argued (and other World bank economists agree), because economic policies had focused almost exclusively on macroeconomic stabilization and paid little attention to social factors.



But, Lustig insisted –and ditto other economists after CEPAL shocked the world with a report on the lack of progress on the front of economic growth and the war on poverty, and the prediction of another ‘decade lost to development)– that social factors were critical policy considerations in the development process. As Lustig saw it, because of conditions of social exclusion and economic crisis, poor people are unable to participate in, and effectively contribute to, the economic development process. Not only does their social exclusion prevent them from accumulating capital and becoming productive participants in the economy, but also the cumulative effect of recurrent economic crisis is to decimate their already small financial, physical and human assets, trapping them at even lower levels of income. The only way out of this vicious circle, she argued, was, first, to provide the poor adequate safety nets during period of ‘aggregate shocks’ (economic crises) and institute social policies that protect the most vulnerable to the social costs of economic transition; (and, secondly, improve the access of the poor to society’s stock of productive resources, helping to capacitate them in the exploitation of these resources –to empower the poor in acting for themselves.¹⁶

What is required, Lustig has argued, is a careful orchestration of macro- and micro-economic policies within a pro-growth and pro-poor framework –what the World Bank would dub ‘pro-poor growth’,¹⁷ an approach operationalised by Mexico in the late 1990s in the government’s antipoverty program *Progresa*, now *Oportunidades*), and in Brazil’s 2003 *Bolsa Familia* Program,¹⁸ as well as more generally in the Bank’s PRSP strategy. This strategy, widely implemented over the past four years as another conditionality placed on foreign aid, in addition to the ‘good (= democratic) governance’ requirements placed on governments by the Bank (1994).

While at the Inter-American Development Bank, Lustig was tapped by the World Bank to be Deputy-Director for the 2000/01 *World Development Report* (WDR) on poverty, taking over after the lead author Ravi Kanbur resigned in protest over the Bank’s insistence on obeisance to the sacrosanct free market doctrine and a policy of market-based reforms which many in the academic

¹⁶ In the 1990s Lustig made critical contributions to the way that the World Bank, other multilateral institutions and associated academics and policymakers, viewed the issue of poverty and its connection to macroeconomic policy. On the one hand, her research and writings in the 1990s became mandatory reading for a new generation of Latin American economists, who were drawn to her resolute advocacy of pursuing macroeconomic stability on the basis of neoliberal policies under the Washington Consensus, and, at the same time, the need for intelligently designed social policies – ‘socially responsible macroeconomics’. On the other hand, Lustig’s ideas became important reference points for the World Bank, the IDB and the IMF in their re-declared war on poverty. In the early 1990s, she helped launch the Latin American and Caribbean Economic Association (LACEA), and, while presiding over the Association in its second year, set up the Network for Inequality and Poverty, an initiative to link up with the World Bank and the IDB. When Lustig joined the IDB in 1998 as Senior Advisor on Poverty and Head of the newly created Poverty and Inequality Advisory Unit, she joined Nancy Birdsall, then IDB Executive Vice-President and now President of the Centre for Global Development, in designing a new multilateral strategy for waging the World Bank’s war against poverty. In September 2005, after close to a decade in Washington and a four-year stint as president of the Universidad de las Americas in Puebla Lustig returned full-time to academia as President of the Study Centre on Globalization and Development at one of Mexico’s top private (and business-oriented) institutions, the Tecnológico de Monterrey.

¹⁷ On the development policy debates surrounding ‘pro-poor policies’ and a ‘pro-poor growth’ approach towards development –an approach oriented towards the MDG1– reducing poverty and deprivation (poverty alleviation/reduction)– the principal weapon in the World Bank’s ‘war on poverty’ (diverse participants in POVNET, the World Bank’s debating forum, including S. Klasen, J. Jutting, B. Nicol, D. Ehrenpreis. Policy debates tend to focus on income dimension, although Klasen (2000) argues that the pro-poor growth toolbox is equally applicable to the non-income issues such as health and education.

