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POVERTY POLICY IN LATIN AMERICA DURING THE 1980s

A Review of *Coping with Austerity: Poverty and Inequality in Latin America*, Nora Lustig (editor), Washington, The Brookings Institution.

The last two decades have been traumatic ones for the countries of Latin America. Virtually all have confronted major economic crises and the related social and political strains. For many the international debt crisis of the early 1980s—a product of the high overhang of debt from the heavy borrowing in the 1970s, an abrupt increase in real interest rates and the cessation of capital inflows—was the factor which triggered their own economic crises. In most countries these lasted the better part of the 1980s. Then came the struggle for economic recovery, a struggle which eventually brought "structural adjustment" and the associated shift toward more market-friendly policies. Only now, in most countries, has a degree of economic and policy stability been reestablished.

Income distribution has been highly unequal in most countries of Latin America as far back as the records extends. Accordingly poverty has been more prevalent than would be suggested by the average incomes of these countries, most of which fall in the upper-middle income range for developing nations; as of 1993 the regional average was about US$3,000, yet something like a third of the population was below the poverty line.[1] Depressing as this current situation may be, it is clear that the incidence of poverty was declining at a fairly brisk clip between the end of World War II and the crisis. Over the period 1950–80 the region's per capita income rose by about 3 percent per year and the incidence of poverty (defined as in Altimir's 1982 study) probably fell from a level of about 65 percent in 1950 to around 25 percent by 1980. Had per capita income growth continued at the earlier rate, poverty incidence would probably have fallen to about 10–15 percent by the end of the century, and it would have been realistic to think that no more than a few percent would have been critically poor.

However, the debt crisis intervened and pushed poverty rates back up again. During the crisis and subsequent adjustment period average income fell in almost all countries, sharply in many of them, and the degree of income inequality increased in most; both of these factors contributed to an increase in the incidence of poverty. By the early 1990s a modest level of growth had returned to the region, but it has not, over 1990–95 at least, been able to regain the momentum of the

Note: The author would like to thank Lars Osberg for helpful comments on an earlier draft. Remaining errors and omissions are mine.

[1]The poverty line is defined, in the volume and in this review, as an amount of income or consumption sufficient to cover a minimum food basket for adequate nutrition, multiplied by the reciprocal of the proportion of total consumption expenditures allocated to food by those families which are in extreme poverty. (Extreme poverty is defined as insufficient total income to purchase a minimum food basket.) Poor families are, therefore, defined as those not able to buy the minimum food basket and have enough funds left over to spend the same share of total expenditures on other consumption items as extremely poor families do.

pre-crisis years. In particular, with GDP growth still less than half its 1950–80 average of about 5.5 percent per year, the per capita gain of about 1 percent was only a third of what it had been in that earlier period. With economic growth—a key determinant of poverty incidence—sputtering, it is especially important that positive rather than negative impacts come from: changes in the distribution of income, in particular changes which involve the shares of the groups below and near the poverty line; and poverty redressal policies (social spending which affects poverty, the various types of transfers forming the social safety net, etc.).

One way to categorize the major issues related to ienquality and poverty in Latin America around the 1980s is: (i) description: identification of the trends and patterns of inequality and poverty, including comparison among the various indicators of welfare—income, consumption, satisfaction of basic needs, etc., the relationships among these, and the measurement issues and problems relating to each; (ii) analysis: the effects of the crisis vs. those of the adjustment process and of the macroeconomic policies used during that process; and (iii) prescription: analysis of poverty-alleviation programs and policies.

The volume edited by Lustig considers Latin American experience with poverty and inequality during the 1980s; its focus is the policy response to that experience. A key contribution is in the discussion of social service provision and poverty-redressal policies, with attention to the political and administrative constraints on them and the determinants of success under various circumstances. As background, the editor raises the questions of whether the increase in inequality and poverty in Latin America during the 1980s was very significant; whether it was the inevitable result of the economic crisis and its aftermath, or of policies; and whether governments responded well to the imperative of austerity—hence the volume's title "Coping with Austerity—." She notes (p. 3) that the increases in inequality and poverty pose serious worries—of the reversal of policy reforms towards fiscal prudence and adjustment, of environmental degradation, of political stability, etc.

