

Strategies Against Poverty : Designs from the North and alternatives from the South	Titulo
Reinert, Erik S. - Autor/a Féliz, Mariano - Autor/a Akanle, Olayinka - Autor/a Puyana Mutis, Alicia - Compilador/a o Editor/a Puyana Mutis, Alicia - Autor/a Okuro, Samwel Ong'wen - Compilador/a o Editor/a Okuro, Samwel Ong'wen - Autor/a Álvarez Leguizamón, Sonia - Autor/a Fróes de Borja Reis, Cristina - Autor/a García Trujillo, Andrés - Autor/a Ndubuisi Nweke, Eugene - Autor/a Brown, Dennis A. V. - Autor/a Gasu, John - Autor/a Olutayo, Akinpelu O. - Autor/a Kattel, Rainer - Autor/a Ekoué Amaïzo, Yves - Autor/a	Autor(es)
Buenos Aires	Lugar
CLACSO	Editorial/Editor
2011	Fecha
CLACSO-CROP	Colección
Inversiones públicas ; Macroeconomía; Organismos internacionales; Desarrollo económico; Planificación de programas; Política social; Estrategias de reducción de la pobreza; África; Caribe; América Latina;	Temas
Libro	Tipo de documento
<a href="http://bibliotecavirtual.clacso.org.ar/clacso/clacso-crop/20120529081731/PuyanaMutis-OngwenOkuro.pdf">http://bibliotecavirtual.clacso.org.ar/clacso/clacso-crop/20120529081731/PuyanaMutis-OngwenOkuro.pdf</a>	URL
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# STRATEGIES AGAINST POVERTY

DESIGNS FROM THE NORTH  
AND ALTERNATIVES FROM THE SOUTH

ALICIA PUYANA MUTIS  
SAMWEL ONG'WEN OKURO  
[EDITORS]

Puyana, Alicia

Strategies Against Poverty : designs from the North and alternatives from the South / Alicia Puyana y Ong'wen Okuro - 1a ed. - Buenos Aires : Consejo Latinoamericano de Ciencias Sociales - CLACSO, 2011. 340 p. ; 23x16 cm. - (CLACSO-CROP / Alberto Cimadamore)

ISBN 978-987-1543-63-2

1. Sociología. I. Okuro, Ong'wen. II. Título  
CDD 301

Others indexing terms (descriptors) assigned by the Virtual Library of CLACSO:  
Strategies for poverty reduction / Programme planning / Social policy / Economic growth and development / Public policies / Public Investment / Macroeconomy / Africa / Latin America / Caribbean

Otros descriptores asignados por la Biblioteca virtual de CLACSO:  
Estrategias de reducción de la pobreza / Planificación de programas / Política social / Crecimiento y desarrollo económico / Políticas públicas / Inversiones públicas / Macroeconomía / África / América Latina / Caribe

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**Arte de tapa** Ignacio Solveyra.

**Impresión** Gráfica Laf SRL

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Tel. [54 11] 4811 6588 | Fax [54 11] 4812 8459 | <clacso@clacso.edu.ar> | <www.clacso.org>

**Primera edición**

*Strategies against Poverty. Designs from the North and Alternatives from the South*

(Buenos Aires: CLACSO, junio de 2011)

ISBN 978-987-1543-61-8

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# INTRODUCTION

## LOOKING PROPER ANSWERS IN AFRICAN, LATIN AMERICAN AND CARIBBEAN COUNTRIES

SAMWEL ONG'WEN OKURO\*

ALICIA PUYANA MUTIS\*\*

IT WAS FORTUNATE THAT THREE ORGANIZATIONS joined efforts to organize the seminar “*Strategies against Poverty: Designs from the North and Alternatives from the South*” in which academics from Africa and Latin America examined the policies and the programmes to eradicate poverty in both continents. The purpose of the seminar was to open a space to debate alternative theoretical approaches on the causes of poverty and to explore the, some times diverging, strategies to its eradication as proposed by the *North*, donors and multilateral organizations, and by the *South*, governments and non-governmental organizations. The particular interest in studying poverty in the context of developing countries, often called the South, is to show the profound socio-economic inequalities existing in these countries and the problems that result when the programs are structured to mitigate poverty are, in too many cases, a mere the incorporation to local scenarios of the universal policies, from international agencies and funding. These programs made with the idea that one size fits all, ignore the needs, priorities and realities of individual countries and regions and only meet the North’s neoliberal paradigms.

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The *Consejo Latinoamericano de Ciencias Sociales* (CLACSO), the *Comparative Research Programme on Poverty* (CROP) and the *South-South Exchange Programme for Research on the History of development* (SEPHIS) share similar preoccupations and pursue the matching objectives: how developing countries can construct societies that are inclusive, less discriminatory and more just and democratic. The task is how to eradicate extreme poverty and to achieve rates of economic growth that are high enough to guarantee better employment and incomes for the fast growing population while protecting the environment and preserving the habitat for future generations. It means that developing countries have to structure a model for economic growth quite different to the one followed by developed countries that did not put attention to saving limited, renewable and non renewable resources.

CLACSO main objective is to create and consolidate a forum to discuss the political, economic and social problems affecting Latin American countries, from a regional comparative perspective and with a clear compromise to support democracy and the respect of human rights for all citizens. CROP, forms part of the International Social Science Council Programmes on poverty and is cosponsored by the University of Bergen which hosts the Secretariat. CROP mobilizes critical poverty research and education on poverty. CROP's main objective is to develop a critical global poverty research agenda and to foster and coordinate an interdisciplinary south-south and south-north comparative research. SEPHIS, a programme funded by the Netherlands Ministry of Development Cooperation, aims at encouraging the formation of a South-South network directed towards comparative historical research on long-term processes of change. SEPHIS is focusing on two sub-themes that run through the histories of national and local development and underdevelopment in recent times: identity and equity.

There is no need to stress the relevance of comparative analysis of the effects of colonial and neo-colonial powers to understand the factors constraining economic growth in developing countries. The works discussed in the seminar, and presented in this book constitute one step in the direction of finding both, similar problems and akin solutions and to envision policies that respond to local and national history, conditions and priorities.

### **A DASH OF HISTORY**

Africa and Latin share some elements of history and characteristics. Both continents were colonized by European powers: France, Spain, Holland and Great Britain, amongst others. In order to consolidate

their political and economic power, the colonial metropolis inserted these rich and immense territories into the world market and, in doing so they radically distorted the colonies economic, social and cultural structures and traditions. In that process, everything was altered: religion, languages, social structures and institutions. Strong cultures and civilizations adapted to the ones introduced by colonial powers. A dynamic and vibrant syncretism preserved deeply rooted principles and values and created new ones.

Africa and America, all the Western Hemisphere, were joined by the terrible human trade. Today, the two continents have many common elements that constitute strong linkages and can be source of solid solidarity relations. The common roots can be found in all artistic manifestations, from music and dance to literature, cinema and painting. Common roots are evident as well in the search for new institutions and policies to confront and overcome the problems that put a break to development and progress. Despite all the effort, in both continents severe social and political exclusion, poverty and income concentration prevent large segments of their population to enjoy and to take advantage of the development so far achieved.

But there are some differences as well. Spain was the colonial power of South and Central Latin American countries while Brazil was a Portuguese colony. France, England, Holland, Portugal colonized African and Asia and some countries Caribbean countries. That led to the establishment of diverse colonial institutional frame that prevailed even after the colonialism. Independence and decolonization took place in quite different circumstances, separated from each other for more than a century. That difference is crucial to understanding some characteristics of the course of constructing the states, the institutions, in short the “nation building path” in the new republics.

Almost all Latin American countries achieved independence before the end of the second decade of the Nineteenth Century, after long wars with Spain. Independence leaders were Spaniards borne in Latin America fiercely committed to free trade. During the last quarter of the Nineteenth Century, policy makers were familiar with Ricardo, Smith and John Stuart Mill’s economic works [something missing]. They were interested in trading with England without the mediation of Spain. Free trade was needed to pay the debt acquired mainly with England to finance the war. Independence did not have any national economic project different to engage in free trade. The idea of nation building did not contemplate to integrate indigenous population or population of African origin.

Brazil has a unique history: the Portuguese the emperor, and the metropolitan government, were moved to the colony and the empire

was planted there. It lasted until 1864 when the republic was established, under the pressure of militaries and the powerful coffee exporters. No war of destruction took place.

By 1860 liberal economic model was totally embedded and fully implanted in the newly born Latin American republics. It lasted up to mid Twentieth Century (Fitzgerald, 2005). It was only in the Twentieth Century, particularly in the interwar period, economics was raised as an independent branch of knowledge, aiming at creating an “elite” with technical expertise and to rationalized public administration. In the interwar period there was the strong believe that policy makers and experts had better to be preoccupied with practical questions and not to dedicate to the theoretical aspects of the economy or the sociology. This was left to the scholars from the metropolis.

By the end of the Second World War, when independence of many African and Caribbean nations took place, the ideas of state intervention and planning were in fashion all over the world, Latin America included. Thanks to Keynes, Leontief, Rosenstein-Rodan, Nurse and the successes of the Soviet Union, state intervention was justified in order to foster growth and to lead the structural change that will deliver modernization and social change, while reducing the dependence of international commodities markets which generates economic instability and periodical crisis. Raúl Prebisch and the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) formulated the conceptual frame for import substitution policies, putting into practice the ideas of the Lutz and other economist preoccupied with industrialization. ECLA ideas were adopted in all third world countries instrumented by UNCTAD and other multilateral organizations, included the World Bank. By the early fifties, the state lead industrialization model was implemented not only in Latin America but also elsewhere in the developing world. All embraced the Economic planning that was supported by the need to order the assistance programmes of the World Bank to build infrastructure and heavy industry and to guarantee the supply of raw materials for the reconstruction of the world economy.

In late fifties and early sixties, new African, Caribbean and Asian republics initiated the process of constructing the republican institutions and instrumenting their own policies while South and Central American republics engaged in the task of reforming the almost a century old liberal institutions by adopting some elements of the developmental state. This time, Africa and Latin America share the same pattern of ideas and policies for economic development.

The development policies, and the theory that supported them, that were instrumented in the decolonization of Asia and Africa and

adopted by Latin American countries in the fifties, conceived modernization as the ultimate goal of development. “The process of development consisted, on this theory, of moving from traditional society, which was taken as the polar opposite of the modern type, through a series of stages of development –derived essentially from the history of Europe, North American and Japan– to modernity, that is, approximately the United States” (Toye, 1993). The states had to be important actors in achieving the passage from agricultural to industrial societies. The State as principal agent for change was justified by the success of Keynesianism in Europe and the United States and of the Soviet Union. To prevent the spread of socialism was another objective of the developmental state, as the famous *Rostow Manifesto* explicitly pointed out (Rostow, 1960). Rostow’s work gave the theoretical background to the New World Order as envisioned by Truman in his 1949 Inaugural Speech. The “modernization” of new and old ex-colonies was a central element of the Cold War. In his speech Truman proposed a “peaceful crusade” to integrate developing countries into the world economy, giving them the opportunity to share the progress and prosperity available in developed countries.

“More than half the people of the world are living in conditions approaching misery. Their food is inadequate. They are victims of disease. Their economic life is primitive and stagnant. Their poverty is a handicap and a threat both to them and to more prosperous areas. For the first time in history, humanity possesses the knowledge and the skill to relieve the suffering of these people” (Truman, 1949).

The speech was the programme to consolidate USA world hegemony and restrain communism. All the Bretton Woods Institutions were the agencies designed to give conceptual and financial support to it. That was the aim of the Mac Namara economic development and anti poverty strategy, carefully formulated and instrumented by the World Bank in all the Third World. Modernization conceptualized a classless society not divided by antagonistic conflicts. The distributive elements of the welfare state would make it possible to eliminate social and political exclusion and to lay down the foundation of fully integrated society.

### **SUBSIDE OF THE DEVELOPMENTAL STATE OR ONE SIZE FITS ALL**

Several elements, internal and external, marked the end of the Developmental Estate and the return of economic liberalism to Latin America and its introduction in post colonial African, Caribbean and Asian Estates. First, we have the decline of the Import Substitution Industrialization (ISI) as a viable growth strategy. By mid sixties, it

was evident in several developing countries especially in Brazil, Mexico, Argentina and Chile, that the model was not working and needed reforms. Second, the debt crisis that erupted in Mexico in 1982 and that spread to the entire Third World. Third, the collapse of the socialist camp and the consolidation of USA as the only hegemonic power and, last but not least, was the downfall of the Welfare State as a leading paradigm of economic policy and the enthronization of the Reagan-Thatcher economic revolution (Jomo *et al.*, 2005). It is a fact that, despite the intensive restructuring did take place in all of them, the Welfare state is still in place in the development world and, with various intensity degrees, in some developing countries, as noted by Esping-Andersen (2000)<sup>1</sup>, The author suggests, that the Welfare state was reformed under the argument it was impossible to finance. Further reforms may be introduced as developed countries approach the post industrial era. The final shape the welfare state will take would depend on each country's strength of the family economy and each country's cultural, social and economic traditions. In developing countries, Africa and Latin America in particular, where labour market is unstable and informal sector tends to concentrate the largest share of occupied labour, the liberal reforms gave way to a minimalist welfare state, which is coherent with low taxation and low fiscal expenditure. In these circumstances we can hardly conclude like what Esping-Anderson concluded for some developed countries: "[...] *de-commodification* of workers is a priority and is achieved through universal and comprehensive welfare policies with the underlying belief that All benefit; all are dependent; and all will presumably feel obliged to pay" (Esping-Anderson, 1990: 28). Social policies instrumented in Latin America and Africa, as all authors in the present volume suggest, resemble the conservative Welfare State which give a minimal assistance to reduce economic hardship affecting the poor the unemployed or the informal employee, but "[...] make little attempt to promote 'equality' or eradicate divisions centred around class" (Hagberg 2000), "[...] but make little attempt to promote 'equality' or eradicate divisions centred around class".

These interlinked crises open the door to the coming back of Economic Liberalism in the form of neoliberalism, and the redefinition of the economic borders of the state with the structural reforms and adjustment programmes prescribed in the Washington Consensus. Besides the recession and debt crisis of the early eighties, some eco-

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1 The authors would like to thank the anonymous reviewer for his comments and suggestions about the crisis of the Welfare State which helped to refine the argument.

conomic conditions facilitated the penetration of Anglo-Saxon neoliberal doctrines: the concomitant rise of globalization, and the subsequent renewal of growth, however slow and selective. In the nineties, the neoliberal model was easy to sell for its ability to respond to the problems affecting Latin American and other developing countries: foreign debt, inflation, fiscal deficit, slow growth. In that context, the “major attraction –of the neoliberal model– was the ability to lure foreign capital and supposedly to reduce uncertainties for US investors and traders” (Fairbrother, 2004: 20-22).

The liberalization of the economy encompassed all areas of economics trade, finances, exchange, monetary and fiscal policies and labour reform. The shrinking of the borders of the state changed the relations between the state and the society, among capital and labour and amid different sectors of capital. As the model of “war of attrition” indicates<sup>2</sup>, the intensity of debt crisis of early eighties facilitated the introduction of these deep changes. The way was paved by the economist’s appearance in the political scenario as the legitimate bearers of scientific economic knowledge entrusted with professional responsibility for formulating and instrumenting politically neutral economic policies. Members of the profession’s elite become indispensable to politicians, to economically powerful groups and to congressional lawmakers. They become public actors when they enter the institutional and political structure and, by doing that, knowledge and power were linked (Palacios, 2005; Babb, 1998, 2001). When economist enter of the political establishment and took part of the policy making process, they are not scientific any more and become supporters of the *statu quo*.

Who supported the coming back of liberalism and the Washington Consensus? In Latin America it was, first, the “modernizing elite” of economists and political scientists with “academic training in neoclassical economics and graduate degrees from the most prestigious North American Universities” (Babb, 1998). They instrumented the reforms, and were the architects behind trade liberalization and of the negotiations of North American free trade Agreement NAFTA<sup>3</sup> like free trade

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2 “The key assumption of the war of attrition model is that the political conflict over what type of stabilization to implement, in particular on the distribution of costs of the adjustment, leads to delays. Stabilization occurs when one of the competing groups can impose its desired policies on the other(s) which have exhausted their ability to resist the undesired stabilization (Alesina *et al.*, 2006). Structural reforms were instrumented in Chile in 1973, after the military coup and in other countries because of the debt crisis.

3 The free trade agreement signed by the Canada, Mexico and the United States in 1993 and enforced the first of January 1994.

agreements with the USA (Babb, 1998, 2001). Second, importers, land owners, political *modernizing* elites, and the large business groups, export-oriented, linked to external capital, interested in a special treatment for capital intensive manufactures or linked to international sub-contracting. Multinational institutions, the World Bank and the International Monetary Fund, engaged in the task of promoting the new economic policies as the only theoretically sound economic policies and introduced the so called “double conditionality” by which no lending was approved by any of the two agencies unless the reforms were accepted and fully introduced. In that way, with the “one size fits all policies”; African, Latin American and some Asian countries adopted this same economic model, as a way to overcome underdevelopment. To day, they share similar experiences: repeated economic crises, external shocks, severe poverty, increasing inequality and mounting informality. The failure of the model to deliver the promised fruits induced the prescription by the Multilateral Organizations of a new wave of structural reforms nicknamed the reforms of second and third type aiming to radically change political institutions following the Anglo-Saxon model. In order to lessen the social costs of the reforms and to alleviate poverty, these new reforms were to be complemented by the social safety nets and the focalized conditioned cash transferences.

What is more important in the context of the topics analyzed in the present book is that the new economic doctrine encompasses a deep transformation on how development was assumed. Economic development is not seen any more as the passage to modernization and radical transformation of economic and social structures but only, or mainly, as sustained growth of GDP and productivity, and full reliance on the market and on a minimal state. Development economics is not accepted as an independent branch of economics, since the same principles apply for all countries and all times. Economics have to maximize the wellbeing of rational, perfectly informed individual actors. The principles of neoclassical economics have universal validity and their economic reasoning is extended to non economic activities; poverty is seen as a problem to be resolved through the price mechanisms and is taken in isolation as exogenous variable not affected by the economic model (Jomo *et al.*, 2005: 4-7). To overcome poverty became a responsibility of each person and his capacity to function in a liberal society and in a perfectly competitive market. That vision is clear in the ideological basement of the poverty programmes based on focalized and conditioned cash transferences. Poverty is a personal problem and it is the responsibility of each person’s particular effort to overcome it. The Iron Lady put that principle very clearly in a famous interview which transcribe in large because we consider of uppermost relevance:

I think we have gone through a period when too many children and people have been given to understand ‘I have a problem, it is the Government’s job to cope with it!’ or ‘I have a problem, I will go and get a grant to cope with it!’ ‘I am homeless, the Government must house me!’ and so they are casting their problems on society and who is society? There is no such thing! There are individual men and women and there are families and no government can do anything except through people and people look to themselves first (Thatcher, 1987).

Perhaps, as the studies presented in the present book suggest, the pendulum has tilted again indicating that the actual economic model is not solid and changes are needed in order to guarantee not only the fastest growth but more equality and more and better employments, quicker growing incomes and better distribution of income and assets (Rodrik *et al.*, 2002). It is time to put together efficiency and equality in economic policies, because assets concentration (increased by privatization) hampers growth and reduces the interests in private indivisible investments. It could restrain the growth effects of investments in human capital.

Latin America is known as the region with the most intensive income concentration of the world. Inequality is acute in income and consumption as well as in access to public services: education, health, water sanitation, electricity and so on. It is deeply rooted in the past and is related to the extreme concentration of land property established by the Colonial powers. This colonial inheritance is shared with Africa. It is estimated that the richest 10% of population concentrates over 50% of total income, while the poorest ten percent perceives only one and a half percent (World Bank, 2003). Mexico is a strong example of the income concentrating effects of the neoliberal model. One citizen owns property amounting to 53 billion dollars, equivalent to 5.3% of total national income. At the same time, 22 million Mexican survive with US\$ 1 a day and perceive only 3% of national income. Such income concentration hinders economic growth, deters poverty reduction and deeply divides the nation.

Since concentration of wealth goes parallel with concentration of political power, Latin American centurial socioeconomic inequality has gave birth to profound vertical and horizontal inequality and has excluded large ethnic groups, poor women and men from the fruits of progress. Better-off minorities, have the power to influence institutions and to induce the adoption of public policies that promote their own interests and that reproduce poverty and income concentration. That is so despite the modest, but not less important, achievements in moving towards “democratic” regimes.

The debt crisis and the structural reforms adopted as the cure for all economic problems that developing countries are facing marked the end of universal social policies and open the door to the introduction and global adoption of the focalized, targeted and conditioned monetary subsidies to deserving families living in conditions of extreme poverty as Álvarez, García and Brown analyzed in this text. In some developed countries universal policies exist but not in the majority of developing countries

The basic ideology of the focalized poverty programmes is to transfer resources needed just to bridge the poverty gap or the difference in the income of the beneficiaries to the extreme poverty line: one dollar a day. It is the idea behind the motto: to weave safety nets (Moreno, 2007; and the majority of chapters of this book). The fine tuned focalization would achieve several objectives. First, it would prevent the less poor and the rich from taking advantage of the programme; second, it may guarantee that “resources will be on the poorest hands” (Le Grand, 1982); third, it will facilitate to withdraw from the pardon of beneficiaries the families that do not comply with the conditions or when their income surpasses the extreme poverty line and last but not least, the fiscal costs of the programme will be small and will not require to increase taxation affecting perhaps the rate of return of capital.

In country after country the south policies of focalized cash transfers were adopted as the way to alleviate poverty. The list in Latin America is large and growing: *Programa Bolsa de Familia* (Brazil), *Progresas/Oportunidades* (Mexico), *Chile Solidario* (Chile), *Familias en Acción* (Colombia), *Jefas y Jefes de Hogar* (Argentina), *Bono de Desarrollo Humano* (Ecuador) (Rivera, Currais and Rungo, 2009). The same is being experimented and/or piloted in a number of countries in Africa. Some of these countries include Kenya, Mozambique, South Africa, Namibia, Lesotho, Zambia, Malawi, Uganda, and Ethiopia.