¹⁸ The macroeconomics of this approach has been well-established and codified in a series of publications, including the annual publication of its *World Development Report*. As for the microeconomics, a major reference-point is the publication of Bourguignon, Ferreira and Lustig’s *The Microeconomics of Income Distribution Dynamics in East Asia and Latin America* (Washington DC: World Bank and OUP, 2005).



community saw and see as economically dysfunctional and socially perverse, placing a disproportionate and undue part of the social costs of adjustment on the backs of the poor, incapacitating them. Under Lustig's leadership, the final report, entitled *Attacking Poverty*, urged a broader, more comprehensive approach to poverty reduction by tackling inequalities directly through greater economic opportunity, empowerment and security.

Measuring Pro-Poor Growth

Having established the need for 'pro-poor growth', and associating growth with the Bank's long-established policies of structural adjustment (to provide an appropriate institutional framework), the World Bank confronts the question of how to measure advances in pro-poor growth. In this regard, the Bank draws on a considerable number of commissioned studies: Ravallion and Chen (2003); Son (2004); Kakwani and Pernia (2003); Hanmer and Booth (2001); McCulloch and Baulch (1999); White and Anderson (2000); Klasen (2003); and Duclos and Wodon (2004) among others.

Klasen (2005: 4-8) reviews the rather extended but as yet unsettled debates on this question as to what is or not 'pro-poor growth' but cites the World Bank's (2005) view that high but inequality-increasing growth as in China over the past decade is preferable to low but equitable growth in a country such as Ghana; he also cites the view that any income growth for the poor, no matter how miniscule relative to the corresponding growth rates of the rich and the well-to-do, or even average income growth (thus, with worsening inequality), is 'pro-poor' (p. 6). In effect, any 'growth' is 'pro-poor' as long there is some 'trickling down (Ravellion and Chen, 2003). And, Klasen (p. 7) notes, if one 'firmly believes [and many World Bank economists still do] that reducing inequality will invariably have a negative growth effect', and that equity considerations or redistribution entails a trade-off in lower growth, then a poverty-reduction strategy should take a growth-first approach. Government intervention in the form of redistributive policies, such as progressive taxation and allocating some market-generated income into social programs, not only distort the workings of market forces but also tend to be counterproductive vis-a-vis the goal of poverty reduction.

Not wishing to 'get bogged down in these definitional issues', Klasen notes that in the context of this unsettled debate the best strategy is to take an 'operational approach ... aligned to the policy goals regarding poverty reduction, which is the first MDG' (p. 7). Begging the question of a supposed short-term trade-off between growth and equity, this means for Klasen (p.7): 'maximis[ing] the rate of income growth among the poor'. The conclusion: 'even [if] we choose a policy target based on a *weak absolute* definition for pro-poor growth, striving for pro-poor growth in a relative ... sense will help us achieve our target' (2005: 8).

Another way of helping international development and poverty-fighting organizations achieve their target is for them to broaden their approach in defining and fighting poverty by including a non-income dimension, which largely relates to education and health. The reason is clear enough: the disparity between the rich and the poor is less regarding the non-income dimension of poverty, and the record regarding non-income indicators, Klasen (2005: 17) points out, 'is certainly much more positive than with the income indicator'. Why? Because 'absolute income gains to the rich were much larger than those of the poor'.

The implication of this obvious and unfortunate fact - and the fact that the structural changes required for a change in this situation are not forthcoming- is that successful prosecution of the war on poverty requires a broader definitional and operational approach. This, Klasen adds, is the most important 'insight' yielded by his review and analysis (p.19). After all, while income-growth is important 'relying on income growth to solve the non-income poverty problem is unlikely to be the most effective approach...'. Some sort of intervention is required. But, targeting policy