In this regard, the most concerned statement in this volume comes, perhaps not accidentally, from the author (Figeroa) who discusses the hardest hit country (Peru). He contends that the changes in equity in Peru "have led to a distributive crisis, which occurs when income inequality surpasses a threshold of social tolerance." Property rights are challenged, the social contract breaks down and social violence and instability prevail (p. 391). The uncertainty implicit in this situation means that private investment is likely to contract, as indeed it did. When governments abandon redistributive policies, stealing, kidnapping etc. are among the societal responses. Figeroa concludes that the resolution of the crisis is necessary in order to resume economic growth; he argues that as of the early 1990s the adjustment policies had not worked but had, rather, contributed to the deepening of the distributive crisis.

The volume presents, in a convenient form, evidence that poverty rose sharply in most countries of the region—not surprising in countries which suffered major decreases in per capita income, and that inequality also increased in most (chapters by Lustig, Morley and Fiszbein and Psacharopoulos). This story matches that of other authors (e.g. Altimir, 1994; Morley, 1995). Lustig observes that "Perhaps the most important result of the economic crisis is that in country after country where the bottom or the middle range's share shrank, the income share of the top 10 percent increased, sometimes substantially" (p. 5).

Why did the observed increases in inequality occur? In her overview Lustig notes that distribution may worsen in economic downturns because of the weaker bargaining power of the poor, especially their relative inability to index their earnings, and their incapacity to defend their financial assets under conditions of inflation, which usually accompany the recessions. Policies like the coversion of private dollar-denominated debt into domestic debt at very favourable rates in Chile and Argentina obviously favoured creditors and increased inequality in those two countries.

Two chapters present detailed analyses of the impact of selected policies on poverty and distribution. In his *ex post* approach Morley ("Structural Adjustment and the Determinants of Poverty in Latin America") relates observed changes in distribution to the policies implemented in various countries, while Sadoulet and de Janvry use a dynamic general equilibrium model of the Ecuadorean economy to analyze jointly the economic, welfare and political implications of alternative policy packages. This range of methodologies is useful, in part because no approach is by itself anywhere nearly definitive on these complex issues, so it is important to test the tentative conclusions suggested by one approach for their consistency with those of other approaches. The usefulness of each is limited to those policies with potentially important impacts on distribution and poverty, since neither could hope to detect or reflect the effects of less important policies. The static decomposition of inequality and the general description of income sources presented by Fiszbein and Psacharopoulos provide helpful background information to interpret the causal analyses undertaken by Morley and by Sadoulet and de Janvry. Advances in the understanding of changes in the levels of inequality and poverty will depend increasingly on the marriage of these three types of analysis. The present volume leaves this task mainly to the reader.

Sadoulet and de Janvry's model of the Ecuadorean economy "predicts" that the sort of external shocks suffered by Latin countries in the 1980s and the policy responses to them involve significant distributive impacts that would be expected to unleash political battles making policy sustainability hard to achieve but central to successful adjustment.[2] Their optimistic finding is that the policies most effective at restoring economic growth are also most effective at reducing poverty in the middle and longer run; but the bad news is that those policies increase poverty in the short-run and arouse political opposition, especially among urban groups. Explicit management is thus necessary to make them politically feasible, and a safety net is needed to shelter the poor during the transition. Political support to finance this safety net locally is naturally very difficult during a recession so foreign funds are important; if well targeted and managed the needed flow of such transfers is both small and brief.