For various reasons, Latin America has been at the centre of the concern of international agencies. Some countries, Argentina and Chile, introduced in the mid-seventies the structural reforms and liberalized their economies. They privatized government assets, reduced both direct taxes and public spending, introduced market mechanisms in the provision of health, education, water and electricity and liberalized monetary and labour markets. Many others embarked on this route in the early eighties and, like Mexico, were “early and radical reformers”. However, neither of them (but one or two exceptions) has achieved higher and sustained growth and did reduce poverty or inequality, beyond the levels they had in the seventies, before the reforms (Puyana, 2010). Latin America has in her record not one but two lost decades, in terms of income and poverty reduction.

Hence the concern of the World Bank and other multilateral agencies and their urgency in analyzing the causes of poor performance in Latin America which challenges the presumed strength of the assumptions of the Washington consensus and economic policies designed to its principles. As in *The long March: A Reform Agenda for Latin America and the Caribbean in the Next Century*, The World Bank suggested in this publication and time and again in a long series of similar reports, that Latin America needs at least a 6% economic growth rate to reduce poverty, and the that the causes for having failed to reach it is the lack of institutional reforms as the only way to guarantee macro economic stability, growth and poverty alleviation. In this respect, the policy documents of the WB, the IMF and the Inter-American Development Bank (IDB) mirror the recommendations formulated for African countries, as presented further down and scrutinized in the present book.

In more recent years, the World Bank has emphasized for both regions four work areas around which governments and civil society should develop specific actions to speed up growth: 1) build transparent public institutions open to public scrutiny and to design social policies opening the door to greater participation of subordinate groups in order to empower them politically and economically; 2) ensure macroeconomic management and effective institutions that pursue greater equity and resolve social conflicts; 3) increase access of poorest people to the public services (education, health, water and electricity), to farmland and rural services for poor people as a way to improve their productivity; 4) sustain and reform the income transference programs for the poorest families, so the use condition conditioned assistance would improve their capacity to generate revenue over their life cycle (WB, 2003).

The Inter-American Development Bank has stressed that the lack of proper and universal education, in the majority of Latin American countries, has been the perhaps the most important factor explaining the persistent inequalities between rich and poor people. Therefore the Bank considers that improving the quality of basic education quality is the efficient engine of development and empowerment of the most vulnerable groups. In this sense there are some guidance from the Economic Commission for Latin America and the Caribbean (ECLAC) that emphasizes investment in human resources and seeking the convergence of economic and social policies. Unemployment, but especially underemployment is another preoccupation of these agencies. They both undermine the possibilities of improving the welfare of the majority of the population. This situation is difficult to reverse because of the magnitude underemployment has reached

today. All three agencies, the WB, ECLAC and the IADB ignore the role of property and wealth concentration in reproducing poverty and income concentration. They take the symptoms of poverty (malnutrition, poor education, ill health and so on) as causes of poverty and recommend to act upon the symptoms leaving untouched the causes of poverty. Extreme poverty and intense income concentration as these existing in Africa and Latin America can annulate the growth effects of investments in human capital (Deiniger and Olinto). The effects of social policies are unable to solve the problems generated by the prevailing economic policies that foster the accumulation of capital at the expense of labour earnings, individual, social and environmental relationships. In this regard, Valencia (2003) considers that the failure of policies is due to the reductionism approach to it, based on market relations and assuming market is perfectly competitive.

### THE AFRICAN CASE

For at least four or five decades, African governments and donors have experimented with a series of alternative approaches for redressing poverty (Jayne, 2002). However, despite all these interventions, the absolute numbers of African living in poverty has increased substantially. The increase in the numbers of those living in poverty in Africa has attracted substantial research from various disciplines and has generated substantial literature and competing explanations in the fight against poverty. Generally, growth and distributional linkage has been favoured as the most persuasive explanation for poverty reduction<sup>4</sup>. In the context of Africa, the argument has been that Africa has not registered any significant growth and its income levels are too low for redistribution to resolve poverty.

The growth and distribution linkages seem to have informed poverty debates in Africa to the extent that the eighties were described as Africa's "lost decade" characterized by economic decline and social decay (Ogot, 2005: 45). The African leaders responded to this decline by the publication of the *Lagos Plan of Action for the Economic Development of Africa 1980-2000*. However, this grand idea remained simply a plan which neither the African governments nor the donors ever intended to implement. The donors and the international community seem to have favoured the idea that Africa was not registering growth because of inappropriate economic policies (Berg, 1981). In the African context, this view was made explicit by R. Bates in 1981, when he published *Markets and States in Tropical Africa*. In this book, Bates ex-

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4 This is not to down play the other competing explanations such as those focusing on institutions, leadership, and geography.

plained the African dysfunctional policy choices in terms of the interest of the powerful groups, notably the taxation of export agriculture.

These views had significant impact within the International Monetary Fund and World Bank to the extent that in 1981 the bank and the fund promised *Accelerated Development with an Agenda for Action* in which it demanded structural adjustment policies which would raise the rate of private investment and productivity growth. In the words of Ogot (2005) "African countries had to adjust themselves to the structures of the real capitalistic world market-stabilizing balance of payment by cutting public spending, retrenchment of staff, currency devaluation and privatizing public enterprises". These financial instruments were not confined to Africa, the fund and the bank engaged low income countries in Asia, Latin America, and Soviet block as well. In 1989 the African governments protested the structural adjustment policies through the Organization African Union (OAU) paper entitled *African Alternative Adjustment Programmes for the Socio-economic Recovery and Transformation* adopted on the April 10th, 1989. Here, the African governments complained that structural adjustment programmes failed to take into account the social and human dimensions, the long term development objectives, and the structural transformation of African economies. But this protest represented nothing more than an angry voice crying in the wilderness of international capitalism and globalization.

Therefore, by eighties the north had emerged as the 'big brother' in terms of designing alternative poverty reduction strategy papers for use by the south. A decade after the introduction of structural adjustment programme conditionality, there was a growing body of knowledge particularly from the proponents of the "social dimension" of development that SAP had put too much emphasis on accelerating GDP growth and neglected considerations of income distribution. The proponents of the "social dimension" particularly clarified that even where SAP were achieving their growth objectives, some component measures were exerting a negative impact on the incomes and welfare of significant population groups, including the poorest segments of society. Moreover, SAP induced pressures on governments to trim fiscal deficits was to blame for curbing expansion of social services, notably in education and health, which represented the primary path to better, and more productive lives of low income citizen. Thus there was a visible link between adjustment programs and growing poverty and inequality.

In 1999, these findings, forced the bank and the fund to recast SAP as "poverty reduction" to embrace a new anti-poverty focus in low income countries a majority of which are found in Africa. The

bank and the fund also wanted to arrive at policies that are more clearly focused on economic growth and poverty reduction and with more national ownership and consistency for implementation. These are the arguments which informed the formation of *Poverty Reduction Strategies* (PRS) and the need to develop of *Poverty Reduction Strategy Papers* (PRSP) for consideration by the World Bank and the IMF in 1999 and putting poverty reduction as a prime objective of programs and operations of international financial institutions (IFI) in low income countries.

Under this new strategy, governments were expected to prepare poverty reduction strategy papers in close consultation with domestic stakeholders particularly members of the civil society. The PRSP has added two new elements to the conventional SAP. First, the PRSP held scepticism towards the trickle-down assumption, leading to the recognition that the poor's access to human, physical and financial assets need to be facilitated. Secondly, the short term adverse impacts of SAP on the poor are recognized leading to the advocacy of social safety nets to accompany structural adjustment. However, what is worrying about this new poverty reduction strategy is the lack of real change: a close examination of the macroeconomic and structural adjustment policy content of PRSP shows that there no fundamental departure from the kind of policy advice handed out under what has come to be known as the "Washington Consensus" (Gray, 2002; Holtz 2003).

The debate about the soundness of the antipoverty programmes formulated by the North is intense and it takes place all around the developing world and with particular intensity in Africa and Latin America, as the authors of the book being introduced here testify. Several are interesting, although not totally successful, initiatives from the south. These discussions and new experiences are worth the utmost consideration for the formulation of *ad hoc* measures for African and Latin American countries. This work is an important contribution in that direction.

This compilation is an interdisciplinary effort of the authors to make visible the contemporary preoccupations about social change and the political, institutional, economic and cultural problems the world is confronting today. The papers in this volume attempt a nuance interpretation of the poverty reduction strategies emanating from the north (whose key architects are the World Bank and the International Monetary Fund) and the alternatives from the south, particularly Africa and Latin America. The issues critical in all the papers concern experience, participation, ownership, autonomy, macroeconomic content, the question of historicity and how all these are engaged with poverty reduction strategies.

Although the exercise presented in this volume is not without limitations derived from the tools and concepts employed, it is certainly an initial approach to raise awareness of the actors and processes that are in line and give meaning to poverty scenes and are the responsible for instrumenting the antipoverty programmes or the recipients of them, some time reduced to be passive actors.

Another distinguishing feature that accompanies this publication is the extensive literature reviewed and the use of novel methodologies that provide new avenues to discover emerging dimensions of poverty. The comparative analysis of Africa and Latin America enriches the analysis and allows proposing conclusions of wider, global significance.

To have a coherent overview, the volume is structured in three parts. The Part I is integrated by three chapters and suggests new theoretical alternatives to the analysis of anti-poverty strategies, while two papers integrate Part II, which deals with some of the most serious problems affecting rural population and agricultural production in almost all countries analyzed in this volume. The remaining six chapters make up Part III which brings together some proposals for the design of alternative policies for poverty eradication.

### **THE THEORETICAL ALTERNATIVES FOR A COMPREHENSIVE ANALYSIS OF POVERTY STRATEGIES**

The chapters in the first section of this volume stress the importance of the theoretical perspectives originated in the south, so the dimensions and characteristics of mass poverty of the south are properly identified and the conditions that perpetuates poverty are well understood. These conditions are amongst others, the dramatic liberalization of the economy; the neoliberal governance; low public investment; labour flexibility, and the imposition of development models that ignore the social and cultural context of the nation state. It discusses some of the main analytical proposals from the South showing the variety of edges and determinants of poverty. This approach enables rigorous knowledge of a very complex reality. Finally, this section focuses on alternative proposals and policies for combating poverty, based on previous experiences in the South.

Sonia Álvarez centres her analysis on Latin American and Caribbean countries to scrutinize the approach taken by multilateral organizations and donor organizations that design and finance the anti poverty programmes, under the umbrella of the so called “strategies against poverty”. These are the actors that have fine tuned the policies of the focalized cash transferences that have reduced the social policies to a minimum. From this perspective, Álvarez suggests that all the discourse on neoliberal governability and Human Development

(HD) is framed in a neo-colonial ideology. She identifies a network of concepts that define the current policy focus, highlighting contradictions, dilemmas and paradoxes of the policies that have been implemented in the region and which become hegemonic neoliberal vision of the North. There is no wonder that, as Álvarez observes, there is constant tension between the needs of the poor, the people that have been marginalized or excluded people from social welfare and the political power and the bureaucratized discourse embedded in the focalized anti poverty policies. The bureaucratized and depoliticized social policy discourses have deepened social polarization within and between countries.

A sound study about the relationship between public investment and economic development, based on a structuralist and Keynesian approach is presented in chapter two. Cristina Borja stresses the differences in the economic policies that have been instrumented in Latin America and illustrates the diverging effects achieved, in terms of economic growth and social welfare. In the entire region, the liberalization of the economy did imply the redefinition of the borders of the State in economic and social matters, but the intensity and the speed of the reforms of it varied from country. SI did the effects. To asses the impact of the reforms Borja studied the Brazilian experiences with the introduction of the structural reforms. Borja identifies some effects linked with the change in the growth model Brazil had since the early forties. In the first place, she found a severe decline in gross capital formation –due especially to the contraction of public owned capital that was not totally replace by private investments. The fall in capital formation lead to lower rates of total and industrial gross domestic product which induced negative effects on labour income and its distribution.

The first part is closed by a comparative study of economic growth, unemployment and poverty reduction in Chile and Mexico with references to Argentina Brazil and Colombia, outlined by Alicia Puyana. The study covers 1980 to 2006, the period of the introduction of the structural reforms and adjustment programmes after the debt crisis of 1992 and the maturity of them. It is a period long enough that allows a deep evaluation. As a remarkable point, the researcher finds that despite the new economic model had been fully established in these countries and some of the effects of the of liberalization were evident (in terms of reduced inflation or the contraction o the fiscal deficit) the impact is not so clear in terms or productivity or expansion of the production and neither poverty nor the concentration of income has been reduced. This is explained by the evolution of the elasticity of labour in GDP, the path of labour productivity and capital intensity in GDP. Labour has not moved from low productivity activities into high

productivity tradable sectors but rather has moved to non tradable sectors mainly to informal services and construction.

### **HOW THE SOUTH DIAGNOSIS POVERTY**

In almost all countries of the South the rural population suffers intensive poverty and exclusion, the topic analyzed in the second part of the volume, Agricultural production was oriented towards the world market and not to the satisfaction of the needs of the local population. During the import substitution model, the agricultural sector and rural population suffered severe discrimination that put a break to its expansion. The reforms, which aimed to dismantle the substitutive industrialization, did not erase this discrimination. The new model has intensified the exclusion of small rural producers turned them into the poorest and most vulnerable segments of the population and the main sufferers of consequences of globalization which has aggravated the impact of the low value the international markets credited to agricultural commodities. Finally, the second section presents a critical analysis of the discourse used by the media to present the development of policies and indicators around poverty.

Andrés García opens the second part of the volume. His article examines the emergence and consolidation of the programs of conditional cash transfers (CCTP) for Latin America. The main objective of the anti poverty programmes is not so much to eradicate poverty but to consolidate and legitimize the neo liberal model and the political regime that introduced it in Colombia and elsewhere in Latin America, since mid nineties. To illustrate his hypothesis García takes as example the CCTP of Families in Action (FA) instrumented in Colombia in 2001. García is critic of the interpretations given by multilateral agencies on the operation and impact of that specific program. He proposes that at least in Colombia, *Familias en Acción* has served for several different purposes: 1) to facilitate the continuation of neo-liberal structural reforms and the military solution to the armed conflict; 2) to concentrate public social spending in the Executive, and to allow the president to recover the political power lost due to the decentralization of public expenditure; and 3) adjusting the relationship between state citizenship, replacing the framework of rights and obligations towards one of personal favours and gratitude. Ultimately, the CCTP function as mechanisms of de-politicization of social policy. While all these political effects have been achieved, poverty and income concentration remains almost unchanged, he concludes.

After extensively studying National Poverty Eradication Program (NAPEP), particularly the PRSP document, Eugene Nweke's paper argues that it is the lack of both government and county ownership

which explains the failure of pro-poor poverty reduction strategies in Nigeria. That NAPEP in reality is not government owned. It is driven by the interest World Bank and IMF and accepted by special interest groups who have captured the state rather than allowing the national interest to propel the fight against poverty. Ndubuisi concludes that pro-poor programme ought to be owned by three main actors the State, civil society (including traditional civil society groups and social movements beyond the NGO phenomenon like labour, students' organizations, rural and community based groups), and market (the private sector). The Nigerian government will have to change the perception of regarding PRSP as a document prepared solely as a means of securing financial assistance or fund raising tool from the World Bank, IMF and other development partners, but rather a national blueprint to guide the Country's towards poverty reduction.

### **PROPOSALS TO ALTERNATIVE POLICY DESIGNS FOR POVERTY ERADICATION**

The third part brings together six chapters with proposals for the design of alternative policies for poverty eradication. It addresses the importance of understanding the historical context of the reproduction of poverty in order to made the structural adjustments needed to reverse the intergenerational reproduction of poverty, combining redistribution policies (both income and land tenure) and social investment. Furthermore, it assesses the important role played by other actors such as NGO, provided they develop all their potential effectiveness to "win the war against poverty". This section discusses as well as well as the commitment of Nation-states to revisit their public policies and to rethink their macroeconomic and sectorial policies.

Dennis Brown opens this section with a review of policies for reducing poverty and improving quality of life of people in the southern hemisphere. He notes that such policies were implemented without regard to the historical traditions that shaped the character of poverty in these places. So indeed, the weight of the history of exploitation, deprivation and neglect, which are historic features of the political economy of the Caribbean, continues to exert a negative influence on the picture of poverty in the region. In particular, these traditions have not been considered in the analysis of local context by the institutions responsible for supervision of structural adjustment programs in the South; hence, this has undermined efforts to eradicate poverty by who engage in the South. Then, the interviews made in poor households in the Eastern Caribbean territories, are presented to justify this argument. In the end, the article closes with some alternatives to help solve the intergenerational reproduction of poverty.

The paper by John Gasu entitled “Poverty Reduction in Ghana: Alternative Solutions by the State” continues with the same question of autonomy and ownership particularly in the context of the application of structural adjustment policies and the need to increase access to education, health and employment in Ghana. The paper provides a theoretical conceptualization of poverty and how these have been addressed overtime. Gasu also provides the historicity of poverty eradication strategies particularly within the nationalist framework which emerged after political independence in Africa. The paper however argues that the decades after eighties marked the ascendancy of neoliberalism as an ideological alternative marked by widespread social dislocation and poverty in Africa. The main conduits for bringing these ideas to the African continent were the Bretton Woods financial institutions: the International Monetary Fund and the World Bank. In this vein, financial assistance and all sorts of donor support were now predicated on conditionalities meant to delegitimize the state, and thereby roll it back from intrusive economic activities. The effort was particularly targeted at suffusing adjusting economies with the market logic and rationality so as to move them away from their prior command systems. The neoliberal orthodoxy, therefore, demanded the removal of subsidies and the cost-free universalistic social interventions as they were considered as market distortions. The rejection of the state as a vital economic actor, and for social intervention, began to produce dilemma and crippling effects for the underdeveloped continent that had depended very much on state-led or collectivist approaches for development management. The sectors that were impacted on most by the neoliberal policies included education, health, and access to employment. The rest of the paper is dedicated to the struggle by the state to remain relevant in the face of neoliberal policies in educational, health and employment sectors. It is in this context that the Provisional National Defence Council (PNDC) government sponsored Program of Action to Mitigate the Social Costs of Adjustment (PAMSCAD) in 1987 as a response to mitigating the emerging costs associated with SAP with the dual objective of political survival and to keep the adjustment program rolling. This is also what informed the formation of the National Development Planning Commission (NDPC) in the subsequent years to coordinate poverty related issues. The NDPC has been instrumental in the development of Ghana Vision 2020, Ghana Poverty Reduction Strategy I and Growth and Poverty Reduction Strategy II, all of which are anchored on growth and poverty reduction. Gasu concludes by arguing that Ghana has over relied on neoliberal poverty reduction programs which have not been successful in large scale reduction of poverty as evidenced by

Ghana Statistical Service Surveys. There is therefore the need to bring back the state into the whole question of poverty reduction and to champion the collective good that would enhance the legitimacy of the state. It is within this context that the over ambitious state-led endeavours –Ghana Educational Trust Fund (GETfund), National Health Insurance Scheme (NHIS) and National Youth Employment Program (NYEP)– were conceived and operated. This paper thus shows the extent to which growth is necessary but not sufficient; it must be buttressed by equity and above all people’s participation.

A similar question also emerges in Olayinka Akanle and Akinpelu Olutayo’s paper entitled “Fighting the Poverty War: Non-Governmental Organization and the Challenge of Poverty Eradication in Nigeria”. The main argument being that Nigeria has a long history of failure in poverty eradication strategies. To drive these strategies, the Nigerian governments have established specialized agencies and frameworks with huge financial, manpower and technical commitments. The agencies, some of which are defunct, include Agricultural Development Projects (ADP); Nigerian Agricultural Cooperative Bank (defunct); National Agricultural Insurance Scheme (defunct), National Directorate of Employment (NDE); Federal Agricultural Coordinating unit (now projects coordinating unit); National Primary Health Care Agency; Population Activities Fund Agency; People Bank of Nigeria (defunct); Federal Urban Mass Transit; National Agricultural Land Development Agency; Directorate for Foods, Roads and Rural Infrastructure (defunct); National Boards of Commodity Banks (defunct); Better Life Programmes (defunct); Family Economic Advancement Programmes (defunct); Mass Mobilization for social and Economic Recovery (defunct), National Economic Reconstruction Fund, National Commission for Mass Literacy and Poverty Alleviation Programme (defunct). More recently, the immediate past President of Nigeria, Chief Olusegun Obasanjo demonstrated its own commitment to poverty eradication in the country by establishing the National Poverty Eradication Programme (NAPEP) in 2001. However, the failure by successive governments to reduce poverty has invited a significant number of Non-Governmental Organization as a “third party” in poverty reduction strategy. In performing their roles, NGO basically adopt two different but overlapping approaches. These are advocacy and programmes’ implementation (intervention and operations). Advocacy is geared towards influencing government policy to achieve some course. It may be in changing laws, establishing agencies and other institutional manipulations. This is often achieved through campaigns, awareness creation, lobbying and activism to defend or promote specific course. The operational NGO on the other hand de-

sign and implement projects as a form of direct intervention in government incapacities. This could be cases of building public toilets, construction of schools or micro credit financing. Nearly all NGO in Nigeria undertake both advocacy and operations and the two classifications are mostly not distinct in practice. Good as they may appear, the conceptions of NGO poverty eradication framework are foreign. Operations and interventions are designed and financed from abroad through international donor agencies. Although poverty is accepted to be endemic in Nigeria, philanthropic orientation is still very underdeveloped among wealthy citizens who keep their wealth to themselves and families. Ford, Rockefeller and Bill and Melinda Gates public support spirits are obviously absent from Nigerian rich class. NGO are therefore forced by operational funding and survival to rely on foreign granting agencies who decide which areas they are determined to fund even though with little understanding of the local problems.