interventions in the health and education field on the income poor, a major current policy thrust, 'is also not necessarily the best approach to targeting non-income dimensions of poverty' (p. 19). This 'insight', however, begs a question that for some not entirely inexplicable reason Klasen leaves unanswered, namely: what is the best way to fight poverty in both its income and non-income dimensions? One might think the solution to the problem posed requires policies that reduce inequalities in asset and income distribution, but apparently not. In fact, there is no clear evidence that reducing inequality reduces poverty (see discussion above). In this connection, Mexico's experience in recent years shows that it is more than possible to reduce the incidence of poverty while social inequality in asset and income distribution increases. In the case of Mexico, between 2000 and mid-2005 the poverty rate fell six percent -6.4 in regard to income and 6.1 for the non-income dimension of poverty- education, health, housing, clothing, transportation. In 2000, 53.8% of Mexicans were unable meet their basic needs in these areas; in 2005 the rate of poverty so defined fell 6.1%, affecting 47.7% of the population. However, the World Bank notes, at the same time as this 'significant reduction' in the rate of poverty, particularly in the rural area - a pattern noted for all of Latin America - social inequalities in the distribution of assets and income generally increased, indeed significantly so, a problem that Isabel Guerrero, Director of the World Bank for Mexico and Colombia, attributes to an over-concentration of market power (Gonzalez and Vargas, 2005).¹⁹

Not at its Roots: The World Bank's Third Millennium Anti-Poverty Strategy

The World Bank formulated its new millennium strategy for poverty reduction in its 1990 *World Development Report* as a 'New Poverty Agenda'. The core components of this New Agenda were: (i) 'pro-poor growth'; (ii) better public services for the poor; and (iii) 'safety nets' (only) for those who really need them. This agenda, advanced in the formulation of a 'new social policy' targeted (*focalizado*) at the poor, was predicated on the acknowledged need to reform the structural adjustment process -to move beyond the Washington Consensus on a market-led or -friendly approach to development towards a recognition of the need to protect the most vulnerable groups in society from the unbearable albeit transitional costs of structural adjustment.

By the end of the 1990s, however, the failure to significantly reduce global poverty, to eradicate its worst form and conditions (destitution) and alleviate its effects, led the Bank to make another strategic adjustment to its thinking and practice, an adjustment reflected in its requirement that the government, in exchange for access to these funds and technical support, prepare a PRSP. Within the framework of this agenda, the Bank's new approach to fighting poverty is two-pronged, combining as it does (i) macroeconomic 'pro-poor growth' (adherence to the Washington Consensus on sound policy) and the construction, by the governments, of a Poverty Reduction Strategy Paper (PRSP) with (ii) a strategy of local development based on the accumulation of social capital and the active participation of civil society.

¹⁹ The authors note that it took Mexico 10 years to return to the country's poverty index of 1995. As for the social inequality index, Francois Bourguignon, World bank Vice-President and Chief economist, points out that Latin America exhibits the worst disparities on the planet and the situation in Mexico is among the worst, despite redistributive social programs (and migrant remittances) that has significantly reduced poverty in the rural sector, which in any case encompasses only one-fifth of the population.



The PRSP/Local development approach

This strategy is based on partnership with the central and local governments and civil society in regard to both grassroots organizations, nongovernmental intermediary organizations and the private sector. As for governments their responsibility is to implement a pro-poor policy regime and to construct a poverty reduction strategy. This latter strategy, formulated in the late 1990s, was implemented on the basis of a series of 'dialogues' with the governments involved, conditioning technical and financial aid on the construction of a Plan for Sustainable Growth, social development and institutional strengthening all geared to a plan ('strategy paper') for 'poverty reduction' –a PRSP.

The critical factor in this strategy ('best practice' in poverty reduction) was popular participation—dialogue with the stakeholders in a plan for poverty reduction.²⁰ In the not atypical case of Bolivia the government formulated its PRSP in 1999 but notwithstanding the government's implementation of a Popular Participation Law and associated institutionality, it was not deemed by the World Bank and the IMF to be participatory enough, requiring the government to initiate another round of dialogues with civil society groups, including the Jubilee 2000 Forum of NGOs and groups representing small producers, indigenous peoples, and miners (*Finance & Development*, June 2002, Vol. 39, No. 2, *Crafting Bolivia's PRSP: Five Points of View*, Ramiro Cavero Uriona, Juan Carlos Requena P., Juan Carlos Nuñez, Rosalind Eyben, and Wayne Lewis). In conformity with a directive from the IMF and bank, the government initiated a new national dialogue in April 2000.