The Sadoulet–de Janvry model constitutes a valuable step along a path which will hopefully see increasing subtlety and accuracy built into such models. Both

[2]The model distinguishes trade, fiscal and monetary policies as components of alternative strategies to deal with an external shock, defined as a 40 percent reduction in foreign borrowing and a 30 percent fall in the price of oil. It includes a financial sector which allows endogenization of two key monetary variables—the interest rate and the rate of inflation; it also incorporates the benefits of public spending.

the structural assumptions and the predictions are plausible, and the policy implications are of obvious importance. The next step with such a model (and some of this has no doubt occurred already) is to check the accuracy of its predictions—including especially those on the distribution front, against the recent trajectory of the economy; second-guess the data used; and subject the model as a whole to extensive discussion, debate, and critique. If it passes those tests adequately, it might then be refined and updated.[3]

Morley emphasizes the role of macroeconomic conditions (mainly growth or the lack thereof) as the major determinant of poverty in Latin America during the period under consideration. He finds that "in the short run, both poverty and inequality are procyclical, meaning they rise in recession and fall in recovery" (p. 65). While this relation is certainly true for poverty, its generality for inequality is less clear than Morley suggests here. He reports (in Table 2.3) 21 episodes in which the relation is procyclical and just five where it is the opposite; my own reading—for which I eliminate cases where the Gini coefficient changed by only one percentage point over the period in question and reclassify some others on the basis of what I suspect is better information, the numbers are thirteen and seven respectively. This weaker association provides correspondingly less reason to be optimistic that growing out of the crisis will systematically alleviate the inequality problem as well. Two of Morley's other important conclusions are of special interest. First, successful adjustment need not always be accompanied by sharp reductions in the minimum wage; there is evidence that under some conditions the minimum wage is not a barrier to real devaluation. Since other evidence suggests that this wage is a significant determinant of the level of poverty in the short run, governments should ensure that conditions really do require such a move before forcing down the real wage. Second, the distinction between traded and nontraded goods is very useful in interpreting differential performance across countries; in general those with small traded goods sectors were unable to increase production in response to real exchange rate devaluation and hence had greater difficulties in adjusting.

Morley's main focus is the impact of recession, adjustment and recovery on poverty and distribution and his conclusion that recovery tends to improve distribution might suggest that post-recovery levels of inequality would be in the same neighbourhood as pre-crisis ones. Other studies which focus less on crisis-adjustment-recovery and more on the longer run determinants of inequality are definitely less optimistic on this score. Altimir (1994) Bulmer-Thomas (1996) and Berry (forthcoming) all conclude that there has been a negative shift in the level of inequality between pre-crisis and post-recovery. Berry points to the frequent coincidence of timing between increases in inequality and the introduction of market-friendly reforms, highlighting the possibility that the reforms will leave this undesirable legacy. Since reforms in the areas of trade (leading to increasingly

[3]That assessment would include further looks at the quality of the information used in the analysis (since Ecuador is not known for the completeness or the accuracy of its economic accounts); a check to see whether the model accurately "predicts" the sharp increase in inequality which seems to have shown up in the major Ecuadorean cities during the most recent wave of reforms from about 1990 on (Larrea, 1997); and a careful look at the emerging evidence relevant to the conclusion that growth will have positive effects on the rural poor because it will be labour employing.

open economies) and the labour market are standard elements of the typical package, each is naturally a suspect. If greater openness is a factor, it will mean that the optimists' view (espoused on occasion by the World Bank) that trade reform would not only accelerate growth but also improve distribution in developing countries has been seriously off target for Latin America; it now appears unlikely that comparative advantage in this region is mainly found in very labour intensive products or in agricultural products coming from small farms. It is hard to bring micro evidence to bear on the possible impact of labour reforms, but Morley's finding that distribution trends appear to have been rather closely related to the minimum wage suggests that cuts in the minimum wage heighten inequality.