This is what the paper by Samwel Okuro investigates. Okuro particularly examines the nexus between land tenure reforms and subsistence agricultural productivity in Kenya. This is done in the context that history has shown that different rates of poverty reduction over the past forty years have been closely related to differences in agricultural performance, particularly the rate of growth of agricultural productivity. This view seems to have informed the generality of World Bank. Driven land tenure reforms in Africa as illustrated in: 1) Land Reform Policy Paper (1975); 2) Sub-Saharan Africa: From Crisis to Sustainable Growth (1989); 3) Sub-Saharan Africa: From Crisis to Sustainable Growth. In all these papers, the World Bank underscored the importance of land issues in fostering economic growth and reducing poverty and recommended that “formal land titling as a precondition of modern development; the abandonment of communal tenure systems in favour of freehold title and sub-division of the commons; widespread promotion of land markets to bring about efficiency-enhancing land transfer; and that support for land redistribution on both efficiency and equity grounds” (Quan, 2000: 38). Tenure reform was seen as central to promoting agricultural growth, with private freehold tenure as an essential step to a modernized agriculture, promoting investment and providing incentives to adopt new technologies (Whitehead & Tsikata, 2003: 11). While increasing agricultural productivity perhaps remains the single most important determinant of economic growth and poverty reduction, serious doubts are beginning to emerge to the extent that land titling has not delivered on the key envisaged areas namely: that titling has failed to achieve the expected increase in agricultural investment and productivity even among small holders, did not facilitate the use of land as collateral

for small holder farmers, and encouraged land speculation by outsiders. The titling programs were also responsible for the increased land conflicts as it ignored the overlapping and multiple rights and uses of land at the local levels hence reinforcing unequal access to land based on gender, age, ethnicity, and class. Moreover, attempts to improve access to land and tenure security are often delayed or manipulated by the power of vested interests and the landed classes as shown in the current debates around Draft Land Policy in Kenya.

Mariano Féliz meanwhile enters the analysis of incomes policies in Argentina during recent years. This article discusses the policy of income in Argentina in recent years. In particular, it examines the role of social policies and wages from 2001 to 2008. This article shows that the effectiveness of such policies on poverty reduction is strongly affected by the objectives of macroeconomic policy and the participation of Argentina in the global capitalist economy. Additionally, from a Marxist theoretical framework, Féliz shows how the peripheral position of the economy of Argentina has limited the country's ability to instrument policies to increase the income of the poor. Some macro economic policies to foster capital accumulation in the context of a globalized dependent economy are behind for instance: maintaining a high real exchange rate and fiscal surplus as tool to control inflation. The need for *competitiveness* and payment of external debt imposes immediate pressures on wages and labour incomes. Within this framework, Féliz shows that Argentina is facing two main alternatives in her development path. First, accept the long-term relative poverty, while trying to structurally improve its competitive position with lower wages, lower labour rights and low productivity; second, to transform the social security system with a programme to guarantee a basic income, which becomes a program of income redistribution. This strategy could not only end the long-term income poverty but may also reduce social conflict. In turn, by maintaining domestic demand, it would allow for adequate levels of investment and socio-technical innovation.

The final point on this dissertation are paid by Erik Reinert and Rainer Kattel in a study that part of the proposition that a strong relationship between a particular type of structure around the national economic output to the propensity of a Nation-state to failure. These failed states are economic factors which distinguish, for example, Finland, Canada and Singapore. The premise is that any policy aimed at preventing that nations fail or alleviate poverty should avoid treating the symptoms and attack the causes rather, and also should include an analysis of how to adapt the productive structures of the States decomposition similar to the state structures that operate in a demo-

cratic and successful. Typically, states are failing and failed, have a very low percentage of GDP in the manufacturing sector (increasing returns). The paper provides statistical evidence from 1950 to 2003 to document the change in the national economic structure, as necessary starting point for economic growth.

In short, this book represents a diverse and practical contribution of distinguish researchers from Africa and Latin America that drive us to reflect, on the basis of based rigorous analysis of several case studies, on the dimensions and determinants of poverty in the countries from the South. It is possible from the research included in this compilation to arrive to a general idea of the complexity and magnitude of the problem poverty embraces that can not be solve only with technocrat actions or from a particular approach. It demands first of all to be considered as a political issue that has to be integrated in the economic model and analyzed and solve by multi-disciplinary programmes. Antipoverty programmes to be effective have to emerge from the South, and bottom-up. In this context it becomes imperative, as already has emphasized, the knowledge of the historical, cultural, economic models suitable to each country. There is essential a profound understanding of the processes of governance and their protagonists, as well as of the essence of the focalized antipoverty programmes. And, finally, but not less important, the policy makers have to have a good understanding of the particular needs of individuals.

It is expected then, that this volume will be a useful tool for a wide audience related to public and private sector and to academics and in general to wide sectors of civil society. As seen, the reduction of poverty, but more important the reduction of income concentration, is now one of the most important challenges of policy design in the South and is a joint duty that are geared to leaders and national and international organizations as guarantors to ensure equity, justice and universal rights for a dignified life for all.

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## **FIRST PART**

# **THEORETICAL ALTERNATIVES FOR A COMPREHENSIVE ANALYSIS OF ANTI-POVERTY STRATEGIES**



SONIA ÁLVAREZ LEGUIZAMÓN\*

# 1.1. NEOLIBERAL AND NEO-COLONIAL GOVERNMENTALITY, SOCIAL POLICIES AND STRATEGIES AGAINST POVERTY FROM THE NORTH, ALTERNATIVES FROM THE SOUTH

## THE CASE OF SOUTH AMERICA AND THE CARIBBEAN

### ABSTRACT

The paper analyzes the neo-colonial global and neoliberal governmentality and the Human Development dispositif; second, the conceptual system of the Strategies against Poverty from the North, namely policies promoted by the Multilateral Development and Financial Agencies as a part of a dispositif that I name *focuspolicy*. Also, it discusses on the new neoliberal governmentality by focusing on neo-colonial global discursivity. It includes a net of concepts that define *focuspolicies*, the first are the *minimal biological basic needs* or *essential basic needs*, a second set of concepts are *the informal safety nets*, *social capital*, *empowerment*, *participative policies*, *participatory poverty assessments* and *asset vulnerability framework*. A third net of concepts include *human capital*, *poverty productivity*, *formal security nets*, and *poverty trap*. The work traces recent trends and policy proposed or implemented in some South America and Caribbean countries that could be considered alternatives to hegemonic neoliberal social policy. Finally, I draw a few provisional conclusions by examining the paradox and dilemmas represented by these policies. The paper is based on analytical

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and comparative methods and discusses relevant academic literature and research.

## INTRODUCTION

The paper addresses two contested processes that shape contemporary society: First, the strategies against poverty (SAP) from the “North” and, second, the alternative approaches from the South, namely, some South America and the Caribbean countries (SA&C)<sup>1</sup>.

SA&C is a region where, after Africa, the majority of the population is poor. Moreover, the region inequality and concentration of wealth is the most extreme of the World (De Ferranty *et al.*, 2003). The higher concentration of poverty in SA&C are found in Central America, the Andean region and the Brazilian Northeast (Echeverría; 2000). The picture became dramatic in the last decades. By the eighties around half the growth of poverty (50 million more poor people) resulted from the deterioration of income distribution. During the neoliberal fever of the nineties, concentration of wealth intensified so did social inequality (CEPAL, 1997) and the SAP created the illusion they would reduce poverty. The country likely to suffer most dramatically was Mexico, but Argentina, Guatemala, Panama, Peru y Venezuela experienced similar processes (Korzeniewics & Smith, 2000: 9).

The paper is organized into three parts. First, it analyzes the neo-colonial global neoliberal governmentality and the Human Development (HD) dispositif; second, the conceptual system of the so-called “Strategies against poverty” from the North, namely policies promoted by the Multilateral Development and Financial Agencies (MDFAs such as the IMF, the WB, the IADB, and the UNDP among others)<sup>2</sup> as a part of a dispositif which I call focus-policy (Álvarez Leguizamón, 2009). Also, this part discusses the new neoliberal governmentality (Ferguson, 2005) focusing on neo-colonial global discursivity throughout the so-called HD. At last, I discuss recent trends and policy proposed or

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1 The term South America and the Caribbean (SA&C) differ from Latin America since the latter excludes non-Latin identities as well as pre-colonial and post colonial cultural characteristics. Even if the concept South America and the Caribbean does not take fully into account the multiple cultural differences of the region, is more adequate than Latin America.

2 Although there are many differences among those agencies, they do not operate under similar basis, and are not monolithic institutions; the analysis here is devoted to similar categories and devices promoted by most of them beyond the differences in approaches that might exist among them. Nevertheless, each case in this article is developed in a specific citation. For a discussion on differences in the devices and concepts, see Álvarez Leguizamón (2005, 2009).

implementing in some SA&C countries that are able to be considered, in a way, as alternative to the hegemonic neoliberal social policy. Finally, I draw a few provisional conclusions by examining the paradox and dilemmas represented by this SA&C policy. The paper is based on analytical and comparative methods and discusses relevant academic literature and research.

### **NEO-COLONIAL GLOBAL NEOLIBERAL GOVERNMENTALITY AND THE HD DISPOSITIF**

My view on the neoliberal/neo-colonial and *biopolitics* or *biofocouspolitics* is based on Foucault's notion of neoliberal governmentality (1981; 2007) along with Esposito's (2006) discussion on immunity. In light of this, I am able to frame those policies as a particular form of governmentality (Gupta and Sharma, 2006) and discuss HD as a singular power technology and dispositif that is deployed on defined territory and population. As a consequence, national citizenship or population are not the only subjects of the new forms of biopower ruling sovereignty but new collective terms, defined as "target group", groups of people known with different concepts: the informal sector, marginal, structural poor, excluded or non integrated, the poorest among the poor, vulnerable groups according to age such as children, aging, or ethnic background, that are excluded from the basic mean of subsistence and most of "Human Rights". Those groups are targeted by the HD<sup>3</sup> policies that are said to be "multicultural", "participative" and empowered to the poor but in fact are based on utilitarian, mercantilist, managerial, and renewed visions on social relationship of the poor and the poor communities (Álvarez Leguizamón, 2009). I use the term imperial governmentality meaning power-knowledge, practice and so-

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3 DH is analyzed as a speech and a fundamental utopia of our contemporary world. As such, there is a tension because, on one hand, it seeks to humanize the "development" and make it more sustainable. However, their devices and practices, rather than reduce poverty, in fact increase poverty and the gap between the poor and the non-poor. The DH is a discourse in Foucault's sense, *i.e.* a set of sentences, themes or theories that define objects, concepts, institutions, systems, technologies, intervention and the problematized subject. In this regard, it is able to state that discourse constructs, by evocation, a subject (Foucault 1997) that in our analysis is the poor and poverty. As speech, it plays a function, which is to regulate global governance to enable neoliberal governmentality, and the exercise of neo-colonial relations among countries. Instead of being a policy of life (or biopolitics), it is a focuspolicy or focus-politics. I, therefore, consider it a new art of government or a policy of targeted populations at risk in the sense that promotes the life of the poor and the excluded to the minimum, basic or essential living standards. But under a humanizing rhetoric that does not raise or seek to modify the conditions that produce poverty.

cial relationship that arise from the geopolitical capitalist world order as well as the meso level of the national polity and the political micro level. That is governmentality which operates through the regulation of life and death and aims to expropriate subjectivity even if it resists to this form of government.

I also understand the post Washington Consensus neoliberal gubernamentality as a set of policies aimed at privatizing, liberalizing, deregulating and promoting precariousness of labour relationship, weakening the welfare regime and the universal rights, undermining nation sovereignty on natural resource and basic services. Those policies are linked with the strategies against poverty backed by the North that, I think, are a new policy of life at the essential minimum, named policy of the target (focus policy) as a part of HD discourse or dispositif. Previous hegemonic discourse, i.e. development, has been framed by authors like Escobar (1995), Sachs (1999), Ferguson (1997) and Esteva (1996) as a concrete way of knowledge and action in which “progress” is understood as unique, non-reversal and unavoidable process rooted in American and Eurocentric cultural models from which the “Third World” and underdevelopment are constructed. Neoliberal gubernamentality in SA&C has promoted minimum state form and minimal policy: privatization of public basic service such as education, the health system and the pensions in connection with changes at the macro level as it was referred. According to Chilean philosopher Castro (2007: 8), in SA&C countries “the relationship between liberalism and governmentality highlights the critical role of management biopower of the population organized by market interests. This means that there are circulating lives worth financially and others which are not, within the framework of a new type of biopower that determines the commoditization of the existence [...] [and] emerge with absolute clarity on two key dimensions of contemporary capitalism: the insurance and the health industry”.

Biopower is a useful concept since its heuristic and critical features. However, Foucault’s discourse analysis (1977, 1997) is itself a historical explanation enrolled in the colonialist experience where the policy over life is thought to be endogenous and exterior to the “modern” colonial ruptures. Moreover, Foucault’s reference to the colonial practice is linked with his methodological reflections on how operate race and war power (Castro, 2006), but it is secondary in terms of the European colonialism (Bhabha, 1994: 196 cited by Castro Gómez, 2006) and the liberal forms of governmentality that he discusses on the cases of German *ordoliberalism* and the Chicago School neoliberalism (Foucault, 2007). In this regard, Esposito (2006) immunization becomes as a useful complementary view with biopower in the con-

text of colonial relations and the current neoliberal governmentality. Espósito reading of Foucault stresses on the fact that Foucault's biopower is a blind spot, a crack of meaning, an enigma, a failure which does not exceed, that synthesizes the lack of response to the next question, why the continuing threat biopower to become *thanatopolitics*. In order to answer that question, this author develops the paradigm of immunization biopower considered complementary to, but which binds in a different way to power and life. Immunization would be a negative protection of life since it preserves some life at the expense of another death (Espósito, 2006: 75-76). I would like to make clear that Espósito does not discuss neo-colonial relationships or immune forms of it, instead he focuses on European fascism, particularly Nazism, the atomic bomb, genetic manipulation, and different type of death by war.

From that perspective, it is possible to address the processes and technologies of inoculation which operate between life and death. Those processes "include not only the appropriation of bodies in the global market but their exclusion or discarding [...] this is about systems that operate on life as source of consumption and goods as well as they manage a *let die politics*" (as would said Castro, 2007: 8). It is necessary to state that there is a field of forces that shapes the field of politics since certain subjects fight in order not to be controlled, named, expropriated, colonized and subjected (Fanon, 1997; Quijano, 2000; Rivera Cusicanqui, 2003)

In my view, biopower can be complemented with a *biothanatic* power since it allows framing politics, processes and technologies of inoculation which placed between life and death. Biopower replaces the old sovereignty rights by the eighteenth century in the colonial nations as Foucault said. However, disciplinary power along with labour over-exploitation is still valid in the colonial or neo-colonial geopolitics. In fact, several studies on internal colonialism in Latin America (González Casanova, 2006; Rivera and Barragán, 1997) point out that domination includes not only classical form of subjection (like occupation and formation of a government that rules a certain territory) but extraction and suction of plus-value by mean of different technologies and tutelage relationships, in a new scenario that some authors call modern semi-servitude (Coronil, 2000) or coloniality of power (Quijano, 2000; Restrepo, 2004)

In some SA&C countries, social security, universal and free health care and education systems, and social assistance protection were implemented around the thirties and the sixties under different types of political regimes. They were implemented under different scope and scale, giving rise to different welfare regimes (Esping-An-

dersen, 1993; Barba Solano, 2004; Martínez Franzoni, 2008) or system of protection run by the state, the market, the working class, labour unions, families, communities or civil associations inter-related. But, in most of the countries when the republic democratic regimes were established, they were “limited democracy”, generating “dis-welfare regimes” –a term coined by Bustelo (1995) in his reflection on Argentina transformation in the neoliberal era–, limiting rights in a situation of non-citizenships (Fleury, 1997), or establishing *residual welfare state* in the case of those society where universal coverage is limited and the market or the social assistance were the main means of social policy targeted to the “deserving poor”. Some countries, like Argentina, Chile and Uruguay, had established several universal policies close to a welfare state, but the experience was interrupted by neo-conservative *coup d'Etat*. Backed and promoted by the empire, the legitimacy of Southern Cone military regimes, as well as in other cases in the region, was based on *thanatic* policy aimed at life and disciplinary control policy aimed at body. In the seventies and the eighties, military dictatorship planned and carried out the extermination of progressive groups, labour organizations, peasant, and student groups (often all at once as in the case of Guatemala, Chile or Argentina). After this dictatorship in the region last three decades came democracy, even if there are several differences among countries and processes (Sader, 2004). I point out common trends and features since neoliberal reforms implemented in the democratic era promoted social assistance target to the “deserving poor” rather than citizenship or rights (Brito Leal Ivo, 2008). Those trends have been contested by social movement; at the same time, the social struggles have succeeded in challenged the established notion of liberal democracy pushing toward an advance and comprehensive notion of democracy which is able to take into account the social and cultural difference of societies like Bolivia, Nicaragua, Ecuador, or Venezuela which are struggling for getting it.

**CONCEPTUAL SYSTEM OF THE SO-CALLED  
“STRATEGIES AGAINST POVERTY” FROM THE NORTH  
AS PART OF THE HD DISPOSITIF**

“Strategies against poverty” are policies promoted by multilateral global development agencies (IMF; WB; IADB among others; Chossudovsky, 2002), that I call *focuspolicies* of life and dead. In this section, I discusses on the conceptual system of this strategies as a part of the focus power in connection with the HD dispositif.

The so-called “strategies against the poverty” encompass various policies promoted by those agencies, since Mc Namara arrival at the

WB in 1973, target to different regions, territory, poor groups and populations from poor countries. However, this label is incorporated into WB and IMF discourse (WB, 2008; IMF, 2008) by 1999 as part of conditionality “suggested” by borrower government in order to establish the country PRSP (Poverty Reduction Strategy Paper). There is an irony that this strategy includes, “for its design”, civil society participation. PRSP mark a change in the sense that IMF loans include, since then, “pro-growth” poverty reduction policy rather than structural adjustment. The so called ESAF (Enhanced Structural Adjustment Facility) was replaced by the PRGF (Poverty Reduction and Growth Facility). This is known as second generation of structural adjustment policy since they promote to “integrate poverty reduction approach” into a policy designed by efficacy and targeting criteria that should be implemented by “good” and accountable government (RED, 2003).

At the same time, poverty reduction strategies can be seen as social policy from abroad sense since it is a type of making policy into the social realm in the North as well as the South, the hegemonic sector and the subaltern taking into account that there are not pre-established hegemony or domination and this can be achieved by rights or tutelage interventions also target to ethnic majority or minorities. For SA&C countries, social policy is rooted in the colonial practices of the tutelary and patronage assistance marked by the catholic notion of occidental and religious charity which in fact recalls a certain political economy what Castel (1997) notes for the case of Europe as “the economy of salvation”, referring to the production and reproduction or a certain hierarchical social order. Certainly, the region social policy is coloured by its racist difference that could be analyzed as the direct and indirect forms of neo-colonial domination over the indigenous population and the racialized minorities (Pérez Bustillo, 2001).

I understand social policy as a set of reciprocity relations of goods or services between government and no government strategies (explicit or by omission) with the workers, the poor, the family, the market and the community, and a cultural and political field where certain social, economic and ethnic hierarchies are constructed, re-signified, and naturalized by mean of a classificatory process that sometimes assumes forms or rights, others as assistance practice where discrimination forms, works through stigmatization –because the different means– testing. Social policy has many goals because of the social dynamic and context. However, it aims to social cohesion or control of those population defined as threat by constructing them rights subject or second-class citizenship or political society. Those are processes located in a force field shaped by contested interests

whose object of knowledge and practice is the life, welfare or dis-welfare of certain population. In this regard, social policy promotes life to certain threshold and quality, same time those are institution-alize as a rights, others as assistance practice as it is noted in the focus policies: recent minimalist social policy on life which implies hunger, destitution or death to large populations. This constitutes a field of forces formed by –in different grade– of ways of reciprocity, between actors and institutions of different kind: Churches, community associations, NGO, States, MDFA, people, families and communities. At the same time, the field is shaped by struggles for the well being of working class, peasants, ethnic communities as well as people from different social strata condemned to live under marginality, exclusion, deterioration of their life condition and identities. Following Nancy Fraser (1997), these processes can be analyzed as demand for redistribution and recognition of people identity and subjectivity. It also can be framed as race war in the sense of Foucault's work (1992) since the State exerts the power to make live and let die. At the same time, forms of assistance in hand of the State, non-State or supra-State actors can be discussed in terms of Partha Chatterjee notion of *political society* (2006, 2004), namely a new mode of state and society relationship, not based on universal categories of rights, citizenship or law, but on day to day bargain between “interest group”, and “targeted group” (the poor women, ethnic groups, unemployed, peasant, *favelas* residents, among others). In my opinion, Chatterjee's analysis, referring first to the specific neoliberal gubernamentality for the Indian case, illuminate the focus power gubernamentality that I have already discussed above. A policy that, in one hand, objectify the discipline of the particular to the community level (in both rural and urban) and, at the same time, is the result of struggles for life reproduction and the demand for self-government. HD discourse system comes into being when the neoliberal gubernamentality which, I consider, challenges and modifies previous developmental modes. In this regard, I analyze DH in a context of change and disruption in the archaeology of intervention on poverty (Sachs, 1999; Escobar, 1995) in both the local-national and the supranational arena (Álvarez Leguizamón, 2009). This is a new shift which includes a new utopia with a positive side to humanize “development” and making it sustainable. However, it also includes a negative side, which is disciplinary interventions on poverty only to satisfy basic needs at a minimum level near dead that do not reduce what they claim to fight against to, since this intervention are only in the local or family level (Álvarez Leguizamón, 2009). As such, HD can be analyzed as part of the neoliberal gubernamentality that

produce poverty, wealth concentration, and increasing of inequality according to social and ethnic belonging. The birth of HD dated around the middle eighties, and it is rooted in the WB Mc Namara “war against poverty” but we can said that HD come into light in 1990 when, for the first time was mentioned in a UNDP report HD is the result of a previous production and circulation of several basic concepts in international agencies, deeply linked with the academics institutions. HD appeared first in Brundtland Report, titled as *Our Future in Common* in the late eighties, which expresses a delusion from the dominant paradigm (Guimarães, 2000). Since I frame discourse not only as a system of interrelated notions from which arise, according to coherence, rigor and stability, approaches and theories, then it is necessary to take into account the divergences and dispersions (Foucault, 1997). In this regard, I note first the meaningful contradiction in its rhetoric: to humanize the world, or its mottoes “poverty eradication”, “poverty alleviation” (PNUD, 1993) or a world “without poverty” or the “fight against poverty” (WB), but in fact policies implemented in our countries have increased poverty and inequality.