As reviewed by the IMF (F & D...) it was designed as a 'bottom-up effort', with discussions taking place first at the municipal level, then at the regional level, and lastly, at the national level. As in similar experiences in Peru, ...and...the discussions covered four topics: the causes of poverty; mechanisms for the allocation of HIPC resources (the Heavily Indebted Poor Countries Initiative launched in September 1999); citizens' participation in monitoring the use of HIPC debt relief resources; and follow-up and periodic renewal of the national dialogue. The conclusions guided the government in its drafting of the full PRSP. After a draft was approved by the Bolivian cabinet in February 2001, the paper was discussed with the public and revised in a few areas –particularly those dealing with indigenous, gender, and environmental issues– based on public feedback.

Social Capital and self-development from below and within

Stephen Smith (*Ending Global Poverty: A Guide to What Works*, 205) provides a useful albeit idealistic, even somewhat romantic, and perspective on the role of NGOs and civil society in the development process. The premise of his book is that rapid economic growth, such as that exhibited by china and India in recent years and the Asian NICs in an earlier period of state-led development, does not automatically result in the reduction of poverty. It requires not only a

²⁰ Recent years have seen a number of 'best practice' assessments in regard to poverty reduction – poverty vis-à-vis its 'social dimensions, not income'. These 'good practices in social policy' relate to lessons drawn from the experience of 'high-achieving' developing countries ("Good practices in social policy: Lessons from high-achieving countries," Santosh Mehrotra, Senior Economic Adviser, UNICEF (SMehrotra@unicef-icdc.it). However, given the dearth of high achievement and successful interventions at the national level (with the possible exception of Chile), the 'best practice' lessons are invariably drawn from interventions at the local level, as, for example, in Bolivia and Argentina, which clearly have not succeeded in their respective national wars on poverty but have yet provided, according to researchers at CLACSO, UNICEF and UNDP, useful local examples of 'best practice' ("Best Practices in Poverty Reduction in Argentina," Alberto Cimadamore, Institutional Advisor, CLACSO: cimadamo@clacso.edu.ar).



supportive or facilitating environment but also specific pro-poor interventions and the agency of civil nongovernmental organizations. When and wherever economic growth has translated into poverty reduction, he argues, the critical factor was NGO 'good practice' in the form of micro-enterprise or cooperative development in regard to economics and, more importantly, social development projects focusing on health, nutrition and education.

As Smith reconstructs the development process, the critical factor in regards to the agency of NGOs was not so much a supportive environment and policy framework, the factor emphasized by the World Bank and the other intergovernmental organizations, as the local space for self-development left by a retreating state and incompetent or corrupt governments that are controlled by men more concerned for economic gain than social development. In contrast to these governments, many of the NGOs engaged in the fight against poverty have put the poor themselves at the centre of their practice and rely on women who tend to be much more committed than the men to social development – and the concern that their children will inherit a better world. In any case, many of the success stories related by Smith turn on the significant contributions of women as well as a commitment to 'good practice' in the area of social development.

The key to the World Bank's new millennium approach to poverty reduction is its focus on policies designed to bring about 'social equity', defined as '*equality of opportunity and avoidance of absolute deprivation*' (Ferreira and Walton, 2005: 35); 'empowerment', defined as the self-capacitation of the poor; and 'security', a condition with social and economic as well as political dimensions. As for 'equity' it has long been a matter of policy consideration but economists for many years have viewed it not so much a matter of equal opportunity as a issue of social justice and government redistribution of market-generated incomes, and, as such, a priority issue in a trade-off against policies designed to increase 'economic growth'. However, in this new formulation, equity is no longer viewed as a trade-off against growth: rather, it is viewed as a matter of creating a more level playing field, spreading and providing more equal opportunities to the poor in the exploitation of society's productive resources.²¹ In this context, Jaime Saavedra and Omar Arias, both of them members of the World Bank's Poverty and Gender Unit in the Latin America and Caribbean region, argue that 'the key to poverty in Latin America [i.e. solving the problem] is to create a level playing field –providing the poor with opportunities to improve their living standards through access to education, health, infrastructure' (*Finance & Development*, December 2005: 18). This means, a new social policy that not only targets the poor but is more socially inclusive –to 'ensure an equalization of opportunities'. They add: 'Improving the access of the poor to assets and services [from which they are presently excluded] will help them share in, and contribute to, economic growth'.