In the context of the already high levels of inequality in Latin America, the social and political implications of a longer-run shift toward inequality warrant much concern and attention, now that the worst of the crisis of the 1980s and of its aftermath is behind us. Various competing hypotheses exist, as in the case of the parallel trends observed recently in many industrial countries. The unskilled labour-displacing character of technological change has been widely cited, and is certainly a possible explanatory factor in the Latin case though, as noted, the timing of the increases in inequality points more obviously to the structural reform package. In either case there is no reason to expect an automatic reversal to occur. And regardless of the cause of a worsening, there is growing evidence that high levels of inequality can act as an impediment to growth (a case made in the Latin American context by Birdsall and Sabot, 1994). Hence, together with the direct effect of pushing up poverty, inequality can have an indirect effect on poverty by slowing the growth rate of GDP. Many mechanisms could underlie such an effect; one probable mechanism is a negative link between the amount of investment in human capital and the number of families too poor to invest (Galor and Zeira, 1993). Other ideas are reflected in the endogenous growth theories of recent years (for a review, see Osberg, 1995).

To the extent that much of the increase in inequality observed since the 1970s turns out to be lasting, all of the lessons learned about poverty alleviation interventions and policies during the crisis and recovery period, including those discussed in this volume, will be the more important. The country chapters in the volume focus mainly on social indicators and social policies. Grosh's chapter "Five Criteria for Choosing Among Poverty Programs" is a useful practical guide by an experienced specialist in this area, providing a nice balance on the roles of economic mechanisms and administrative and political aspects and a fitting prelude to the country chapters. The general criteria she identifies are not surprising (administrative feasibility, political feasibility, extent of leakages etc.) but the references to literature which describe the hard-to-measure effects are illuminating.

The social policy discussions by Grosh, the country studies, and the overview by Lustig together present a rich body of information, together with the usual gaps one might like to see filled.

Macroeconomic Constraints on Social Spending

One set of conclusions revolve around the budgetary stringencies of the times. Major changes were inevitable in the 1980s in the provision of social services in many countries since the fiscal noose was tightening; either the growth of quantity of services provided had to slow, quality had to decline or efficiency of provision had to improve. The threat that the tightening would be prejudicial to the poor was evident. One frequent and dangerous effect of such fiscal tightening is an increase in the share of spending going to wages (e.g. Peru) and sometimes to administration as well (e.g. Venezuela), due to the difficulty of cutting this component of costs; as a result too little is spent on complementary materials, equipment, investment etc.[4] Where this effect is in evidence, and when the need to reduce spending is not short-lived, major rather than minor institutional adjustments are likely to be necessary. Falling morale, better workers leaving and poorer ones staying, and other negative fallouts from the tightening process often contribute to quality erosion beyond that implicit in the expenditure cuts by themselves.

There seems to have been no very general pattern with respect to whether traditional spending on the social sectors fell faster or slower than other public spending. In Argentina social spending was higher in the 1980s than in the previous decade; the systems limped along with their accumulated weaknesses and one main effect of the squeeze was declining standards in education. In the case of Mexico the government drastically reduced total expenditures during the adjustment of 1983–88, with spending on social development impacted more than that on nonsocial. Though cuts in education and health were less than for other social areas, basic education (primary and junior high) was cut more than other education, and programs targeted to the poor were subject to sharp cuts. Such outcomes were part of a pattern in which none of the countries was ready to protect the poor from the impact of the crisis and adjustment (Lustig). Social investment funds, for example, were usually implemented several years or even a decade after the crisis had erupted.