In the early eighties, both WB and IMF did not consider necessary to address poverty in the adjustment implementation since structural adjustment programmes magically would solve poverty by its own and would create better options for the poor. Retrospectively, it is noted that “there has not been any progress in identifying the adverse consequences on the poor” by the structural adjustment programmes (Ribe and Carvalho, 1992: 6-7). Since then, international institutions approved the so called *compensatory programmes* directed to those that could not get victories in the unruled market. However, international aid to the Latin America region shows only the 33% of the total approval programmed are directed to attend the “new” or “chronicle” poor and the 78% to reallocation of social spending (Stewart, 1992: 5-7) or in other words “state reform” in the social security system, and the few health care and education universal policy. This is a common feature in various types of social policies of the *focuspolicy* that Mesa Lago (2000) called *social protection minimum nets*. Stewart (1992: 8) notes that 1990 WB report is devoted to poverty in the same moment when WB began talking in terms of “fight against poverty”. In this context, there are several concerns regarding the management of that programmes since the so-called diagnosis on *state inefficiency*. *Social Investment Funds* (SIF) has been promoted as inter-sectorial mode to concentrate and manage resources. At this time, nation state agencies specialized to deal with social issues, were restructured on the bias argument that “in Latin American countries,

*traditional estate agency of the social sector has always been inefficient in the provision of social services to the poor*". SIF would "take quick and effective decisions to assist the *vulnerable or marginal groups from a participative approach in the program formulation, design and implementation*" [...] becoming "a mean to re-establish or, in some cases, *establish credibility to government and guarantee political support to the implemented economic reform*" (Glaessner *et al.*, 1995: 2-3, emphasis added).

HD critiques the established notion of development, based only on the *per capita* GP (Gross Production) growth instead on the people well being. In fact, this is a limited political economy idea since it assumes development as "affluence and economic growth" (Sen and Anand, 1994: 8-9). Amartya Sen, a main figure in the making of this discourse stresses on people's human capacity rather than their income or capital. As it is noted, "developmental approaches have dealt with capacity and freedom as final goals" (BID-OVE, 2002: 2). Even if poverty is more than lack of resources but lack of capacity, Sen insists "freedom expansion is (i) *principal goal* y (ii) *principal mean to development*" since "diverse rights and opportunities expand human freedom to develop" (Sen, 2000: 36-37; emphasis added). The problem here is to expand capacity and freedom in an unequal world defined by fewer opportunities, restriction to the social rights of the disadvantaged and, therefore, limited freedom.

### **NET OF CONCEPTS THAT DEFINE FOCUSPOLICY IN CONNECTION WITH THE PRACTICAL DISPOSITIF OF HD SOCIAL INTERVENTION**

In this section, I examine a net of concepts that define *focuspolicies* in connection with the discourse of HD and its practical social intervention. In my view, "minimal biological basic needs" (Boltvinik, 1990) or "essential basic needs" (Filgueira *et al.*, 2006) are the meaningful categories that shape HD intervention (Álvarez Leguizamón, 2005) and the discourse of development. They have been assessed from several and complex knowledge, and are linked to the capabilities of the poor concept (Sen, 1993). In addition, the informal *safety nets, social capital, empowerment, participative policies, participatory poverty assessments and asset vulnerability framework* constitute a second set of concepts. This web demonstrates the introduction of the economic rationale into non economic relationships of social reciprocity along with promotion of territorially and targeted "social programmes". Such concepts, embedded into intervention dispositive, include the maintenance of the poor at a biological minimal level, but strengthen the non mercantile and local social nets. As a result, poor people ca-

capacity is “discovered”. They, challenging dominant social representations, are now seen as “smart” and “informed” in line with the motto “improve yourself” promoted by that paradigm. For Uphoff (1993) “beneficiaries” (of social programmes) have more than work and money to offer for the project success. They can offer intelligence, experience and managerial skill to be considered and included in meeting the development goals”; they offer “good ideas” that should be taken into account, and there is “expectation on human potential that has to be mobilized in order to the development self management and sustainability”.

Non mercantile solidarity social relations ties or non-market institutions are subsumed on economic activities and in managerial view of social policies, formalized into economical concepts as *social capital*, *informal nets* or *intangible assets*, that are seen favourable and functional to the economical rationality of the discourse and practice of HD. They are not seen anymore a burden from societies conceived traditional by classical political economy (Edwards, 1999) or by the “modernity theory” of social development. Now is time for the “smart” poor to manage their own problem: This is why *participation* and *empowerment* (PNUD, 1988: 46-50, emphasis added) are *instrumental* and *oriented* (Uphoff, 1993: 135-136, emphasis added) to benefices of promoting *participative development*. For example for Uphoff, popular *participation* could be framed “as a process in which people, *especially those with disadvantage*, participate in decisions that could affect them”. The label “popular” refers not only to the absolute poor but includes the “disadvantage *in terms of health, education, ethnic group and gender*” ascription. This point of view is not only a mercantilist perspective but also a neo-colonial, racist and sexist vision since people are not able to present themselves as belonging to neither a national or local community nor as main actors of civil, political, social or cultural rights but “disadvantage holders”. By mean of participation, and managerial capacity development, “beneficiaries are able to *share responsibilities in the operative management taking responsibility by themselves*” and make a sustainable project. As a consequence, “cost sharing” becomes possible since “it is expected that beneficiaries make a contribution with work and capital or offer their “self improvement” in order to keep the project alive” (Bhatnagar and Williams, 1992: 177-178; emphasis added). As well, according to the WB, *informal safety nets* “by contrast to the social security or unemployment security systems are generally linked with conditional transfer to the poor (WB Group, 2001b, emphasis added) opposed to rights-based-policy. In Latin America, anthropology and sociology have developed catego-

ries and empirical work to explain how the poor could survive in a context of material deprivation.

Notions like reciprocal relationships were coined to take into account the way that the poor produce resources based on their relationships of trust and solidarity. Other concept, such as survival or life strategies, stresses on the agency of the poor by contrast to developmental and cultural theories that depict the poor as lazy and passive agent. These concepts are similar to the *social capital* concept and practice that has several meanings but in this net of concepts is extrapolated from the social to the economic and development discourse. Economists equal it to *capital* or to *asset*. They “recognize” their importance in determining the “feasibility and productivity in economic activity” (Moser, 1998: 4) and their value and functionality in the “fight against poverty”. The utilitarian vision described by Stiglitz (2000: 60-61), is hegemonic. In his words, “social capital (has one important function) is to complement or substitute for market-based exchange and allocation. [...] The evolution I have described reflects a marked change in the inter-relationship between market and non-market institutions. This has been characterized as a change from a situation in which economic activities are embedded in social relations, to one in which social relations are embedded in the economic system” (Stiglitz, 2000: 64-65). *Social capital as capital or the poor’s asset*, as part of the *Asset Vulnerability Framework* (Moser, 1988) is promoted also by the WB. It is understood as a *portfolio* of complex assets that “reinforces the inventive solutions of the people themselves rather than replace, block or not to consider”. In this regard, “poor urban people assets are defined by five dimensions of vulnerability (*asset vulnerability framework*) by Moser. Those include tangible assets such as human and labour capital, or less productive assets like household, and non-tangible and invisible assets for example, intra domestic services and social capital” (Moser, 1998: 1).

Those core concepts are related to a new WB conceptual framework known as *Participatory Poverty Assessments* (PPA). Combining statistical measurement of poverty with a refined quantitative analysis of it, calls for the assessment of poverty by the poor themselves. PPA requires a “participatory process” of research focusing on the “voices of the poor”, which aims to understand poverty in the local social, institutional and political context (Narayan *et al.*, 1999: 7-15; 2000).

A third net of concepts, that I consider meaningful and strongly related with the later, include *human capital*, *poverty productivity*, *formal security nets*, and *poverty trap*. By contrast with current representation on the poor based on capacity and management, they are

now seen as worker or petite entrepreneur. This new view suggests that the poor are able to do more than they have already done with their strategies for survival being still poor or indigent. In this view the *poor's productivity* has to be stimulated, in order to overcome their extreme poverty and indigence. I consider this strategy as new form of self exploitation (it is also super-exploitation if the wage is established by the law and the productivity of the poor increases) of poverty labour and non market reciprocity work relationships as other SA&C theoretical have explain in other situations (Quijano, 2000; Kowarik, 1982; Marini, 1997).

*Productive capacity*, as proposed by Hernán De Soto (2002), is linked with “human capital” of the poor. Even if liberal thinking and welfare economy had dealt with it, the notion is actually promoted by UN Social Development Commission (Naciones Unidas, 2006) as an essential part of strategies for poverty reduction, which “should be based on strengthening the productive capacity of people living in poverty”.

These last net concepts, ideas and representations allow other focus policies known as the Conditional Cash Transfer (CCT), which can be seen as a new package of assistance devices focus-policy. According to its words, it aims to “reduce poverty” by transferring income conditionally. Based on the idea of human capital and productivity of the poor, the recipient or his family must carry out tasks or activities as condition for receiving compensation and resources. They require compliance of several conditions (De la Brière and Rawlings, 2006; Núñez, 2008). Among others: the obligation of child school attendance, regular medical checks, vaccinations controls, work euphemistically called “community work” (see different kind of this programs in same SA&C countries in Valencia, 2008 and Mesa Lago, 2000). According Fonseca (2006: 7) and Lindert (2005), diverse conditional programmes share three common features: target to poor or extremely poor families with children and teenagers; conditionality as a principle; and “human capital accumulation” in the long term. CCT, requires a “social contract” (Lindert, 2005). This point is disputed by Fonseca since he points out that such contract is not included into the rights framework. De la Brière and Rawlings (2006) argue that those programmes innovate the classical social assistance (I might say they are a new generation of assistance *focuspolicies*) and are a new “family” or type of welfare intervention that make up national policies of safety nets different from insurance systems.

For the WB, safety net programs have two main functions within the economic policies. First, it is the so-called “political function” (re-

distribution of income and resources to the needy) by helping them to address problems of poverty in the short term. Secondly, it is about assisting households to manage risk. It is managing the political risks associated with, or by those in need. This is targeted to certain groups not only to the poor but those “needy” (chronically poor and those in special circumstances such as disability, discrimination due to race issues, problems due to conflicts, “social pathologies” of abuse drugs and alcohol, domestic violence and crimes) (WB Group, 2001b). The latter shows a eugenic, racist, and social Darwinism understanding of the social. Actually, this discourse talks again in term of “social pathologies” (referring to discrimination, victimization and criminalization) as one of the causes of poverty (Spicker *et al.*, 2007), theory that is believed to be gone nowadays. This is an old idea of the western social neo colonial hygienic practices which subsumed the same habits considered pathologies and “racial poison” into the body of the poor (as Foucault would said) that the hygienic dispositif have to be sanitized and regenerated. That idea, had been developed during the middle of the twentieth century in Mexico, Argentina and Brazil (Leys Stepan, 1991) but got not fashioned after the defeat of Nazism, now is re-emerged in a renovate form.

The idea of “safety” promotion, as part of “safety nets”, is based on the notion that safety net programmes have to be only temporary to “mitigate the poverty consequences” and “other risks of the *vulnerable families*” (WB Group, 2001a, emphasis added). In face of a minimal State and free market, the *temporary* usually means the chance to get a basic meal just in the case of a critical nutritional condition as it is stated in same transitory food program. In this connection, there are two kinds of programs: non-State informal networks based on community (reciprocity of resources and services among families) and public safety networks, based on formal public programs (WB Group, 2001b). The latter includes: money transfer, food, public work, micro-finance, and school voucher (WB Group, 2001b). It combines utilitarian logic and economic efficiency: “must have an effective cost-benefit ratio, with appropriate benefits along with focused and efficient administrative systems” (WB, 2005). Those programs may break “poverty trap”, an idea formulated by certain social anthropology (Lewis, 1961) and backed by a tradition from the liberal and neoliberal political economy and the welfare economy (Piachaud, 1973; UN Millennium Project, 2005; Spicker *et al.*, 2007). Both sides assumed that poverty is reproduced according to a vicious circle namely an intergenerational, territorial or national transmission of certain inadequacies (a generic way to say it) such as disability, lack of skills or saving, training or education, between

others lacks. In Oscar Lewis' vicious circle, poverty represents one particular culture, a subculture (minor and different one) in which circulates cultural family values that are the contrary of the desires to improve the quality of life. I consider that improving productive capacity means to favour overworking –increasing the self-exploitation– under extreme poverty conditions, precariousness, and low income this means a process of more weakness of the already vulnerable people. In the neoliberal political economy language, it is “*work the main productive factor of the poor*” and a critical aspect “*in the fight against the poverty and inequity, this is about strengthen to human capital investment since the people childhood*” (Rapoport, 2006, emphasis added).

### **STRATEGIES AGAINST POVERTY FROM THE SOUTH**

Coming from the SA&C countries, there are various alternative policies and strategies against poverty that have their own history and depend on contextual factors. Some of them echoed old vindication of the working class, the ethnic groups, the peasant or the urban poor. On the other hand, there are several original *initiatives* like the social economy, the solidarity economy, or participatory budget that have been promoted and implemented in the region. Alternatively, another group of policies inspired by the reinforcement of classical social rights, some of them coming from a southern reading of the North social welfare experiences and their different form of regulating the assistance to minimum guaranteed income at different kind of situation, as others promoted by the IADB. Those are the cases of initiatives like “citizen income”, “social protection for the workers in informal economy”, “Basic Income”, “minimum assistance income”, “basic universalism”, among others.

In this section, I analyze different sort of social policy on both the national and the local level. First, some countries develop what I call a new anti-imperial national statism or a new democratic and multicultural way of imagining the society. Their policy is an expression of a new national anti-imperialism rhetoric and anti neo-colonial nationalism turn, as Said (1996) would note, emerging in countries like Venezuela, Ecuador, Bolivia, Nicaragua, among others, in which poverty is understood from the socio structural conditions. To some extent, their policies are taken as an answer to the neoliberal reforms and programmes, promoted by the North and accepted in the majority of the countries that held neoliberal reforms in the eighties and nineties. Even if in same SA&C countries policy shows similar features to the previous, in fact in same countries, they are resignified and same incorporated emancipatory processes.

Alternative policies are based on contested visions and perspective about structural poverty (Barba *et al.*, 2005; Du Toit, 2005) in both Latin America and Africa. Even if there are several differences, I can resume them as follows. Poverty is seen as a multidimensional, structural and historical phenomenon that results from different levels of exclusion; geopolitical, national and local inequalities produced by a long-term process, persistent exclusion, concentration of economic power, lack of access, product of politics power that maintains grip on resources (political, natural or otherwise), at the expenses of citizen rights –through ruthless exploitation–, seemingly harmless cronyism or patron client relationships, deprivation to the rights to resources, and systematic violation of basic social, political and human rights. Most of this perspective reflect an oppressive political structure, and promote the liberation of oppression, while equal distribution of resources to all people sectors; it is expected to rule out this condition. As general feature, it poses poverty as part of socio-structural processes, and encompasses the cause, process and context of its reproduction from a renewed political and cultural understanding of society. Opposed to the core neoliberalism vision of the State, it promotes a different understanding of the social order and of the State role, a new idea of justice and as a result, new ways to prevent and attack poverty.

Regarding first kind of policies echoed old working class, ethnic groups, peasant, and land tenure vindication. This is a problem first identified by the dependency theory (see Dos Santos, 2002 for a summarize vision), an innovative social theory from the SA&C region, as one of the most important causes of the extended rural poverty. The problem and production of the urban poverty is also aboard for this theory, but is not a subject of this point.

The lack of land has been addressed by movements like Brazilian *Movimento dos Trabalhadores Rurais Sem Terra* (MST), the *cocaleros* peasants movement in Bolivia –originally a union linked with the Evo Morales’ MAS party– and the EZLN in Mexico. In all cases, land use or tenure demand was connected with political ethnic claiming, and the new way of capitalist expansion and exploitation condemn. Moreover, they question the failure of the result, promise, and myths offered by democracy, western modernity and “development”. In this context, they propose new and diverse alternatives depending on the historical context. Mexican Pérez Bustillo (2001: 75-76) observes similar features in SA&C movements and the African cases discussed by Mamdani (1996) in particular the idea of “colonial bifurcation” of the state and economy, between the spheres directly and indirectly dominated and penetrated by

colonial power distorts, the development of the classic kind of “civil society” and “public sphere” between the indigenous and non-indigenous population. In the SA&C region, “bifurcation” has been referred to consider the persistence and reproduction of the “colonial legacy –and render hegemonic its contemporary neo-colonial (neoliberal) equivalences– rather than provide the necessary and desirable basis for its radical democratic transformation” (Pérez Bustillo, 2001). That perspective is referred by many Latin American authors to explain the current neo colonial forms in their neoliberal turn (Rivera Cusicanqui, 2003; Bonfil Batalla, cited by Pérez Bustillo, 2001: 77). The significance of the colonial legacy brings light to meaning and extend of the upraising of the indigenous and landless people social movements in Peru, México, Ecuador, Bolivia, Colombia, Argentina and Brazil, among other, in spite of the hegemony grade they have in their national societies, most of these movements propose a new policy to deal with poverty, ethnic exclusion, land demand, identity, self determination, and the right to their culture. Bolivian *cocalero* peasant movement asks also for theirs rights to trade coca, vindicate ethnic identity and access to land (Vargas and Córdoba, 2003: 91), incarnates a neo-colonial vindication against republican neo-colonialism and the national Populism of the fifties. That social movement arises for the resistance to the impossibility to exert the right to the cultural difference. In this connection, social struggles claim against the usurpation of livelihood (means of employment, land and water) and the means of cultural and symbolic reproduction. Their struggles also put on evidence the state, liberal democracy and development weaknesses to assure and to expand basic social rights (health, education, worthy wage, access to sanitary services) and to construct a citizenship based on multicultural and ethnic rights. This is about constructing multicultural and re-distributive State which could displace established meanings and practices of politics. These kind of social movements develop a national character in opposition to the interference into local policy by neoliberalism and imperial capitalism, which has damaged human dignity. I consider that those struggles make a main contribution to the construction of new nationalisms and statism. As a consequence, they challenge the meaning, validity and scope of representative democracy.

When they get hegemonic power they draw new social and cultural horizons by constructing new mediation systems with and into the State throughout symmetrical, participative and deliberative arenas in connection with the idea of community, as in Chatterjee. Current reforms like those promoted by Evo Morales and

popular movements draw a new statism. As an example, constitution reform states statization of energetic resource, establishes legal criteria for land tenure and uses, includes a new agrarian reform –still in process of institutionalization because of the dominant and racist resistance coming from the lower land and the richest landlord linked with transgenic soy (Urioste, 2007). In addition, Bolivia has implemented a minimal universal income, budgeted by oil rent after its partial statization, for people older than 66 year that cover basic need. According to the Analysis of Economic and Social Policies of Bolivia, moderate poverty line fell from 66.4 to 59.3% and extreme poverty fell from 45.2 to 32.7% covering the 2000-2008 years period. Non-conditionality cash transfer programs, implemented since 2006 and aimed at the elderly, schoolchildren and pregnant women, have had an impact on poverty reduction. Figures for 2007 and 2008 years also show that rural poverty declined by 10.6 %<sup>4</sup>.

Another case is the zapatist movement that has emerged into the international political arena the same day that México signed ALCA-USA initiative, which reminds, recalls and resounds the music of colonial and republican domination (Pérez Bustillo, 2001). In addition to land and identity demand, the zapatist claimed for common agreement and national demands in 2003 year (EZLN, 2003). They include: effective autonomy and independency of the social worker, peasant and indigenous organizations, promotion of self-government and self management of all national territory according to each one opinion; to promote rebelliousness, civil and peaceful resistance in front bad government and political parties decisions, total solidarity with the victim but not with the aggressor, inter community trade promotion, trade giving preference to small and medium business and the so-called informal trade; joint and coordinated defense of national sovereignty and radical opposition to the impending privatization of the electricity and oil, and other natural resources; training a network of information, culture and media, creating, local and regional media networks, and defense and promotion of local, regional and national cultures, and sciences and the arts world. The seven demands were: the land belongs to the person who works it; defense of cooperative and communal land, and the protection and defense of natural resources. They think that anything have to be without the knowledge and consent of the in-

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4 See <<http://www.solvision.co.cu/index.php/201003223761/Internacionales/bolivia-registra-modesta-reduccion-en-indices-de-pobreza.html>> March 22, 2010; and CEDLA <<http://www.cedla.org/content/908>> June 21, 2010.

habitants and workers in each location. They ask for decent work, fair wages, decent housing, free public health, food and clothing at low cost for all. Also they think that the education have to be free and secular for all children and youth and to respect the dignity of women, children and the elderly. One of the most significant achievements of the EZLN in Chiapas, is the establishment of so-called *Caracoles* also known as *Juntas de Buen Gobierno* (Good Government Councils), consisting of forms of self-organization and self-sufficiency, including educational and health services, related to territorial spaces (González Casanova, 2004) .