On the related question of 'empowerment' it is a matter of 'self-capacitation,' a psychological condition under which the poor are enabled and capacitated to take advantage of the economic opportunities available to them. In previous formulations of this development strategy, the issue had always been viewed as a matter of economic and political 'power' effecting the decision-making power of the government as relates to the 'authoritative allocation of [society's productive] resources'. Development theory over the years had identified two fundamental mechanisms for this allocation, one economic (the market), the other political (government redistributive action). However, neither mechanism has proven to be an effective weapon in the long (by now 50-year) war waged by the World Bank for the eradication or reduction of poverty. Governments have only been able to act in the direction of equity, in the context of a development state, by interfering with the normal workings of the market, providing thereby a disincentive for the active participation of

²¹ Not surprisingly, World Bank economists view 'equity' or 'the spread of opportunity' not as development economists normally do, that is, as a matter of government action; rather, they see it as the product of the workings and 'power of financial markets' (Rajan and Zingales, 2003).



'capital' (investors and entrepreneurs), which, as a result, is withdrawn from the economic production process, generating as a result problems of informalization and unemployment as well as low income and poverty (N on labour market reform).

As for the unregulated or free market, decades of experience point towards a less than optimal social outcome, with excessive inequalities in the distribution of productive resource, wealth and income. It is evident, Lustig (1999) notes, that the free market does not operate on a level playing field, providing as it does the rich unwarranted opportunities and the poor obstacles, which can only be overcome by a more balanced approach vis-a-vis the market and the state. This balance is not achieved by confronting the economic power of the rich and the well-to-do with the political power of the state; or, for that matter, forcing the rich and economically powerful to surrender some of their wealth – to reduce their share of society's productive resources. Rather, governments (or states)– and international (both bilateral and multi-lateral) organizations –should focus on the systemic problems that keep the poor and disadvantaged from advancing economically and economies from realising their full potential. And in this connection rather than exercising its political power to bring about a redistribution of market-generated outcomes, they should seek to create a more level playing field and greater economic opportunities for the poor, helping the poor to act on these opportunities and thereby overcome the 'vicious cycle of poverty' (Banco Mundial, 2006).

Conclusion

The failure of the 'community' of international development organizations led by the World Bank, the self-defined leader in the world war on world poverty, is not a failure at all. The diverse strategies that have been pursued in this war have in fact succeeded in preserving and strengthening the underlying system that produces and perpetuates the problem of world poverty. In effect, the war on poverty has failed to bring about any substantial improvements in the socioeconomic conditions of poverty for a substantial if not growing part of the world population –and we have looked at the problem in the Latin American context– because of a willful refusal to address the structural roots of the problem and to engage the social and political forces needed to bring about the fundamental changes needed to make these improvements –to effectively fight poverty. The nature of the problem of poverty and possible and alternative 'solutions' to it are clear enough. But a critical and perhaps fatal blindspot prevents the intellectuals and policy-makers that surround the World Bank from attacking the system that underlies and continues to reproduce the problem, and to attack the victims themselves, the poor, who are viewed as subjects rather than as objects, and as such both responsible for their own situation and active participants in the poverty-fighting strategies of the development agencies and the Bank's designed possible solutions.