The social indicators other than household income—life expectancy, infant mortality, average years of schooling, enrollment rates etc. tended to move more favourably or less badly during the crisis years than did income levels themselves. This outcome is variously interpreted as a reflection of the lag between investment and benefits from spending on education and health, for example; of the fact that the quantum of some services do not fall as much in times of recession as does spending on them (since real wages of service workers tend to fall sharply); of the fact that technological improvements have permitted health improvements even where expenditures have fallen. Raczynski and Romaguera argue, with reference to the Chilean case, that in a country with broad educational and health services it is possible to sustain improvements in welfare indicators despite deteriorating income distribution and increases in absolute poverty. Existing services and long-standing national programs with social legitimacy facilitated the

[4]Figures on the budget in the Venezuelan education and health ministries suggest incredible increases since 1980 in the share of expenditures going to administration—it reached 43 percent for the former in 1991 and 73.4 percent for the latter (direct transfers and capital expenditures are excluded). These figures are so high that they either do not really mean what they seem to or are indicative of an amazing level of inefficiency. (Note than in the case of education the year to year jumpiness suggests a problem with the data—p. 413).

implementation of programs that targeted the very poor. Wage declines and other strains did, however, lead to loss of quality of the services.

Though the "better-than-might-have-been-expected" performance of the social indicators has been widely remarked (in this volume and elsewhere) it does appear that in most cases progress was slower than previously, i.e. that the crisis did have a cost even if it did not lead to absolute deterioration of such social indicators. There are several apparent exceptions even to this plausible expectation, however, highlighting the complexity of the process of social upgrading. Barros *et al.*, note that a comparison of the 1970s and the 1980s in Brazil contradicts the view that faster economic growth implies faster expansion of the educational system. Similarly, the sharpest fall in Brazil's infant mortality rate (IMR) occurred precisely during the 1980s (from 75 to 45 percent according to the vital statistics); it did seem to stop falling in the early 1980s recession but not in the downturn of the late 1980s. Clearly the IMR was not related tightly to current economic trends or to income levels of the poor. Perhaps these variables are important if one considers a one decade lag. Perhaps the considerable advance in educational level of adults played a role. Some have attributed much of the decline to the ambitious sanitation plan (PLANASA) introduced by the government in 1971, but this is not consistent with the fact that IMR fell as much in rural as in urban areas (where the plan was implemented). Improvement in access to health services is debatable; while indicators of health personnel and expenditures increased continuously in the 1980s, indicators of medical facilities deteriorated considerably. If fairly generally available health technology is and has been the main factor in cases like this, it should become evident across quite a few countries at about the same time. An important research issue is to ascertain whether this has been the case.

It is possible that the severity of a crisis determines whether it significantly changes the trends in social indicators. In Peru school enrollment rates followed their historical trend during the 1980s but in 1991, by which time the accumulated economic decline was very great, the official figures for enrollment were 18 percent below the projected level and private figures lower still. On the other hand life expectancy may have increased over this period; if so one of the factors will have been the maintenance and expansion of the low cost, internationally supported immunization programs. The success of some poverty-redressal policies depended on structures already in place, as in the case of Chile's health and nutrition program, which was built on the existing coverage and structure of the health sector. The interconnected system of maternal and child health care worked well, though most related indicators did level off during the crisis. Access to health systems became more difficult for all except mothers and small children and there seems to have been a "strong increase during the 1970s and 1980s in diseases linked to the sanitary quality of food and the presence of vectors transmitted through the digestive system . . . associated largely with inadequate waste disposal systems" (p. 314).

Social Policy Innovation

Targeting has been a key element of the policy response to the shortage of funds. How well it has worked and will work is a key question. One issue is institutional; in some countries there has been powerful opposition to effective targeting programs of the type which have become centre-stage in anti-poverty programs. In what Marquez describes as "the most important initiative by a Venezuelan government to support low income groups in a time of crisis," the government chose to circumvent the resistance of vested interests in the traditional social services by creating a whole new apparatus for delivering focused services to the poorer people (p. 416). In less than a year organizational channels untainted by corruption that allowed the swift and efficient delivery of substantial resources to narrowly targeted groups were set up. However, when it was necessary to expand to a national level using the traditional bureaucracy, programs tended to stall. Thus the PAMI (feeding and maternal care) program worked well in the poor state of Trujillo but stalled when attempted at the national level, where it required shifting of resources over the opposition of public sector unions. Three years of government support could do nothing to break that resistance. Such experiences highlight the dilemmas posed by some public sector unions in these leaner and more demanding times.