Argentinean unemployment worker movement, known as the *piqueteros*, claims for the right to work and have been recognized by some official programmes (Svampa and Pereyra, 2003) that could be called minimal targeted income (some with CCT format). The movement emerged in the early nineties as resistance against neoliberal reforms that had promoted privatization, deindustrialization, and state reform. The same as other experience, the movement has developed a strong criticism to neoliberalism since it was “a failed experiment” as well as extends criticism to the governors and politicians. Politicians are considered “employees of great transnational companies and monopolies”. Between and important range of organizations, there is an autonomous one called the MTD Solano (*Movimiento de Trabajadores Desocupados*, related to their name in Spanish). They are the main reference of the so called *Colectivo Situaciones* (Situations Collective) located in Buenos Aires province around the Buenos Aires capital. They confront both revolutionary vanguards and reformist positions to access to the power. The first is represented by the *Bloque Piquetero* (*Piqueteros* Block) and the second by the MTD Aníbal Verón and to the movement of D’Elia integrated by peronist leftist sectors involved in the civil and armed struggle of the seventies. *Situaciones* argues for a new radicalism where the question of the power is displaced from the State, and locate in daily resistance “without models”, “the social revolt as policy”, promoting “contra cultural practices”. They view Mexican zapatist movement as the symbol of the “social rebel”. In their words, “dignity arises under phenomena of the autonomy, the multiplicity, the disposition of the creation, self defense, capacity, and the dispute to produce life”. In addition, they consider that “the attempts to form self defense way of social organization also register in a produced civil war to wards interior of Latin American countries under the speech of drug trafficking, terrorism and insecurity”. The *Piquetero* movement forced the Government to implement social programmes to cope with the ex-

treme situation of the un-employed workers. The Government implemented, first a small number of unemployed programmes, and after the 2001 crisis, thorough a kind of conditional cash transfer programme named “Unemployed Household Heads Programme” (*Jefas y Jefas de Hogar Desocupados*) which reached 2,000,000 beneficiaries in 2002 at the moment of the so-called “the height of the crisis” and then covering 620,000 beneficiaries in 2009 (Social Development Secretariat, 2009). It was the first program of massive subsidies to unemployment than not takes the form of right to unemployment (Pautassi, 2004).

The *Sem Terra* movement, the largest social movement, was established in 1985 when its first congress *Ocupação é a única solução* (*Occupation is the unique solution*). Non productive rural land is occupied by symmetrical and horizontal communal organization that also organized autonomous activities in education and culture, among others. Sin Tierra Movement has achieved the tenure of community land based on the legal interpretation of state-land-legal framework. Since 1990 until 2006, around 6,177 *campamentos* and 1,086,474 families (MST, 2009) have been recognized<sup>5</sup>. As it is published in the movement web page: “In the same year, José Sarney’s government approved the National Plan for Agrarian Reform (PNRA for its abbreviation in Portuguese), which had the objective of rapidly implementing the Statute of the Land and make the land reform by the end of the President mandate, including 1.4 million of families. Once again the proposed land reform was only on paper. At the end of a term of his five years, less than 90 thousand families without land were registered, only 6% of the targets set in the PNRA. With the articulation for the Constituent Assembly, the *Ruralista* sectors organized *Ruralista Democratic Union* (UDR for its abbreviation in Portuguese) and work on three fronts: the armed wing –encouraging violence in the field– the branch *Ruralista* in parliament and the mass Media Communications as allies. The political arm of the movement succeeded introducing emends to the Constitution of 1988 even more conservative as the previous Statute of the Land. Until 1997, the Movement organized the historic “National March for the use, the Justice and Land Reform”, a year after the massacre of *Eldorado dos Carajás*, when 21 landless

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5 Among his achievements, as well as settlements and occupations, are recorded 81 cooperatives as *Sem Terra* worker, 45 agro-industrial units, reduction of child mortality rates in their settlements through the elimination of extreme hunger. It also records with pride in its history, 100,000 children and adolescents studying in schools in their settlements, as well as a mass movement of youth and adult literacy without land, approximately 20,000 (Sales Caldart, 2000).

were killed by police. In 2000, the MST held its IV Congress, whose slogan was “For a Brazil without *latifundia*” that guides the actions of the movement today.

“The Brazilian suffered eight years with the neoliberal economic model implemented by the government of Fernando Henrique Cardoso causing serious damage to those living in rural areas, causing growing poverty, inequality, the exodus, the lack of labour and land. The election of Lula in 2001 represented the victory of the Brazilian people and the defeat of the elites and their project. But even the electoral victory was not enough to generate significant changes in the structure of the land tenancy and the agricultural model. [...] Thus, the movement believes that it is necessary to promote, increasingly, the social struggle to ensure the construction of a model that prioritizes agriculture to food production and distribution of income [...] After 24 years of existence, the MST considers that its role as a social movement is to organize the poor in the field, them aware of their rights and mobilize them to fight for the land reform, but by building a popular project for Brazil, based on the social justice and human dignity”.

The movement political position and demands are: intensifying the organization of the poor to a massive struggle for land reform; to build unity in the field and develop new forms of struggle, help to build and strengthen the other social movements in the field. It is considered that the established way of global production, consumption and market caused a massive destruction of the environment, including global warming, which is jeopardizing the ecosystems of our planet and bringing human communities towards disaster. The movement, along with its communication task, register the number of jailed, death, imprison and violence conflict in the field, land concentration, generation of jobs in the field and rates of production, and production data with names of the sixty largest companies operating in the Brazilian agriculture.

Second, regarding the *focuspolicies resignification and new participative social policies*, I note that most current social policy for the poor are still targeted policies distinguishing them from a orientation toward rights to emancipatory ones. Examples of the second are programs implemented in Bolivia as *Bono Juancito Pintos*, the so called *Misiones Venezolanas* or the *Hambre Cero* (Zero Hunger) in Brazil or the first *Plan Trabajar* in Argentina. Other policy like *participative budget* or *social economy* (Coragio, 2004; among others) are policies that have a socialist and anarchist background and they are promoted for socialist parties as the local level as he *Presupuesto Participativo* in cities ruled by the *Trabalhista* Party ruled for Lula in Brazil, and other

in Argentina cities as Rosario or de Mexico DF<sup>6</sup>. They are frequently pointed out as an emancipatory since they promote participatory practices and innovative perspective for creating jobs and generating income to address poverty in rural and urban poor areas. *Solidarity economy* developed in Brazil has incorporated a new right, the right to the market. I will take some examples. Even if *Hambre Cero* programme, implemented by Lula da Silva in Brazil, is a program aiming to modify structural conditions that produce poverty from a rights perspective in its rhetoric formulation, the programme discourse is very close to the HD discourse. The programme does not refer to social welfare but social development in terms of food and nutritional security as well as participatory scheme that has a long emancipatory tradition in Brazil (Freire, 1967; Castro, 1951). This social policy approach does not follow any assistance nor *contra-prestation* principle neither of tutelage (tutor or patronage relationships). “Fight against hunger is not a cost but an investment”, and, from a neokeynesian perspective, it assumes that the increasing food demand would mean the increasing of employment (near 350 thousand) and an increasing of tax collection (around 2,500 millions of Brazilian Reais). According to Tavares (2004), the Cardoso’s president office implanted a neo-liberal economical policy. However, there were important progresses in terms of access to universal social protection in health care and education. Nevertheless, poverty has persisted and wealth concentration increased. For this author, *Hambre Cero* faces a problem since it reduces food security and there are very few progresses to access to basic rights, to wage and appropriate household, which are the main causes of poverty.

The social policy of the government of President Chávez in Venezuela has been a profound social transformation and shifting resources to the poor. On the other hand, it still is a focused policy, even if there are missions to the state bureaucracy and the social protection system. This experience is tangled by a strong nationalism discourse who reminds us of certain changes in the region by mid-twentieth century, such as peronism in Argentina, with strong military influence in the social sphere. *Plan Bolívar* (the name of the national political strategy) is set out as a civic-military (executed by the military, government and community organizations) and covers intervention on health care, education, unemployment, alienation, and security infrastructure. Programs and their rhetoric acquire a strong nationalist tone: *country project* (provides assistance to the

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6 For an analysis of participatory budgeting programs in Europe and Latin America see United Nations Program for Development (2004).

needy); home project (public employees joined in social activities and community organizations); nation project (investment in infrastructure and mass education). At the same time, there is a persistence of old colonial-style rhetoric of care reflected by names like “missions” as it was labelled the first plan, even if mission goals are emancipatory. Chávez took government when the poverty rate had reached above 55% and lowered that percentage to 27% in 2007. The public social spending rose from 8.2% of GDP by 13.6% in 2007, and from 5% to 10% spending on health, education and housing (Montalban, 2010).

According to the Development vice-minister Pacheco (2004) the Venezuelan social policies involves a transition from a “model of a compensatory social policies” to another aimed at the strengthening of popular power and the claim of politics and society as alternative to the hegemony of the market –with a strong criticism of decentralization and weakening of state in the social policies of the previous neoliberal stage. The value of the policy is seen as “a recovery of policy, and not as pure technology governmentality but back to politics as utopian strain that politics as a consensus-building”. In the nomination, rhetoric and intentions of the programs, there is a strong commitment to communitarian utopia, this time and not territorial or popular focal length, the promotion of social economy that is about to a more popular, less based on the self of poverty and more on the processes of social awareness. Empowerment is also present as an emancipator not instrumental, through the direct democratic participation through the de-bureaucratization and technical efficiency.

This experience is similar to that of participatory budgeting, that we cannot explain to the full extent, but it can be seen as an alternative from the south and a participatory strategy of management resource at the city governmental level. In Brazilian cities under the management of the *Trabalhista* Party; in Rosario, Argentina ruled by a socialist party, or the Mexican Federal District also ruled by a left wing party. In those cases, re-empowerment is meant to be emancipatory and put in the policies the political tension as a utopic transformation of society.

The third group of alternative policies would be influenced by the tradition of a minimal welfare rights promoted by some European Agencies coming from European tradition. But in the last, assistance policies guaranteed minimum income for the poor or excluded (Paugam, 2001) are supplemented by broader insurance schemes as well as universal social policies in health, education and, especially, unemployment insurance. So, this minimum income or additional set of life *focuspolicy*, I would say, has a broad social supplemented in these

countries that does not exist or is waked in SA&C.

UNDP has also promoted the ESCR (Economic, social and cultural rights). Linked with the right rhetoric, ESCR has provided a broad legal framework for the development of universal social rights (especially in health and education); but, in my view, when in practice these are embodied in “programmes” (format devices intervention *focus-policy*), they become regular assistance programs that meet the CCT requirement. On the other hand, there ECLAC has presented some initiatives on “social cohesion” which promotes gradually minimum threshold of social protection for all without changing the format of *focuspolicy* and neoliberal policy, already in place in most SA&C countries. The IADB has recently launched a campaign called “basic universalism” (Filgueras *et al.*, 2006; Sojo, 2006), which does not to consider the non-basics needs (Narbordo, 2006). This initiative is promoted for the party called the *Frente Amplio Progresitsa* (in English, Opposite Progressive Broad) in Bogotá.

Other groups, as the teachers and the doctor more middle classes’ vindication, like to improve and also change the universal policies in Health and Education, without take out which is not basic of the Free State services. There are another line of thought related with the UN-ESCO/OHCHR, poverty rights but with other tradition and propose, based on promoting pro poor rights and policies.

## FINAL REFLECTIONS

The new utopias and imaginary face several dilemmas. The practices and intervention dispositif promote the citizen, the poor, and the marginalized or excluded welfare or the welfare dual. They encounter resistance and opposition from the local and international political power, and the bureaucracies within the discourse of the *focuspolicies* in different levels: the macro, the meso and the micro. At the same time, a current orientations and alternative arrangements for social policy raises the question about the extent and a real change from the neoliberal governmentality and established social policies. Another question is if they really favour a universal and comprehensive social policy, aimed at the distribution of wealth and power.

There have been in some cases significant progress in terms of access to universal social protection in core sectors like the health system, the basic education or food security systems, and, in few cases, access to land in same countries as Bolivia. At the same time, there are not so many improvements in terms of revenue situation (such as the Brazilian case). Brito Leal Ivo (2008) questioned poverty reduction while maintaining a dual system of society with little or poor articulation of the universal social protection systems. At the

same time, social policy related to national policies of the new statism could mean a deeply social transformation and redistribution of resources to workers and the poor, as the case of Bolivia and Venezuela. By contrast, it is observed the heavy concentration of wealth in cases like Brazil, Chile, Mexico and Argentina where, paradoxically, cash transfer programmes have achieved to reduce poverty. At the same time, social policy develops a new approach, now aimed at the social inclusion rather than a territorial-based compensatory approach. This has been linked to the strengthening of popular power as a way of retrieve the policy not as pure technology governmentality, but as chance to build counter hegemony that incorporate processes of empowerment and emancipatory and popular representation. This happens in different ways. In this regard, Bolivia and Venezuela have established policies from the government itself, while cases like MST and EZLN, policies are produced by social movements. In Argentine, policies arise from government in response to social struggles of the *Piquetero* Movement.

In the context of a global trend towards concentration of wealth, the de-politicization of social policies by economical and technology rationality of focuspolicy and the centralization of political power (through decentralization that has been, in its neoliberal version, a continuing policy of disinvestment in social, while generating tension in the autonomous area of the local polity), the struggles and movements are continuing and persistently resisting to be expropriated and subjected. However, a strong national and local inequality in wealth distribution still remains unflappable. In other cases, the policies are re-appropriated notion of targeting by the social movements giving it an emancipatory character. The scenario is not a single but a complex one, since those trends reflect different struggles and tensions that draw our contemporary world.

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**CRISTINA FRÓES DE BORJA REIS\* \*\***

## **1.2. PUBLIC INVESTMENT FOR ECONOMIC DEVELOPMENT AND POVERTY REDUCTION**

### **THEORETICAL AND EMPIRICAL ANALYSIS**

#### **ABSTRACT**

The objective of this research is, first, to present the relationship between public investment and economic development in a broad sense, based on a structuralist and Keynesian approach. Complementarities between private and public investment are shown, as well as impacts of public investment over manufacturing and gross national products. It is specially remarked the impact of public investment in infrastructure. The second objective is to analyze public investment in Brazil from 1950 to 2006. It is shown that the great drop of public gross capital formation, mainly from state-owned enterprises, is one cause of the low Brazilian growth rate from the eighties until 2006.

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\*\* I thank Andrés García Trujillo, the discussant of my paper at the workshop (Cape Town, July 18-20, 2009), and all colleagues that contributed to debate about my presentation. I also thank Prof. Alicia Puyana Mutis and Prof. Samwel Okuro for their very analytical revision and comments. Finally, I specially thank the advisor of my thesis, Prof. Carlos Medeiros.

## INTRODUCTION

The aim of the international workshop “Strategies against Poverty: designs from the North and alternatives from the South” is “to bring about a comparative, critical and multidisciplinary understanding of the theoretical frameworks and practices which were/are put forward as solutions to poverty in the South”. The program of the workshop says that “the neoliberal agenda provided countries in the South with several sets of standardized policy recommendations which ended up becoming the customary wisdom for politicians and bureaucrats alike. However, regardless of this ideological reorientation, poverty is still an endless feature of African, Latin American and the Caribbean countries, that has been even aggravated in many cases”<sup>1</sup>.

Many developing countries passed through neoconservative reforms since the eighties and nineties aiming to diminish public intervention in economy. One of the most notable reforms was the privatization of State-Owned Enterprises. Nowadays due to the melting of financial markets public intervention and rise on public investment is returning to the agenda of economic policy. However this agenda treats differently North and South countries. Multilateral institutions still recommend to developing countries conservative macroeconomic policies. Meanwhile, poverty remains and can get worse depending on the negative impacts of the financial crisis. This paper argues that public investment has to be a priority for the countries of the South because, as it is demonstrated, it is one of the key pillars to promote development and to eradicate poverty.

Therefore the objective of this research is, first, to present the relationship between public investment and economic development in a broad sense, based on a structuralist and Keynesian approach. Section 1 shows the complementarities between private and public investment, as well as the impacts of public investment over the industrial product and the gross national product. It is specially remarked the impact of public investment in infrastructure. The conclusion is that, on the demand side, public investment generates economic development because it induces private investment through its traditional multiplier effect and through physical integration and expansion of internal market, mainly promoted by infrastructure. On the supply side, public investment and purchasing policies of state-owned enterprises motivate the usage or expansion of productive capacity in capital and technological intensive sectors. Thus, public investment

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1 CLACSO/CROP, OSSREA and SEPHIS call for papers for this international workshop.

policies have a strategic role for economic development and they also may have an important distributive effect. Public investment is a variable politically determined, so its behaviour depends on the groups of interests in power and, consequently, on the macroeconomic regime adopted by them.

The second objective, held in Section 2, is to analyze public investment in Brazil as a case study for the theory undertaken. It is shown that the great drop of public gross capital formation, mainly from state-owned enterprises, is one of the causes of the low Brazilian growth rate from the eighties until 2006. Between 1950 and 1979 the conjugation of high public investment with other economic policies to benefit the industrialization process enabled the expansion of private investment and the growth of gross national product, industrial product and gross fixed-capital formation. Political and judicial decisions made easier the huge expansion of state-owned enterprises and the construction of various mechanisms for their funding. These achievements were enhanced by the interests sustaining national government, especially domestic big corporations, domestic big builders and multinational companies. After the eighties, the great burst in the growth pattern was parallel to the transformation of the role of the State<sup>2</sup>. The macroeconomic model adopted in Brazil was synchronized with neoliberal policies imposed over developing countries, which benefited financial elites. Public investment diminished a lot due to fiscal restrictions and the privatization process. In opposition to what was expected by neoliberal authors, private investment also diminished and did not recuperate public investment. The low growth of gross fixed capital formation entailed a decreasing trajectory in the industrial product and gross national product growth rates. Once the investment in infrastructure gives competitiveness for the industry and it conducts structural change, its deterioration resulted in worse productive conditions, mainly in capital and technological intensive sectors. Thus there was a douse in the dynamics of the industrial structure, with negative effects on income distribution.

The conclusions pinpoint and summarize the main contributions of the paper. The general idea is to demonstrate the importance of public investment to generate growth and to reduce income

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2 The State, in this article, is viewed following a gramscian concept, like Trujillo (2009: 12) has described: "as the organ of one particular group, destined to create favorable conditions for the latter's maximum expansion. But the development and expansion of the particular group are conceived of, and presented, as being the motor force of a universal expansion, of a development of all the 'national' energies".

inequalities. Although its effect is indirect, it must be a fundamental pillar of economic development policies.

### **SECTION 1: THEORETICAL PERSPECTIVE**

In accordance to a perspective based on the demand and on the historical-structuralist tradition, investment is the key variable of growth dynamics and capitalist structural change. The demand induces and creates –through the Principle of Effective Demand<sup>3</sup>– the supply, which adjusts itself both in the short and long run to variations of demand's autonomous components (funding standards, consumption, competition and the social relations between capital and labour) and induced ones (accelerator mechanism that adjusts the capital stock)<sup>4</sup>.

Economic development is a process of structural change led by capital accumulation which increases the productivity of the whole economy, sustaining high growth rates in medium and long run. This structural change means the transformation of production functions' technical coefficients, and therefore of the input-output matrix<sup>5</sup>.

According to Kaldor's first law<sup>6</sup> manufacturing industry is the growth engine of the economy, not only due to the share of industrial output in the whole production, but also because the higher the growth rate of manufacturing output is, bigger is the economy growth rate. This relationship derives from the impact that manufacturing activity exerts on the economy's demand and productivity, displacing labour from sectors of low productivity to industry<sup>7</sup>.

Thus, manufacturing industry has dynamic effects on other economic activities, diffusing innovation and technological progress. The rhythm of the industrial output expansion drives the growth of total product<sup>8</sup>. The development of capital goods industry expands and deepens dynamic effects, enhancing general investment and promoting domestic demand lead growth.

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3 The principle of effective demand was formulated by Keynes and Kalecki. For a deep understanding see Possas (1986) and the originals Keynes (1992) and Kalecki (1985).

4 Serrano (1988).

5 This definition is strictly economic in the sense it sees the accumulation of productive forces as the motor of economic development because it enables the raise of the wages level, which would enable social and political development of people.

6 Kaldor (1966), Libanio (2007).

7 The positive relationship between product and productivity in the manufacturing sector is known as Kaldor's second law.

8 And more, "in periods of high growth and new products introduction, the existence of a pool of qualified workforce and Research & Development generates externalities and amplifies the positive effects of the former investments" (Medeiros, 2007: 04).

It is important to note that this approach takes labour market, especially labour demand, as intrinsically related to income distribution and poverty in a developing country. In the view adopted here, the scarcity of resources and the substitution between capital and labour do not hold in the real world. This is the opposite of the neoclassical approach, especially Human Capital's. Therefore, income redistribution is considered here as the result of three main factors, as López (2005) demonstrates. The factors are, first, the growth in formal employment; second, the reduction in unemployment (that is, labours not working in either the formal or the informal sector); and third the raise in relative income of capitalists *vis-à-vis* workers<sup>9</sup>.

There are two basic possibilities of interpreting the relationship between public and private investment: the existence of “crowding in” or “crowding out”<sup>10</sup>. Although both phenomena may occur simultaneously, it is claimed in this paper that, in general, there is “crowding in” between public and private investment, not necessarily linear or proportional.