A clear, almost paradigmatic, example of the Bank's non-structural and non-political approach towards the problem of poverty can be found in several studies commissioned by the Inter-American Development Bank (IDB) and published as *Who's In and Who's Out: A Study of Social Exclusion in Latin America* (Behrman *et al.*, 2003). Social exclusion, in these and other studies of poverty, is largely a matter of accessing economic resources and public services such as education, health and housing that address the population's basic needs. As for the difficulties experienced by the poor to gain 'equitable access' to 'political and economic resources' (land, capital, technology, employment, political participation) the authors of this publication like the intellectuals and policy-makers that inhabit and surround the World Bank, That is, the poor themselves are to blame, the culprits in the problem. And the system, long held responsible for the production and reproduction of poverty in its socioeconomic, structural and psychological, conditions, disappears from both analysis –and as an object of fundamental change by political means.



There is no consensus on the causes of the problem or, for that matter, on the link between macroeconomic policy and growth and poverty. Not only has the debate on this issue not been brought to any resolution it continues to rage. But there has emerged a virtual consensus as to how best to confront the problem and proceed –how to wage the war on poverty declared by the World Bank as far back as 1973 (and periodically reaffirmed as the Bank's *raison d'être* and its mandate) and now joined by a broad coalition of development agencies and governments with a commitment to both macroeconomic policies and reforms that promote globalization²² and the promotion of self-help (community-based and participatory development) based on the build-up and mobilization of social capital. The degree of consensus on this strategy for reducing poverty, particularly in regards to social capital, is quite extraordinary.

The multitude of studies commissioned by the World Bank and the other poverty-fighting institutions that comprise the coalition of the committed, all seek to establish the dynamics of 'good practice'. And all of these studies locate good practice in a combination of two factors: building and mobilizing social capital as the critical factor in the development process; and a macroeconomic policy regime that provides a supportive institutional framework and facilitating environment.

The emergent social capital paradigm aims to be a kind of unified theory incorporating diverse concepts such as reciprocity, social networks, democratic governance, the strengthening of civil society and the dynamics of participatory development based on resources that the poor have in abundance. The importance of 'participation' in development programming and project design, as in both reformist and radical politics, has been well established as a fundamental principle, a matter not only of (social) 'equity' but of (technical) 'efficiency'.²³ Social capital in this regard is widely seen as highly functional –a useful means of advancing participatory development beyond consultation with the intended beneficiaries to fully engaging them in the development process from the outset (in the words of Chambers and Cernea, 'putting the last first' or 'the people first'). However, the social capital concept raises the same questions that have surrounded popular participation: is it possible to achieve genuine participation, and to bring about required structural changes, through an emphasis on consensus and technical targets while negating the politics of development and ignoring patterns of local (and national) power and domination?

This is the problem. In effect, social capital is a means of promoting *economic development without social change* – to bring about improvements in people's lives without affecting existing property relations in the means of production and the distribution of assets and incomes based on the structure of these relations. It means 'empowerment' of the poor, providing them with a sense of participation and the opportunity to own their own development efforts, without disempowering the rich. In fact, it would seem, this is what explains both the widespread interest in the social capital concept and the lack of progress in over three decades of fighting poverty by the World Bank and other development organizations and agencies.

²² The World Bank has experienced difficulties in maintaining this consensus and there have been diverse pressures –even from within (for example, Stiglitz, 2002)– to move beyond the consensus and to redesign the reform program: to give it a social dimension (a new social policy) and to provide the entire process a more human face. Nevertheless, notwithstanding these pressures fore reforming the reform process, a consensus remains as to the basis relevance of the 'new economic model' and the need to stay the course of structural reform, indeed o extend and deepen it.

²³ The call for 'popular participation' originated in radical politics, as a rallying cry for revolutionary change, but in the 1970s it became a tenet of liberal reform and soon thereafter a fundamental principle of 'another development'. Participation in this context was viewed (as the 'missing link' in the process of productive transformation with equity' (Boisier, et al., 1992; ECLAC, 1990). In the context of development programming and the project cycle, 'participation' is essentially treated as a matter of principle and as such a matter of 'equity'. However, for the World Bank it is now also seen as a matter of 'efficiency', a way of improving the productivity of development projects (Blaikie, 1985).



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