A second key issue is the actual and potential effectiveness of programs in reaching target groups. The evidence to date, while inevitably partial and limited, is reasonably encouraging. One serious doubt relates to the political lasting power of programs whose main beneficiaries are the poor. International support may be key to survival in such instances. As Grosh and others point out, contexts vary greatly from country to country and details of design and implementation can make the difference between success and failure. One relevant consideration is the degree to which less targeted programs help the poor. In the case of food subsidy programs, whose administrative feasibility is generally good and political popularity high, the benefits are generally widespread within the urban and middle-class groups. In the Jamaican program (now discontinued) only 14 percent of the transfer benefits reached the poorest quintile while 26 percent went to the richest; a similar pattern is observed in many other countries. It seems that there are few examples of commodities which are important in the food basket and which have the combination of income and price elasticities to render subsidies adequately progressive through self-selection of buyers.

Most countries with food subsidy systems initiated targeting during the 1980s or sooner. In Mexico, though targeting was introduced, the urban bias of the previous system remains marked in the new one also. Collateral benefits from targeted programs can be substantial. The Honduran program requires pregnant and lactating mothers and children under five to participate in public primary health centres. At the beginning of the program participation in these markedly increased.[5]

It is hoped that decentralization, another near universal trend of the last decade or so, will improve the quality of targeting (see below), but it remains to be seen how far and how fast the resulting improvements will come. It is, however, clear that premature efforts to devolve the provision of social services to states and municipalities can seriously damage provision at least in the short run

[5]The literature on targeting, though still limited, is growing. A useful volume is van de Walle and Nead (1996).

(Lustig). The resulting confusion and lack of human resources reflects the fact that devolution has often been rushed, based more on a hopeful outcome than on serious preparation. The context of crisis has not been propitious for careful forethought.

Will the shaking up of the traditional systems of social service provision, due both to the fiscal crisis and to the rethinking which it has promoted, lead to better policies? Lustig (p. 32) sounds a note of optimism: "The changes in macroeconomic policy-making and the economic reforms undertaken in the 1980s introduced important restrictions (most for the better) on the type of instruments that governments can use to redistribute income." In the past such policies almost always implied some form of market intervention and could absorb great fiscal resources. General subsidies are now rare and public enterprise deficits a matter of more serious concern.

The emergency employment schemes have been one important innovation dating from the crisis years. The PAIT program in Peru offered public employment for three months at the minimum wage; according to one study 80 percent of the people it employed were adult women, mostly household heads or spouses, and about 60 percent had previously been unemployed (28 percent) or inactive (32 percent). These data suggest that the program reached a good number of the poor. Hopefully, such schemes will be rendered unnecessary in the future by stable and successful economic growth. However, some may warrant permanent status. As well, if the more internationally integrated economies of the future suffer greater fluctuations than in the pre-crisis period, countries will need to be ready to respond to downturns with improved safety nets, emergency programs, wage and other types of flexibility etc.

Of definitely longer-run import is the creation of unemployment systems, spurred by the crisis and the associated concern that high payroll taxes and tight restraints on firing of workers would contribute to low hiring and to lack of competitiveness. Thus in Brazil the unemployment insurance program was created in 1986 as part of the Cruzado plan; coverage was initially quite limited but has been substantially broadened. By 1991 2.9 million people were receiving benefits—31 percent of dismissed workers and 91 percent of those who applied. Chile's experiments and discussion in this area are also of interest (Cortazar, 1995). Social security systems are also being reformed at record rates in the region, with welfare implications which will warrant study over the next years. It should not be too hard to improve on the low efficiency levels of most of the pre-existing public systems, but the potential for positive redistribution of welfare is likely to be less in most of the new systems.