From the empirical perspective, there are several work papers –based on different approaches– that confirm the “crowding in” between public investment (especially in infrastructure) and private investment, output and productivity<sup>11</sup>. Here it is defended that there

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9 “Generally speaking, income will tend to become more evenly distributed if the relative share of formal employment in total employment rises, or when the share of the urban population effectively unemployed falls. Income concentration will also decline if the relative income of workers *vis-à-vis* capitalists gets higher, although in this case we need to differentiate between the agricultural and the non agricultural sector, and we also need to discriminate between alternative causes behind the change in relative factor shares”. (López, 2005: 85)

10 The role of public investment is more specific than the one of public spending. While public spending is an important component of aggregate demand and determines the intensity of the Keynesian multiplier, public investment specifically means, also, the creation of productive capacity (Serrano, 1995). Unlike private investment, it is an autonomous variable because it depends on government's decisions. Therefore, it is a political variable.

11 Some papers; authors that defend “crowding in” are Aschauer (1990) for the USA in the eighties, Calderón & Servén (2004) and Candido Jr. (2006) for Latin American countries in past two decades, Belloc & Vertova (2004) for highly indebted poor countries, and Ferreira & Malliagros (1999) for Brazil since 1970. Particularly, Monteiro Neto (2006) stated that public investment has been one main element for gross fixed capital formation (GFCF) in Brazil since the II World War, both from quantitative and qualitative perspectives. According to the author public investment motivated productive restructuring of existing sectors and formation of new ones through its direct action towards sectors that private investment was not interested in or had no conditions to reach. On the other hand, after a cross section exercise including 98

is “crowding in” between public and private investment because, on the demand side, the former sustains the economic cycle and expands and integrates the market, and on the supply side, public investment, especially in infrastructure<sup>12</sup>, affects the general productivity of the economy and anticipates the investment cycles (if there is economic planning). This investment is able to displace the productive structure to capital and technology intensive sectors<sup>13</sup>, with impacts on the amount and allocation of the investments in general.

For theorists of the Development like Rosenstein-Rodan, Nurkse, Hirschman, the technological discontinuity of peripheral countries would be overcome through public policies aiming to promote the “big push”; the expansion of various industries. This expansion would generate income and enlarge the demand, extending markets and profit perspectives for the private sector, both due to horizontal linkages and to the improvement of labour skills in manufacturing, which raises employment and productivity. This would be, then, the mechanism that would generate more employment and that would enhance income in formal and informal sector of the economy (López, 2005).

Traditional macroeconomic theories, used in the official speech and documents of multilateral institutions since the eighties, only regard public investment as acceptable in case of “market failures” and whether it obeys to funding conditions which do not jeopardize “fiscal fundamentals”. In the orthodox view, decisions on public investment should follow the same criteria of the private investment: profitability and efficiency. They believe that, except when the net return is positive, public investment exerts a negative impact on the public debt and, consequently, on the interest rate. This effect would generate a process of “crowding out” with the private investment (IMF, 2004). Besides, in neoclassical economic models that considers full employ-

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countries for the period between 1960 and 1985 Barro (1991) concludes that the positive effect of public investment on growth is not significant. Dejavaran et al (1996) find crowding out in empirical analysis with 43 countries between 1970 and 1990, Melo & Rodrigues (1998) and Rocha & Teixeira (1996) show that there was crowding out in Brazil between 1970-1995 and 1965-1990, respectively. For more reports about empirical literature in the mainstream tradition, see Andersen et al (2006).

12 Infrastructure investment is important, first of all, because its social and politically genuine objective is to improve the population’s welfare. That is because infrastructure means the essential services for peoples’ lives. And in the geopolitical point of view, infrastructure is essential to integrate and delimit the territory.

13 Hirschman (1958) was one of the first economists who analyzed the effects of public investment on the supply side. He affirmed that public investment is essential mainly because it stimulates investment in productive activities.

ment, expansionary fiscal policies only induce inflation and do not change product level,

This interpretation does not consider that public investment has a superior impact on the economy than the one appropriated by the executor. Mainstream theories reject the public nature of government investments that might contemplate long run strategic elements for the development of the nation<sup>14</sup>. In the Keynesian and structuralist point of view, in developing countries, once “there is no mechanism that induces full application of productive factors, the macroeconomic policy may influence the economy’s performance if it displaces the potential output, not only in the short but also in the long run”<sup>15</sup>. The level of output depends on the amount and on the growth rate of autonomous spending. Finally, there is no connection between interest rate and public debt, because the former is exogenous, determined by the Central Bank.

In developing countries the most important investment in innovation for the expansion of manufacturing productivity and employment are imports of machines and equipments. This is due to the greater necessity of adaptation, replacement and maintenance of these goods. But Medeiros (2007: 03) ponders that, considering problems in the balance of payments, “the local production of machines and equipment reveals itself as the strategic core of industrialization process, in the sense that it makes the industrial subsystem less dependent on technology and on foreign exchange”. As Prebisch (1949) said, overcoming problems concerning the balance of payment in underdeveloped countries would also depend on international trade public policies. Exports should be promoted and their surplus should be invested in more capital intensive activities. On the other hand, imports policies in favour of the goods that would make industrialization viable should be set in order to progressively reduce the imports coefficient. The technical progress and the raise of the productivity in agriculture cause increase of real wages and employment, placing the engine of economic growth in the domestic market. If these effects come true, the distance between centre and periphery nations reduces.

The point about productivity and employment is crucial to understand how public investment positively affects growth and

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14 See Chang (2003) to get a complete criticism of neoclassical arguments about public investment, state-owned enterprises and industrial policies of the State. For instance, the author argues that the premises of neoclassical models –decreasing returns, perfect competition, no differentiation and no capital specificity– do not hold in real world.

15 Medeiros (2007: 05).

income distribution. Here it is argued that public investment has the ability of triggering the kind of economic growth that allows economic development and better income distribution. As Medeiros (2008) affirms, only when there is increase in the productivity of food and wage good industries and reduction of surplus labour, it is possible a higher wage rate. A high employment growth in low wage manufacturing may not change this reality, as the Mexico's *maquilas* case shows. It has to be a kind of expansion of formal employment that changes the structure of labour market, "enlarging the share of better paid labour and reducing the number of informal and lowest paid labour" (p. 19). Then, the drop in open unemployment reduces the number of individuals and households without income. Similarly, Islam (2004) demonstrates that growth may reduce poverty, depending on the patterns it follows. In this sense, "employment and labour market variables emerge as significant in making growth pro-poor" (p. 23). But "it needs to be borne in mind that if treated separately from the overall development strategy, employment cannot serve as an effective route out of poverty" (p. 23)<sup>16</sup>.

Since growth may drive poverty reduction, depending on country's structural characteristics, State intervention and industrial policies are crucial in this process. Chang (2003) presents static and dynamic reasons to explain that. In the static case, State intervention is important because market mechanism has coordination failures which represent costs to the society<sup>17</sup>. Then the industrial policies should happen *ex ante* firstly because they give credibility to the economic system; secondly, because the State represents the national interests; and finally because public policies may guarantee the supply of goods that do not attract private investment. In the dynamic case, industrial policy is needed to lead the structural change that induces improvement of the productivity. If transaction costs hindered contracts

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16 "Employment outcomes of alternative strategies and policies must be considered as one of the major criteria in formulating them (i.e., the strategies and policies). This is particularly important when it comes to the formulation of macroeconomic policies and policies relating to specific sectors. It should be possible to integrate employment concerns into the process of formulating such policies. A pro-employment macro policy regime would take into account the possible effects of tariffs, exchange rate, and taxation policies on the growth of sectors and sub-sectors that are by nature more labour intensive than others. Integration of employment concerns should be associated with the adoption of measures to track the employment intensity of growth to see whether growth is taking a pro-poor character. Islam (2004: 23).

17 Fails of coordination may emerge from imperfect competition, natural monopolies, increasing returns of productive factors, entrance barriers etc. Chang (2003).

that would diversify the productive structure towards the capital and technological intensive sectors, the intervention of the government would be necessary. The role of industrial policy is, thus, to coordinate changes and to encourage experiences that generate innovation and new investments (Chang, 200: 135).

Chang has also ranked five main reasons for the existence of State Owned Enterprises (SOE). The first one is the verification, in capital markets, of absolute and comparative advantages in activities in which the minimum efficiency degree is too high to attract private investment. The second reason is the natural monopolies, which are very common in infrastructure sector. The third one is the fact that they have an important strategic character, in order to enable activities that generate interesting externalities or spillovers for economy's development. The fourth one is the domestic technology production and accumulation, which reduce the dependency on external capital. Finally, SOE's investments and price policies may be a mechanism of income redistribution.

SOE can evaluate their activities through profitability and efficiency levels, but their purposes are much wider, such as: distributive matters, employment and inflation objectives, promotion of private productivity and investment, sustainability of economic cycle etc. It is important to remark that the State becomes more active towards direct enterprises when it not only invests in traditional public sectors, for instance infrastructure, but also in other capital intensive ones, such as mining and intermediary manufacturing.

Therefore the theoretical starting point of the analysis about the relationship between public investment and economic development is that the former is essential to induce the industrialization of capital and technological intensive sectors. This role in general is carried out by SOE. Thus, the privatization reforms should be carefully analyzed, considering particularly their impacts on economic development and on distribution.

## **SECTION 2: PUBLIC INVESTMENT IN BRAZIL BETWEEN 1950 AND 2006**

The aim of this section is to analyze public investment in Brazil and its relationship with economic development and poverty reduction between 1950 and 2006. The initial first hypothesis is that the great drop in public gross fixed capital formation is one of the fundamental reasons for the low Brazilian economic growth rate since the eighties. The second hypothesis is that growth may drive poverty reduction when there is enhancement of general productivity and employment.

For the best comprehension of the referred data, the period was separated in two phases –1950 to 1979 and 1980 to 2006– which are discussed respectively in subsections 2.1 and 2.2. The time division is in accordance to the different models of public investment conduction, and therefore, to the model of state actuation. The most meaningful difference is that, in the first period, the State was very interventionist and applied aggressive policies to enhance domestic demand, mainly through its productive enterprises; while in the second period public investment recrudesced and economic policies privileged prices stabilization.

In each phase, some relevant topics are investigated, such as: macroeconomic scenario and model of State actuation; the decomposition of gross fixed capital formation (GFCF) between public and private sectors, distinguishing the shares of SOE and public administration; composition of SOE's GFCF in different economic activities. These subjects are presented in the tables below and in the charts at appendix, which are used as reference on the whole section<sup>18</sup>.

**Table 1**  
Variation of GDP, Manufacturing output, GFCF and the share of GFCF over the GDP in Brazil  
by historical period (1950-2006). In percentage, R\$ 1980

	Variation of GDP (%)	Variation of GDP per capita (%)	Variation of manufacturing output (%)	Variation of GFCF (%)	GFCF/GDP (%)
<b>1950-1967</b>					
Average	6.23	2.24	7.65	7.05	18.34
Stand. dev.	2.97	6.49	5.21	10.12	1.96
<b>1968-1979</b>					
Average	8.93	4.82	9.89	10.81	22.85
Stand. dev.	2.91	5.86	4.45	7.35	1.61
<b>1980-1989</b>					
Average	3.01	-3.16	1.89	0.52	18.55
Stand. dev.	4.61	10.73	7.04	11.97	2.45
<b>1990-2006</b>					
Average	2.27	0.52	1.59	1.41	14.58
Stand. dev.	2.50	8.79	4.96	7.39	1.04

Source: Elaborated by the author based on IBGE and IPEA. Gross Domestic Product (GDP); Gross Fixed Capital Formation (GFCF).

<sup>18</sup> Consolidated data about poverty started to be provided just after 1977 by the Annual National Household Panel (PNAD). Once the information is not complete, no tables are provided, but the proceeds are presented along the text.

**Table 2**

Gross Fixed Capital Formation by investor –Public Sector (Public Administration and Federal State Owned Enterprises) and Private Sector–, Share of Public Sector GFCF over Total and GFCF by type (Construction and Machines and Equipments) in Brazil (1950-2006). In percentage of GDP, R\$ 1980 (except share of GFCF over GDP)

	GFCF/ GDP (%)	GFCF by investor (% of GDP)				Public Sector (% of GFCF)	GFCF by type (% of GDP)	
		Public Sector			Private Sector		Construction	Machines and equipments
		Public Administration	SOE	Total Public Sector				
<b>1950-1967</b>								
Average	18.34	4.35	1.22	5.58	12.70	31.07	11.40	6.57
Standard dev.	1.96	0.71	0.74	1.02	2.56	7.69	1.32	0.82
<b>1968-1979</b>								
Average	22.85	4.21	4.30	8.31	14.68	36.02	13.65	8.83
Standard dev.	1.61	0.91	1.74	1.74	1.42	6.15	0.95	0.97
<b>1980-1989</b>								
Average	18.55	2.25	2.94	5.19	13.36	27.85	12.51	5.52
Standard dev.	2.45	0.39	0.96	0.97	1.64	2.64	1.25	1.18
<b>1990-2006</b>								
Average	14.58	2.08	1.14	3.22	11.75	21.64	8.66	5.07
Standard dev.	1.04	0.47	0.58	0.93	1.39	6.79	2.00	1.14

Source: Elaborated by the author based on IBGE and IPEA. Gross Domestic Product (GDP); Gross Fixed Capital Formation (GFCF); State Owned Enterprises (SOE).

## **2. 1 FROM THE “CONSTRAINED INDUSTRIALIZATION” UNTIL THE CRISIS OF THE EIGHTIES: 1950 TO 1979**

In Brazil, just after the II World War, the investments flow in economy was more driven mostly by domestic production. These were the final years of the so called “constrained industrialization”<sup>19</sup>. The Government of Getulio Vargas (1950-1954) implemented an economic plan in 1951, whose objective was to solve the problems related to health, food, transports and energy. It increased public administration spending and expanded the credit concession. Big infrastructure projects were developed with the support, since 1952, of the National Eco-

19 This concept refers to the period between 1933 and 1955. “The industrialization was constrained because the technical and financial basis of accumulation process was not enough to implement, in a punch, the fundamental core of the goods production industry, which would allow productive capacity to grow ahead of the demand, self determining the process of industrial development”(Cardoso de Mello, 1982: 110).

conomic Development Bank (BNDE). These years started the period of state-led development<sup>20</sup>.

Investments were financed by foreign exchange revenue, money issuing and by external loans –particularly those from Eximbank for infrastructure projects. Infrastructure investments were led by the State claiming that the high risks and the control of public utilities’ tariffs were withdrawing private investment<sup>21</sup>. Moreover, the technological capitalist cycle of that period –led by oil, automobile industry and others durable goods (Pérez, 2002)– needed an appropriate infrastructure to arrive in Brazil. So interests of foreign capital were a very relevant reason for the State to implement an aggressive infrastructure project.

In the government of Juscelino Kubitschek, from 1956 to 1960, the *Plano de Metas* (Plan for Goals) was launched to expand the participation of the public sector in the GFCF (with focus on energy, transports, basic industries and education) and to stimulate private investment, generating employment. In this period, the GDP grew 9.43% *per year*<sup>22</sup> and the State started to exert a substantial demand for investment. According to Orenstein & Sochaczewski (1990), the funding of *Plano de Metas*’ investments was mainly domestic, notably by monetary issuing and credit. SOE were financed mainly by the BNDE (at that time it could only lend to public institutions). At that time, the demographic profile of Brazilian population was changing a lot, the country became urban and poverty has acquired different dimensions.

The interregnum between 1961 and 1964 had low growth and less dynamism in the industrialization process, with high inflation (the Consumption Price Index was about 80.5%). One reason for the fall in growth process was the cooling of public GFCF compared to previous years, as it is possible to be seen in Chart 2. From 1964 until 1967, under the military dictatorship, the PAEG –Economic Action Plan of The Government– led to a growth rate of 4.2% *per year* and inflation

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20 Cardenas *et al.* (2006) reject the term “import substitution industrialization” to describe the development of some countries in the last century, because it does not correctly reflect the importance of the State in that process. The authors say that the correct term is “state-led industrialization”, which is adopted in this paper.

21 Ferreira & Malliagros (1999: 3) argues that the tariff control of sectors like electric energy, transports, communication, oil and others “was considered desirable to encourage the industrial growth and to subsidize the consumption”. But it did not follow the inflation rates. Then, “the private capital did not expand its capacity” and “the only possible alternative was the state gradually enter in” infrastructure segments.

22 Source: IPEA. See Chart 1.

stabilization. It also implemented a big tributary reform that substantially raised State revenues through higher taxes and diversification of sources. In addition, the issuing of public debt has started and it totally replaced money issuing already in 1966<sup>23</sup>. But in the case of SOE funding, more than the half was originated from their own incomes from 1964 to 1975 (Treat, 1983).

Therefore some important inflections in public accounts happened between 1950 and 1980. Primary expenditures/GDP accelerated and became progressively higher than revenues/GDP after 1968. The former rate has stabilized in the seventies and it diminished by the eighties. Gross tributary revenues only rose after the PAEG and it was flat on a level of 25% of GDP from 1968 to 1979.

The annual growth of GDP between 1968 and 1979 registered high rates and it varied from 4.84% to 13.71%. The average growth of GDP *per capita* was 4.82% (see Table 1). Such a growth meant low unemployment rates during the seventies<sup>24</sup>. Table A, in the Appendix, shows that the employment in manufacturing represented almost 15% of total employment in 1970. Despite improvements in income *per capita* and employment, some indicators do not reveal that there was better income distribution in the period. The rate between the income of the richest decil of population in relation to the income of the poorest decil has got worse from 1960 to 1980 (see Table A). In 1960, the 10% richest people of the country had an income 34 times greater than the 10% poorest people. In 1970, this rate was 40 and in 1980 it was 47. The Gini coefficient also indicates that income distribution did not improve from 1960 (Gini = 0,497) to 1980 (Gini=0,592).

The growth scenario in the seventies was originated from profit reinvestment, higher capacity utilization, extension of fiscal and credit incentives, wage distortions in favour of entrepreneurs etc. (Lago, 1990). Despite the oil crises of 1973 and worst terms of trade, the investment rate –in average 24.4% of GDP between 1974 and 1979– grew 6.75% *per year*, mainly in basic, capital goods, heavy electronics and inputs industries. In this period, the government launched the II National Plan of Development (NPD). In parallel, there was abundance of foreign capital<sup>25</sup> and the exchange rate remained valued. The weight of public sector in GFCF these years was the highest of Brazil-

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23 Resende, (1990: 218).

24 Lago (1990: 291) affirms that the unemployment rate in 1973 was in between 3-4.9% in urban area and 0.4-2.3% in rural area.

25 Average foreign direct investment increased almost 4 times from 1968-1973 (USD 473) to 1974-1979 (USD 1.773), (source: Central Bank of Brazil).

ian history since the independence. The maintenance of high growth rates configured a development process. But it depended, as Medeiros (2007) says, on a monetary, exchange rate and fiscal regime in favour of high growth.

Chart 2 shows that private and public GFCF were correlated during the fifties and sixties, probably there was “crowding in”. In the seventies their trends took different paths, but here the “crowding out” argument cannot be used to explain the drop in private investments, since the real interest rate was negative at this period.

SOE have acquired a higher share in the composition of GFCF, which turned bigger than the share of public administration in 1974. Their share has reached a peak in 1976: 7.26% of GDP (see Chart 3). This was due to SOE’s scale expansion and proliferation and to the surge of big sectorial holdings<sup>26</sup>. According to Trebat (1983), SOE have played a key role during the “miraculous” period of the Brazilian economy (1968-1973)<sup>27</sup>. In 1975-1976 their main resources were 50.5% from profits and depreciation (internal incomes), 12.3% from tied revenues to Treasury funds (established by regulation), and 10.2% from Treasury’s subsidies; 8.3% from long term internal borrowings (mainly from BNDE), 16.9% from long term external borrowings and 1.8% from bonds (Trebat, 1983: 88).

It is important to observe that the external debt contracted in the seventies was, as Medeiros (2009) affirms, a process of over-indebtedness. Recorded data shows that external debt grew 25.7% *per year* between 1968 and 1979. In 1967, 73.1% of that was public. Then in 1973 the situation inverted, and the external debt became 64.1% private. But in 1979 it became public again (67.6%). Therefore, public external indebtedness was not the growth engine during the earlier seventies, only after 1974. Medeiros (2009) argues that this was due to an imposition of foreign capital market over peripheral countries. Ferreira & Malliagos (1999) explain that this was also caused by the tariff policies practiced by SOE. After 1975 they were not realistic because the government used them to reach inflation targets.

It is evident in chart 4 that on one hand, between 1950 and 1965, the GFCF of federal SOE was especially high in the manufac-

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26 Decree 200 of 1967 facilitated the creation of SOE to stimulate the administrative efficiency and profit, relaxing some wage constraints. Many sectorial holdings emerged like Telebrás (telecommunication), Eletrobrás (electric energy) and Embratel (telecommunication). In the sixties, 39 federal SOE were created, most of them in mining, while in the seventies 115 ones were launched. Trebat (1983: 37).

27 It is possible to understand the greatness of the SOE role in Brazil at that time when it’s noticed that 28 of the 30 largest non financial companies 1979 were public (in 1971, 17 were public).

turing sector. It can be noted that a particularity of the developmentalist State was to invest not only in traditional activities, such as infrastructure. This trend began during the *Plano de Metas*, whose manufacturing investments were concentrated mainly on chemical and mining activities. Energy and transports sectors also grew a lot in this period (transports were the main activity in 1958 and 1959). On the other hand, from 1976 manufacturing was replaced by infrastructure, in terms of shares, in SOE investments. Investment in manufacturing was the highest in 1972 and 1975; energy in 1971 and 1977, transports in 1970, 1978 and 1979; and telecommunication in 1976.

Thus, from 1950 to 1979 the tripod of the developmentalist State was established. One leg was public sector, the leader on basic industry and infrastructure production. The second leg was big national corporations, acting in labour intensive activities such as food and beverages, textile and metal-mechanic. Finally, the third leg was foreign multinational companies, dominating high capital and technologic intensive sectors such as chemical, electronics and automobile. Clearly, beneficiaries of this model were big national and international capital, mainly the ones related to consumer goods and civil construction. Despite the labour class was not directly involved in the power in Brazil during the military dictatorship, it was benefited by the low rate of unemployment. Thus it can be said that in Brazil from 1950 to 1980 the public investment may have driven poverty reduction through its positive effects on employment. Nonetheless, the income distribution remained very uneven and did not improve.

But the economic model was too dependent on external funding. When international interest rates rose in 1979, the over-indebtedness scheme caused a deep financial crisis in the country. Then a reversion in the model of the State took place, driven by neoliberal reforms.

## 2.2 A QUARTER OF CENTURY OF LOW ECONOMIC GROWTH: 1980 TO 2006

The boom of external funding by the late seventies triggered transference of resources<sup>28</sup> to foreign countries and a new behaviour of the public sector. On one hand, the government wanted to obtain commercial surplus through fiscal exceptions and subsidies to the exports sector. On the other hand, it took the onus of the debts' interests and squeezed public spending.

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28 For Carneiro (2002) real transferences mean surplus in goods & services transactions while financial transferences mean that the sum of capital entrance plus net income sent abroad is positive.

As an attempt to overcome the crisis in the balance of payments, the government borrowed US\$6 billion from the International Monetary Fund (IMF) and other international institutions. The agreement made by them was based on Brazilian's Government commitment of promoting exports and adopting contraction measures, mainly in the public spending. After 1981, public finance started to be assessed through the operational result of the government. This deducted the monetary and foreign exchange debt adjustment from the Public Sector Funding Necessity<sup>29</sup>. Before that, the accounts of SOE were not included in public sector general accounts. So those changes meant a higher control over SOE spending. Furthermore, their nominal investment growth rate was limited by 66%, what helped the government to adjust its net indebtedness (which was growing because of the increasing weight of public debt's interests).

In addition, the Federal Constitution of 1988 stiffed federal spending because it increased tied revenues (92% was tied) although it excluded infrastructure sector. So, the new Constitution cut several funds that were designated to SOE. This decision was absolutely political and it meant a less interventionist orientation of the state in direct enterprises. The new law had a tremendous impact on GFCF.

As it can be seen in Chart 1, the GDP growth rates between 1980 and 1989 had a negative trend, as well as the manufacturing product and GFCF ones. Chart 2 shows that public and private investment evolved together, with a negative trend too. Public investment dropped mainly because of the reduction in GFCF of federal SOE. If earlier they were responsible for two thirds of the public investment, at the end of the decade their share became less important than public administration's. This situation was similar to the one when there were just a few SOE, at the beginning of the fifties. In parallel, poverty has grown during the low growth decade. In 1979, 45.1% of total Brazilian population was poor and, in 1990, this rate rose to 48.0%, such as it can be seen in Table A. The proportion between the income of the 10% richest and 10% poorest of the population increased dramatically from 47 to 78 times higher. The growth of average yearly GDP *per capita* was negative: -3.16%. Nevertheless, the appropriation of the GDP by wage earners grew from 38.4% to 53.5% and the rate of open unemployment improved from 6.5% to 4.6%.

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29 "The calculation of public sector funding necessity follows a methodology created by IMF for the fiscal accounting of its member-countries. This methodology focuses the accounting of the public deficit by the variation of government indebtedness –including all expenses of all spheres of public sector, e.g. central government (National Treasury, Central Bank and Social Security), government of national states and counties, and the state-owned enterprises" (Silva, 2006: 36).

Primary spending of public administration was below revenues until 1987, the opposite of what had happened between 1968 and 1979. From 1990 on, the tributary load exhibited a soft ascendant trend, caused by stabilization gains and a little better growth rate generated by *Plano Real* (1994). Besides that, primary spending raised to a peak in 1998, when it started to fall. This drop was possible due to a reduction in public GFCF and consumption. After the exchange rate crisis in 1999, the IMF forced the Brazilian macroeconomic regime to follow inflation targets and primary fiscal surplus. This was obtained mainly by the rise of revenues and<sup>30</sup>, secondly, by a squeeze in spending, facilitated by the Law of Fiscal Responsibility.

In the nineties the process of commercial<sup>31</sup> and financial<sup>32</sup> opening was started, in obedience to the Washington Consensus<sup>33</sup>. At that time, the National Plan of Denationalization (NPD) was launched along with a liberal external trade policy, with several tariff reforms (lower imports tariffs). This new external policy was one of the main reasons for the transformations in Brazilian's productive structure and external insertion<sup>34</sup>.

Before talking about the privatizations, is important to highlight that changes in the productive structure in Brazil and its international insertion –which are both related to the macroeconomic policy adopted– were directly connected to two important changes at the political-

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30 “The rise on revenues between 1999 and 2003 was like 1% of the GDP, while the tax burden rose 5% in the same period”. (Silva, 2006: 49).

31 The openness did not improve Brazilian position in international trade. The industrial dynamics depended on the domestic market, but production became less diversified and more dependent of capital goods and raw material imports. Exports of durable and capital goods increased a little bit due to intra-industrial specialization and to the larger market in South America. It is worth to phrase that capital goods exports were mainly of goods on series, which are less intensive on technology than the customized ones.

32 Main dimensions of financial openness in Brazil were the larger convertibility of capital accounts and the denationalization of banks. The regulatory mark has been adapted to international trends like securities and capital flow flexibility. This has significantly impacted domestic capital attraction. Profit remittances in the nineties were at the same high levels of the eighties, in spite of the lower economic growth.

33 In 1989 the Washington Consensus shared a list of measures to peripheral countries reach sustainable economic development, in which the general recommendation was fiscal discipline, financial liberalization and less State intervention.

34 Carneiro (2002) calls the specialization promoted by the openness as “regressive specialization” because it occasioned a decrease in the intra-sectorial relations of the industry and less national density in technologic-intensive sectors. On the other hand, the labour intensive industry had to compete with Asian products both in internal and external markets.

economy framework. First, internationally, the neoliberal State ideology has gained strength in the North, which was leading the globalization of capitals and goods. The rising flow of capitals has magnified the power of financial institutions both internationally and locally. Consequently, in Brazil there was a political movement that strengthened the power of financial and rentier classes in the State.

The NPD promoted more than 160 privatizations during the nineties<sup>35</sup>. Chart 4 shows the great drop of federal SOE investments in all economic activities, to levels above 1% of the GDP. The manufacturing industry was the activity that received more investments and this is because Petrobras (the Brazilian Oil Company), the only big SOE that remained public, is included there. The energy sector had an investment peak in 1998, and then it stagnated in 0.2% of GDP. Part of the transports sector went through concessions processes and the level of federal investment was low. Nevertheless the telecommunication was the activity with the highest investments between 1990 and 1997, especially before its privatization in 1997. Mining was totally sold until 1997<sup>36</sup>. From 2003 to 2006, during the years of first mandate of President Luis Inácio Lula da Silva, the privatization was interrupted. In the nineties the investment of SOE decreased, but after 2003 it started to increase again. Yet, the general guidelines of the macroeconomic regime of the previous government were maintained, including the low public investment, mainly in infrastructure.

The capital for privatization proceeded mainly from the expansion of foreign direct investment (FDI), which increased after 1994<sup>37</sup>. It was designated especially for mergers and acquisitions, and not for new productive investments. However, this FDI flow was not very significant compared to the period between 1976 and 1985<sup>38</sup>.

As regards to the decrease in GFCF, the economic performance of the Brazilian economy was very inexpressive between 1990 and 2006

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35 The complete list of privatization deals in the nineties is available in World Bank – Privatization Transaction Data for Brazil, 1988-2000, <[www.fdi.net](http://www.fdi.net)>.

36 In mining sector, the privatization of Companhia Vale do Rio Doce was the biggest operation. In oil and gas sector, Petrobras was not privatized and its investments did not increase significantly between 1998 and 2002. Until then, Petrobras was only harvesting the results of former investments, without enlarging productive capacity, what may be related to a intention of privatization in that time (Bielschowsky, 2002).

37 Bielschowsky (2002) says that 70% of FDI in the nineties were related to patrimonial changes, mainly due to privatization.

38 According to Bielschowsky (2002:31), between 1995 and 2000 Brazil had the best participation in FDI in 1998, when the country received 4.1% of the total. In current prices, this capital entrance was equal to 5.9% of GDP and 18.4% of GFCF. However, between 1976 and 1985, the average share of Brazil in the world's FDI was 5.3%, what was equal to 0.7% of the GDP and 3.3% of GFCF.

(average GDP growth and GDP *per capita* growth rates were 2.27% and 0.52% *per year*, respectively). Fortunately, this recent period meant rapid reduction of poverty (48.0% in 1990, 37.5% in 1999, 33.3% in 2006)<sup>39</sup>, what is related to the stabilization gains, the growth of minimum wage (especially after 2003) and to conditional cash transfers programmes such as *Bolsa Família*<sup>40</sup>. This compensated the adverse effects of the raise in both unemployment and informality<sup>41</sup>.

Chart 1 shows that GFCF obtained negative variation in some years of this period, and so did the manufacturing product and the GDP. The lower public investment was a result not only of the privatization, but also of the restrictive fiscal policies. The most important policies were the previously mentioned change in public operational accounts in 1981, the end of tied revenues for SOE after the Federal Constitution of 1988 and the pursuit of fiscal surplus after the second half of the nineties<sup>42</sup>.

Fiscal adjustment reports from IMF (IMF, 2004, 2005) accept that the reforms and the privatization in infrastructure sector in Latin America did not obtain the expected results. In other words, private investment could not overcome the public one<sup>43</sup>. But the IMF believes that the solution to raise the investment would be a flexible public budget and higher efficiency of public spending, whereas the fiscal

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39 Source: ECLAC. Poverty is considered here as the share of people living below indulgence line in total population.

40 *Bolsa Família* is a conditional cash transfers program instituted by law in 2004 for families that receive up to R\$ 140 (US\$80) *per person and per month*. The benefit depends on the condition of the family –extreme or not extreme poverty– on the number of 0-15 years old children and on the number of 15-17 years old children attending school. In 2009 the program was reaching more than 11 million families in the country and the expected budget for it is around 12 billion Reais.

41 Table A in the appendix shows that in 1980 and in 1990, there were 56% of the formal employed persons (in Brazil formality is measured by the activation or not of the labour ID). In 2000, the number of workers with active labour ID decreased to 43.7%. In 2006 it was almost 45%.

42 Afonso & Biasoto Jr. (2007: 102) affirm that the manner of measuring deficits in more than 80% of Latin American countries, and not only in Brazil, has assumed a wider profile than in other regions of the world. Only 15% of OECD (Organization for Economic Cooperation and Development) countries use a wide concept of non financial public sector in their fiscal statistics. Most of the nations measures public accounting considering only public administration.

43 “The share of public investment in GDP, and especially the share of infrastructure investment, has declined during the last three decades in a number of countries, particularly in Latin America. Since the private sector has not increased infrastructure investment as hoped for, significant infrastructure gaps have emerged in several countries. These gaps may adversely affect the growth potential of the affected countries and limit targeted improvements in social indicators”. (IMF, 2004: 3).

balance should be kept anyhow. The position defended here is that it would be very difficult to increase investment effectively and revamp the development process without changing the macroeconomic regime based on inflation targets, fiscal surplus and flexible exchange rate. And if this is so it is likely that poverty reduction will not be deeply and sustainably solved, remaining dependant of *Bolsa Família* and minimum wage readjustments.

On the other hand, President Lula's government has tried to counterbalance the restrictive issues for increasing the investment through the BNDES and Public-Private Partnerships. Results of these efforts were more considerable only after 2005.

Three more comments on the privatization are important. The first one refers to its theoretical objectives during the first half of the nineties. As Giambiagi (2004) claims, these objectives were the strategic reorientation of the State, to decrease public expenses, to revamp and to modernize the investment of ex SOE and to improve capital markets. But put into practice, the privatization was used to promote the fiscal adjustment and to finance the current account. Carneiro (2007) states that the privatization raised more than US\$ 100 billion during the nineties, almost 18% of Brazilian GDP at that time. Nonetheless this money was used to keep the monetary and exchange rate regime. Despite this fact, the relation debt/GDP kept increasing, mainly because of the high interest rates<sup>44</sup>. The second comment is that the solution of privatizing was aimless, not only because its premises were mistaken (and the results were unsatisfactory, without generating the rise of GFCF), but also because the devaluation in 1999 withdrew the urgency of the privatization. This means that the first comment is likely to be correct, and the privatization was used to keep exchange rate overvalued. The third comment is that this experience shows that short-term measures, without strategic planning, in general fail and exacerbate difficulties for a peripheral country to develop. The regulation of privatized markets in Brazil had a bad planning and resulted, for example, in the energy crisis in 2001, higher tariffs of infrastructure services and less investment than expected. Meanwhile, infrastructure bottlenecks are still there and block the private productive sector.

This section showed the contrast of economic growth between two periods, 1950-1979 and 1980-2006 in Brazil. It seems that the first hypothesis presented in the beginning of section 2 is in accordance to

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44 A fourth comment would be pertinent, which is about the distributive effects of privatizations. However, the research in this field is still incipient. Thus the distributive impact of reforms is broadly accounted in this text, i.e., taking in consideration overall effects of macroeconomic policies in income distribution during each period.

what happened in Brazil. One main explanation for the low growth in the second period was the reduction in public investment, which caused low growth of the private investment and low dynamism of the economy. Therefore, the rate of unemployment did not improve significantly. The second hypothesis –that growth may drive poverty reduction when there is enhancement of productivity and employment– may be true but did not happen in Brazil. As a matter of fact, such as Islam (2004) affirmed, between 1950 and 1979 employment cannot serve as an effective route out of poverty reduction. This is because it was treated apart from an overall development strategy, which should be focused in enhancing productivity and conducting structural change to towards a dynamic productive structure. And the low growth in second period led to the maintenance of income inequality. Poverty was wrestled only after 2004 through *Bolsa Família* and minimum wages' raises.

## CONCLUSIONS

In a theoretical point of view, the intention was to make clear that public investment has an essential role in the development considering that it has “crowding in” effects with private investment, given the macroeconomic policies and the external constraint. It is assumed that high rate of investment is important to generate employment and improve income distribution, together with poverty reduction. Complementarities between public and private investment happen through four main mechanisms. On the demand side, public investment induces private investment, by the Keynesian multiplier effect and by the physical expansion and integration of the domestic market, mainly through infrastructure means. On the supply side, public administration and purchasing policies of SOE are an autonomous demand that stimulates the usage of productive capacity or the extension of it in sectors that would not grow without this external demand. Besides that, the public investment services, mainly provided by infrastructure, reduce private costs of production, what may expand firms' productivity and supply.

Empirical analysis of the Brazilian public investments between 1950 and 1979 seems to confirm some of these theoretical effects. When there was expansion of public gross fixed capital formation, the product of manufacturing was directly and indirectly impacted, and so was the gross domestic product growth rate. It was shown that total GFCF, GDP and manufacturing GDP kept a narrow link; except in the late seventies, when the state had to practice an aggressive investment policy to sustain the demand (II PND). The formation of the capital intensive industry –though incomplete– has accelerated the dynamics of

the economy by means of productivity increase and its linkage effects. Nevertheless productivity gains were not always followed by both real wage and wage's participation in GDP increase. Thus, despite the raise in GDP *per capita* the economic development in the seventies did not reduce income inequality.

As it was shown, in Brazil between 1950 and 1979, political and juridical decisions facilitated public investment because they legally authorized mechanisms that linked SOE' income to taxes of the State. That's why there was a big expansion of SOE. In parallel, most of the time the macroeconomic regime operated policies in favour of the growth of domestic GFCF, such as selective exchange rate, expansionist fiscal policy, and a monetary policy with low interest rates and high rates of credit allowance. In addition, there was a peculiarity of the developmentalist State: direct intervention in the manufacturing sector, not only in traditional sectors as infrastructure. Thus, public policies were crucial to start overcoming the typical difficulties of underdeveloped economies: the technological delay. But it's important to remark that this kind of State actuation was shaped in a convenient way for the national and international interest groups in the power<sup>45</sup>.

The new power configuration after 1980 (domestic and international), as discussed before, adopted economic policies that caused the drop of public investments, which is one of the reasons for the decrease in growth rates between 1980 and 2006. During the eighties in Brazil, the great change of the growth standard was parallel to the deep transformation of the role of the State. The macroeconomic regime was based on liberal prescriptions and it progressively eliminated some State intervention mechanisms in the economy. From 1990 to 2006 the commercial and financial opening process, together with reforms and privatization, triggered a huge drop in SOE investments in terms of GDP share. But the private investment did not replace the public investments, so the GFCF had low growth rates, and the competitiveness and the dynamism of national productive sector were jeopardized.

Therefore, fewer investments and the lower growth rates verified until 2006 could be reverted by political interventions applied to expand public investments. This would complement and intensify the positive effects of poverty reduction direct policies. However these policies have to be in "harmony" with an appropriate macroeconomic regime pro growth, such as it was explained in section one. Thus, like Islam (2004) and Medeiros (2008) affirmed, GDP growth and income

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45 For a good discussion, please see Chibber (2004).

distribution occur simultaneously only when a set of elements happens, which are linked to the structure of the labour market and the dynamism of employment. Public investment may trigger the dynamics effects that enable these elements to happen, but it was not verified in the Brazilian case both in 1950-1979 and 1980-2006. It is worth remembering that, at different times, the model of State actuation depended on the influential interest groups. Public policies, besides their strategic role for the development, also have a key distributive role that can be more or less fair in terms of income distribution according to the degree of struggle between social classes.

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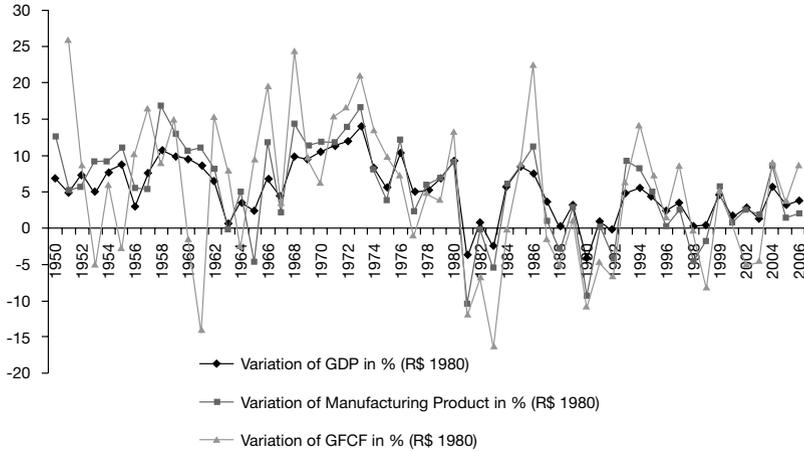
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**APPENDIX**

**Chart 1**

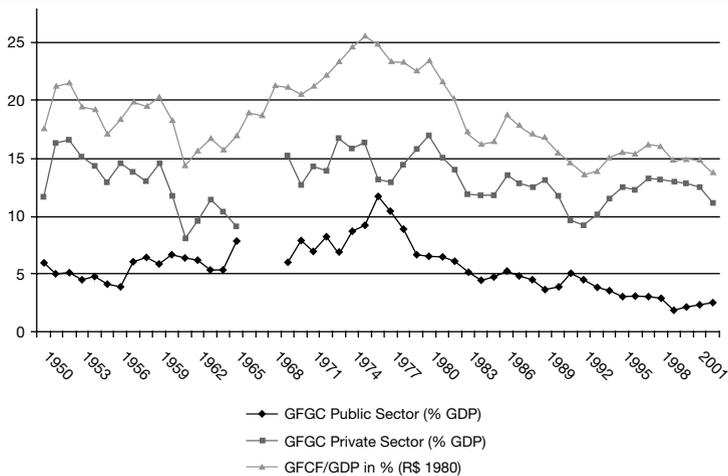
Annual Real Variation of Gross Domestic Product, Manufacturing Output (value added) and Gross Fixed Capital Formation in Brazil (1950-2006). In percentage, R\$ 1980



Source: Elaborated by the author based on IBGE and IPEA.

**Chart 2**

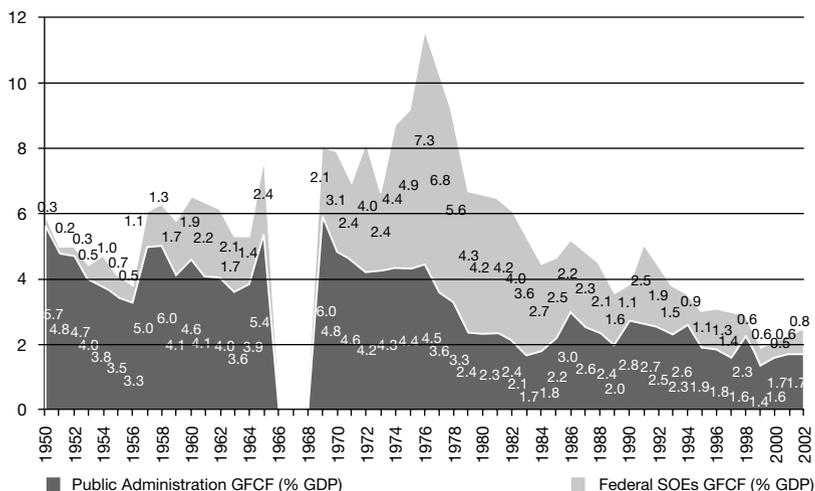
Share of Gross Fixed Capital Formation –Total: Public Sector and Private Sector– in the GDP of Brazil (1950-2002). In percentage of GDP, R\$ 1980



Source: Elaborated by the author based on IBGE and IPEA. Public sector does not include SOE of states and cities, Data for 1966-1969 and 2003-2006 were not available.