Social funds are another recent innovation. Typically they engage in infrastructure work with labour intensive techniques, provision of social services, and support for microenterprise projects. Large numbers can benefit from the activities though most of the employment benefits tend to be short-lived. They require excellent administration, usually achieved by waiving civil service pay scales and procedures as a way of circumventing low administrative capacity in the public sector (Grosh). Funds can be politically quite popular given their demand-driven character, bureaucratic agility etc. Reaction of established agencies depends on whether they see it as a substitute or a complement; consultation can be useful. What a fund does can look like a patchwork, but total activity generated can be great as in Bolivia, where in 1989 the investment through the ESF equalled about a third of traditional public investment. Wage benefits tend to be self-targeted since the work is physically demanding at (usually low) market wages. In Honduras and Guatemala the size of each community's poverty index has been used to help target projects. There is as yet very little empirical evidence on the distribution either of employment or of project benefits but what there is (from Bolivia and Honduras) is positive. The scope of microcredit programmes in Latin America tends to be small, although Bolivia's PRODEM lent over U.S.$ 9,000,000 in its first three years. Politically such programs are popular. Several quite small studies suggest considerable income benefits (5 to 75 percent) but smaller employment gains (Otero, 1989, 96–97). In the best practice cases the targeting can be excellent, as demonstrated by several groups in Colombia.

Lack of Information

The serious data problems in the measurement of poverty and income inequality are relatively well known, but the major inadequacies in the other social indicators are rather less known.[6] In the case of education, official figures can have quite significant biases (e.g. 20 percent or more, as recently observed for Colombia's secondary enrollment—see Molina *et al.*, 1993), often induced by incentive distortions related to school financing arrangements. Such problems relate not only to direct quantity measurement of outcomes, but also to value measurement of spending, where the deflator used (e.g. GDP deflator or wage of teachers) can make a big difference. Most difficult of all is the assessment of quality changes, which are widely believed to have occurred—often in a downward direction.

Given the universal recognition of the importance of human capital in the future social and economic success of Latin America, it is clear that these measurement issues must be taken much more seriously. The highly inefficient ministries and agencies, of the sort described by Marquez and others in this volume, have little or no chance of contributing to their resolution; countries and international agencies must decide to address them soon or pay a perhaps significant price in the medium run through inability to monitor, assess and improve their programs for lack of information and understanding of what is working and what is not. Parenthetically, Figeroa notes that NGOs and their activities became rather important in Peru, but lack of information on them is a problem in assessing their potential. It is important to take advantage of that potential; one reason that it is not clear how to judge them in relation to other institutional actors is the lack of information on what they do.

The next decade will probably clarify how the balance works out between the powerful negative forces which have increased inequality and halted or slowed poverty reduction over the last couple of decades and the interesting policy innovations which have evolved over the last 15 years or so—targeting, microcredit etc.

[6]One of the strengths of this volume is the large amount of statistical information made available and clearly presented. It does not suffer from many apparent errors or much ambiguity. One case, though, is the mistitling of Table 7–6 (p. 246) which is missing the word "cumulative."

Lustig notes that improving levels of education and reducing the inequality thereof will be an important policy tool, together with improvement of access to social services and social infrastructure for poor people, curtailing discrimination, and improving the property rights of the poor. I would add effective support for small and medium enterprise to this list. As she notes, redistributive initiatives are likely to encounter serious political resistance.

One of the recurring problems in the policy history of most Latin American countries is the search for that one policy ("gimmick" as detractors would say) or strategy which would put everything right. The new package of market-friendly reforms plus decentralization, while no doubt useful or even essential in some cases, runs the risk of creating unrealistic expectations. It will be sad if observers conclude in a few years that the region has switched from one rather imperfect strategy to another rather imperfect one. Since much has been made of the growth advantages of the new approach, it is pivotal that distribution and poverty and their effective measurement be kept front and centre so that any failings in these dimensions receive due scrutiny. If the evidence shows that the package itself contributes to rising inequality, it will be important that this fact be accepted and responded to rather that concealed.

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