**Chart 3**

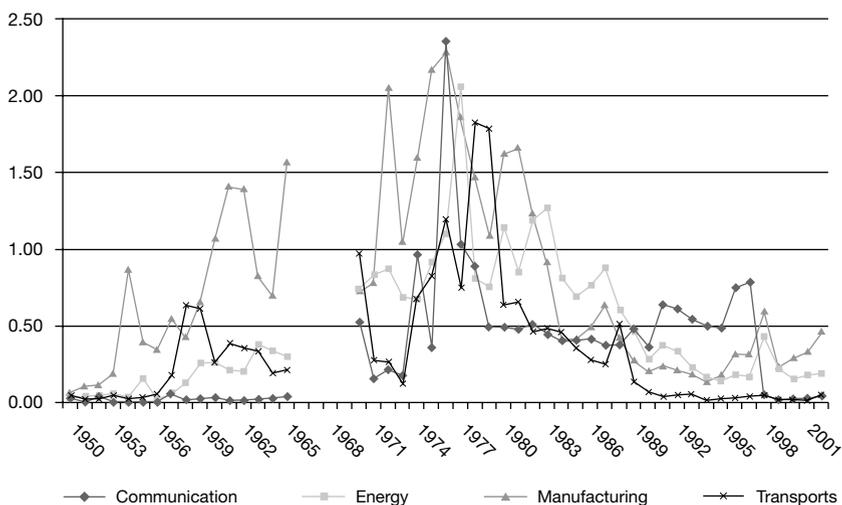
Composition of Gross Fixed Capital Formation of Public Sector between Public Administration and Federal State Owned Enterprises in Brazil (1950-2006). In percentage of GDP, R\$ 1980



Source: Elaborated by the author based on IBGE and IPEA. Data for 1966-1969 and 2003-2006 were not available.

**Chart 4**

Shares of Economic Activities in Gross Fixed Capital Formation of Federal State Owned Enterprises in Brazil (1950-2002). In percentage of GDP, R\$ 1980



Source: Elaborated by the author based on IBGE. Data for 1966-1969 and 2003-2006 were not available.

**Table A**  
Income distribution and employment indicators for Brazil (1950-2006)

Year	Poverty (%) <sup>a</sup>	Gini Coef. <sup>b</sup>	Labours income / GDP (%) <sup>c</sup>	Income 10% richest/ 10% poorest <sup>d</sup>	Industrial Employment (% EAP) <sup>e</sup>			Open Un-employment (%) <sup>f</sup>	Formal employment (%) <sup>g</sup>
					Total	Extractive	Manufacturing		
1950	N/A	N/A	N/A	N/A	22.9	5.01	17.96	N/A	N/A
1960	N/A	0.497	N/A	34	17.9	0.45	17.46	N/A	N/A
1970	N/A	0.565	40.7	40	15.2	0.4	14.9	N/A	N/A
1980	45.1	0.592	38.4	47	15.6	0.3	15.3	6.5	56.7
1990	48.0	0.616	53.5	78	8.8	0.2	8.6	4.7	56.9
2000	37.5	0.592	45.2	66	8.4	0.1	8.2	7.8	43.6
2006	33.3	0.560	48.3	50	9.6	0.2	9.4	9.8	44.9

Source: a) ECLAC, data for 1980 is actually of 1979 and data for 2000 is of 1999, ECLAC percentage of poverty is the share of people living below indigency line in total population; b) IPEA, data for 2000 is of 1999; c) Elaborated by the author based on IBGE (GDP factor price); d) IPEA for data 1960/1990 and IETS 2000/2006; e) Elaborated by the author based on IBGE and IPEA, data for 1950 is of 1953 and for 1960 is of 1959, and do not include rural sector; f) IPEA; g) Elaborated by the author based on IPEA. Not available (N/A).



**ALICIA PUYANA MUTIS\***

## **1.3. ECONOMIC GROWTH, EMPLOYMENT AND POVERTY REDUCTION**

### **A COMPARATIVE ANALYSIS OF CHILE AND MEXICO WITH REFERENCES TO ARGENTINA, BRAZIL AND COLOMBIA**

#### **ABSTRACT**

The paper studies the relation between economic growth and poverty reduction Argentina, Brazil, Chile, Colombia and México. A major emphasis is put on the experiences of Chile and Mexico. The period studied is 1980-2006, starting from the structural reforms and adjustment programmes put in motion after the debt crisis of 1982. It is to be expected that after 15 years the new model has consolidated and the effects of liberalizing the economies, in terms of productivity, employment, incomes and poverty reduction, will be apparent. Nevertheless, even during the rather short lived periods of economic expansion, neither poverty no income concentration were reduced. The main cause of it is to be found on the evolution of labour elasticity of GDP, the path of labour productivity and the capital intensity of GDP. Labour has not moved from low productivity tradable sectors to high productivity tradable activities but rather it has moved to informal services and construction. In the new model, the pattern of growth has reduced the labour elasticity of GDP. Today higher rates of growth are needed to generate the same amount of labour as before 1980. In-

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come distribution policies are required to reduced concentration both of capital and income in order to speed up growth.

### **INTRODUCTION**

After almost three decades since the eruption of the debt crisis in 1982 and the beginning of adjustment and structural reforms, it is widely accepted that economic growth performance of the majority, if not all, Latin American countries has been disappointing. Furthermore, even when growth of the gross domestic product did take place, formal employment was not created, salaries and income lagged behind, poverty and the concentration of income intensified.

Today, when the first decade of the XXI Century is ending, it is generally acknowledged that Latin American economic growth was lower than during 1950-1980. What is more troubling is the evidence that region is once again under the duress of a deep economic turmoil and suffering colossal job losses and dramatic poverty increases. The evidence is now stronger than ever that, since the reforms, Latin America has not been able bridge the gap separating its economic and social development to that of developed economies and the announced convergence that the export model would deliver may not emerge. Even during the sporadic growth surges, the distance, both in *per capita* gross domestic product, GDP/C and labour productivity did widen.

The debt crisis that battered all Latin America in 1982 was the water-shed of the economic model the region had pursued since early forties. The crisis marked the end of the state lead industrialization strategy and the beginning of the growth model based on exports and external savings. The crisis was the opportunity that different groups waited for years to introduce the reforms to benefit their interest allowing changes in distribution pattern of the economic surplus. The reforms aimed at liberalizing the economies and liberalization meant the elimination of the market interventions of the state but leaving intact the private sector suppression of the market derived from the extreme concentration of capital, physical and human, production, land and commerce. The centrepiece of the new model is trade and capital account liberalization. All other reforms were designed to complement it: exchange and monetary policies; tax and fiscal expenditure policies and labour markets reforms (Bulmer-Thomas, 1999).

The macro-economic crisis of the eighties allowed the introduction of controversial trade reforms. The high costs of distribution were overshadowed by the crisis. The introduction of deep changes was feasible only when the crisis prevented all possible political and social resistance and made it possible to alter the distribution of income between labour and capital and within the capitalist sector (Alesina *et al.*, 2006). Since

the crisis, economic policies have been dictated by new criteria which changed the path of economic development. Efficiency, profitability and competitiveness overshadowed equity; capital accumulation replaced social welfare. Economic policy depart from the principle “[...] that issues of efficiency and equity cannot be neatly separated” (Stiglitz, 1991: 40). With informality, unemployment, income concentration increasing, perpetuating poverty, along side with environmental depletion, governments and scholars can not ignore this fundamental element of political economy. Since efficiency and equity are the two faces of the same coin, how to achieve them both simultaneously should be at the core of the economic debate in democratic societies and, not as it has been up today, that the discussion is: “if the market economy attains the ideal of Pareto Efficiency” (Stiglitz, 1991: 40). Equity was demoted to marginal residual measures, out of the realm of economic policies, and designed only to lessen the ravage that the preference on efficiency and capital accumulation inflicted to equity.

The reforms were introduced, with different intensity and speed, in almost all Latin American countries. Chile and Argentina reformed in the seventies, under military dictatorships; Mexico in early eighties as response to the debt crisis; Colombia and Brazil, and others, at the end of the eighties. All reduced tariffs, eliminated non-tariff trade barriers and abridged the economic role of the state by selling public enterprises except the state companies producing copper, in Chile, and oil and electricity in Mexico, Colombia, Ecuador, Brazil and Venezuela. They deregulated transport, telecommunications, banks and financial institutions, and reduced government investment. All governments privatized social security and reformed health care and education. So far, the Mexican government has not succeeded in passing legislation reforming the labour market, which all other countries did. Nonetheless, a *de facto* reform has transformed Mexican labour relations. Liberalization also included opening up the country to foreign capital. The movement of goods, services and capital is, therefore, practically free. Welfare improvement appeared as an implicit objective of the adjustment and trade liberalization policies, although poverty and inequality reduction were not the concern of the reforms. The motto of the new economic policy was “stabilize, privatize, liberalize” (Commission on Growth and Development 2008: 10). The objective was to increase growth. The trickle-down effect was to deliver poverty and inequality reduction.

This paper<sup>1</sup> analyzes the evolution of the economies of Argentina, Brazil, Chile, Colombia and Mexico, and explores how the new

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1 The paper expands the findings of the study the author carried out for FLACSO and the International Labour Organization. See: Puyana (2008a).

model has changed the linkages between economic growth and poverty reduction. The nexus linking both terms is employment generation, which Islam labelled *the missing link*, because “[...] a rigorous analysis of the role of employment in the linkage between economic growth and poverty reduction appears to be missing” (Islam, 2004: 12). Rather mild economic expansion took place, accompanied by the reduction of job elasticity of GDP and increasing capital intensity, with the result of permanent job losses in the formal sector and the expansion of informality and/or unemployment. We will examine that process. In doing so, we define poverty in terms of income that is not sufficient to satisfy basic food requirements (extreme poverty) or basic needs: food, housing, health, education etc (relative poverty). By inequality we consider the concentration of income defined by the Gini coefficient of income and eventually. We fully recognize other definitions coming from sociology, anthropology or economy. Nevertheless, for the purposes of this work, we consider appropriate these definitions.

The remaining of the paper is organized as follows. Section II presents some conceptual elements on the growth and poverty nexus while Section III illustrates some of the long term economic path supporting the analysis of the link between growth and poverty. In Section IV there is a summary of the pattern of the relations of the relevant economic variables through which the impact of economic expansion affects employment and poverty. Section V the main conclusions.

### **THE GROWTH-POVERTY NEXUS. CONCEPTUAL FRAMEWORK**

The ultimate goal of economic policies is improving living conditions for the entire population so as to reduce income concentration and granting basic needs and decent levels of living for all. These objectives are to be obtained through more and better employment, and higher wages. In the dominant policy prescriptions, permanent GDP growth and increases in productivity are a necessity, support by lower inflation rates, fiscal discipline, balanced external accounts, and faster exports. In our recollection, all these mentioned elements, important as they are, are just means, tools to economic and social development and should not become the only indicators of the success of the economies policies even less can they be considered as the ultimate objectives of economic policies. When any given country introduces reforms in its development model, or when it engages in negotiating trade agreements –multilateral or bilateral– or regional economic integration treaties, the aim is to overcome the obstacles to its social and economic development and advance towards the levels of welfare enjoyed by more developed economies.

It is a generally accepted fact that in order to reduce poverty, growth is a necessary condition, but it is not sufficient. This depends on the characteristics of the model of growth and its capacity to integrate into the productive system the labour reserves that, over the centuries, have accumulated in the majority of the developing countries. For growth to benefit the poor population, it is necessary to generate enough employment to absorb increases in the labour force and simultaneously raise total labour productivity. The income of the poor should grow at a faster rate of total GDP and of the higher income groups. This requires an increase in capital endowment, both physical and human, *per* worker, and the transfer of labour from the least productive to the most productive activities, especially out of informality. If these conditions emerge, the virtuous circle outlined by Islam might reap up: Growth widens productive capacity, which generates new jobs, additional productivity grows and salaries rise (Islam, 2004).

Nevertheless, as real life shows, the relation between growth and poverty reduction is neither automatic nor a necessary outcome. Indeed, "Poverty has reduced where there has been growth" (Kanbur, 2009: 5). The evidence from the last twenty years suggests that countries that registered high rates of growth during relative large periods have reduced poverty at the cost of increased inequality. The hard fact is that there are not examples of countries that achieved high economic expansion without increases in inequality<sup>2</sup>. Kanbur (2009), suggests that the intensification of inequality has been so intensive that has dissipated the poverty reduction effects, and has generated grand apprehension about the social, economic and political consequences of the negative distributional effects of growth. As we will mention below, the increases of income concentration eliminate the effects of growth on poverty and might hold back growth itself. The higher the inequality, the lower is the reduction of poverty emanating from economic growth (Gutierrez *et al.*, 2007; López, 2008; Perry *et al.*, 2006)

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2 It has been suggested that Korea is an example of growth with improvements in income distribution. We have not found conclusive evidence of it. On the contrary, in a long time perspective, Korea is a good example of the famous Kuznets inverted U income distribution trend. In fact, in 1950-53, with a Gini coefficient of income concentration of 34 percent "[...] Korea had near perfect income distribution equality". From that period up to 1985 Gini grew to 39%. The period from 1985 to 1993 shows a three percent reduction of the Gini, a trajectory put to an end by the 1997 crisis Kyungsoo Ch. (2003), "Measuring and explaining income inequality in Korea", consulted in: <<http://www.eadn.org/reports/iwebfiles/i05.pdf>>. After the 1997 crisis Gini worsened escalating well above the 1993 level. It is probable that the recession of 2009 would have similar effect, see: Kwang Soo Cheong 1999 "Economic Crisis and Income Inequality in Korea" (Manoa: University of Hawaii) Working Paper N° 99-6R.

On the other hand, if not definite answers have been found on the question if high income concentration reduces growth, it seems clear that inequality induces inefficient resource allocation, on the other hand it has been showed that gender, regional or ethnic discrimination, does indeed hinder growth.

Work is considered the essential link between growth and the reduction of poverty, among other things because labour is the main, if not the only, capital of the poor and their wages are their main income, besides remittances and gifts. Islam (2004) presents an updated and critical revision of the treatment given to the relation between growth and the reduction of poverty over the years. Polasky (2006) analyzes the effects of international commerce on growth and poverty in developing countries, and concludes that in all the feasible scenarios under the WTO strategy, the benefits for developing countries are slender, and the liberalization of trade in agriculture inflicts losses on developing countries, especially on the poorest ones. The liberalization of trade in manufactures generates some benefits for medium income countries, but perhaps not enough to compensate for the losses. Perry *et al.* (2006) reverse the causal direction and suggest that mass poverty slows down growth and reproduces poverty and income concentration. Goñi *et al.* (2008) suggest that, in the short term, both the employment intensity of growth and the productivity intensity of growth are equally important for poverty alleviation, and agriculture should grow intensively and faster than GDP to reduce overall poverty. In our calculations, according to economic development of Latin American countries, agriculture should represent at least twice as much of GDP as in 2007. Therefore, when designing policies, policy makers should consider the sector structure of growth and employment and stimulate faster growth of agriculture and manufactures. For Loayza *et al.* (2006), sectorial composition of growth matters for poverty alleviation and the greatest effects arise when the fastest growing sectors are those with the highest labour intensity, especially agriculture.

A different approach emphasizes the need to distribute income and wealth. For growth to benefit the poor population, that is, to reduce poverty and inequality, it should not only create job opportunities for the poor, but also distribute the effects of productivity growth fairly. The intense concentration of property and income in Latin America may have negative effects on growth and distribution, since they are accompanied by concentration of political power and the capacity to influence the design of policies partial to the reproduction of capital, such as exchange rates, monetary, credit and,

of course, fiscal policies (Brisdale, 1999; Stewart, 1992). Because inequality retards growth, it explains the lack of progress of Latin American countries in reducing income concentration and poverty (López *et al.*, 2008).

It is debatable that the growth of each country GDP and the growth of the global economy is the necessary condition to meet the Millennium Development Goals (Woodward, 2006). To overcome the one dollar threshold of those living with less than 1 dollar a day, will require adding to global GDP 166 dollars. Latin American countries would have to growth between 8 and 20% a year for a very long period (pp.15-17). Environmental constraints will impose limits to the growth centred poverty reduction strategy and the global crisis which erupted in 2008, proved another face of its fragility. Redistribution may be a more efficient way. Indeed, to distribute “[...] just 1% of the income of the richest 20% of the world’s population to the poorest 20% would benefit the latter as much as distributional equal growth of around 20%” (Woodward, 2006: 17). The NEF studies signals a contradiction of the “pro-poor growth” policy: If it is not clear that concentration of income affects growth, why is it that distributive policies will hamper growth?

As we will illustrate, the trajectory of employment in the countries under analysis has been disappointing: open urban unemployment and informal employment have risen, and the real medium and minimum wages have decline. These results can be linked to the liberalization of trade and the reforms of the labour legislation. Imported value added has replaced domestic value added.

## **A LONG TERM VIEW OF LATIN AMERICAN ECONOMIC GROWTH**

As we presented elsewhere (Puyana, 2008a), all our sample countries, but Chile, registered, during 1945-1982, their fastest growth rates in a century long period, 1900-2007. In effect, the import substitution period (1945-1982), is the most dynamic and convergence towards the USA GDP level took place. Chile achieved the lowest highest economic expansion in its history, while Mexico and Brazil Argentina showed a rate almost 50% above of the expansion one reached during 1900-45, and 1982-2006. Form 1982 onwards, Latin America lost positions in the global economy. Table 1 presents the weight of our sample countries in the global GDP measured in constant 2000 dollars at purchasing power parity. Chile and Colombia are the most successful countries since their share of world GPD increased between 1980 and 2005. The contrast with the evolution of China and India is staggering.

**Table 1**  
Share of global GDP, in percentages (1980-2008)

	1980	1985	1990	1995	2000	2005	2008
Argentina	1.10	0.86	0.72	0.86	0.81	0.76	0.79
Brazil	3.58	3.31	3.07	3.21	2.97	2.86	2.81
Chile	0.25	0.21	0.25	0.34	0.35	0.36	0.35
China	2.01	2.92	3.58	5.72	7.25	9.62	10.86
Colombia	0.47	0.46	0.49	0.55	0.48	0.48	0.48
India	2.20	2.50	2.83	3.26	3.68	4.22	4.60
Mexico	2.46	2.37	2.17	2.10	2.30	2.12	2.08

*Source:* Our elaboration based on IMF, World Economic Outlook Database, October 2008.

To explain these differences in economic growth and the impact on job generation and poverty we will analyze some of the most relevant economic variables, according to the mainstream theories and policies. First, we consider the liberalization of the economy, the productivity increases and the changes in the structure of employment and GDP. Later, we will present the results of two models of GDP and employment growth and finally evolution of the main labour market features.

### **OPENING THE ECONOMIES TO EXTERNAL COMPETITION**

Chile and Mexico present the deepest trade liberalization with an external coefficient that in 2006 reached 76 and 65% of GDP respectively. All other countries have opened their economies relatively less, but quite remarkable nevertheless, especially Argentina, who's coefficient jumped from 11.5% of GDP in 1980 to 44% in 2006. Brazil has the lowest coefficient that is similar to the USA. Trade balance as percentage of GDP is illustrated in the right side panel of Table 2. Mexico is the only country with systematic deficit (except in 1995 due to the crisis and devaluation). Colombia and Chile registered surplus trade balanced. Both are the countries with the highest share of commodities and resource based manufactures in their external supply.

There is no theoretical support to define clearly the optimal degree of openness, but we can reasonably conclude that the countries under study have substantially advanced in openness, continuously submitting the production of tradable goods to greater external competition. Therefore, there should be evidence of the supposed dynamic effects of commerce on the growth of GDP, of productivity and productive capacity, through increase in the endowment of physical as well as

human capital, and the advancement of employment, added value and salaries in the tradable sectors and those of all the labour force.

**Table 2**  
External coefficient and trade balance as percentage of GDP (1970-2006)

	External coefficient of GDP%						Trade Balance as % of GDP					
	1970	1980	1990	1995	2000	2006	1970	1980	1990	1995	2000	2006
<b>Argentina</b>	10,3	11,5	15,0	19,7	2,24	43,9	0,87	-1,42	5,73	-0,43	-0,63	5,57
<b>Brazil</b>	14,5	20,4	15,2	16,0	2,17	26,4	-0,42	-2,25	1,24	-1,76	-1,51	4,38
<b>Chile</b>	28,6	49,8	64,5	56,4	6,13	76,3	-1,51	0,63	5,74	-6,43	2,10	0,11
<b>Colom.</b>	30,1	31,8	35,4	35,5	4,09	47,3	0,59	-4,16	3,44	2,20	1,86	8,27
<b>Mexico</b>	17,4	23,7	38,3	58,1	6,39	65,1	-1,90	-2,27	-1,10	2,66	-1,99	-1,60
<b>U.S.A.</b>	11,3	20,8	20,5	23,4	2,63	26,0	-0,55	-1,57	2,28	-0,41	-0,83	2,85
<b>L.A.C.</b>	20,0	27,7	31,5	37,2	4,18	49,0	0,38	-04,7	-1,35	-1,24	-3,89	-3,87

Source: Own elaboration based on WB, WDI, CDR 2008.

All countries show changes in the structure of exports, from exporting raw materials, to having today a diverse structure, with manufactures of varied degree of technological sophistication. In 2006, manufactures represented 85.6% and 67% of Mexican and Brazilian export sales, while in Argentina and Chile around 56% and 50% Colombia (Puyana, 2008a). Mexican exports of manufactures are mainly *maquila* products with very little national value added and low labour content and quite intensive in imports with minor return value and limited multiplying effects. South American Countries specialize more than Mexico in exporting primary products and resource based, low technology manufactures. The advance of manufactures in total exports is not reflected in the structure of GDP and/or employment.

Some interesting facts emerge when comparing the structure of GDP and employment of the sample countries since 1970. First, it is the declining contribution of transable sectors, that is, agriculture, mining and manufacturing, Table 3. The reduction of manufactures and agriculture as source of GDP is premature and does not correspond to the level of development of our countries. It is one effect of the long periods of overvaluation of the national currencies, frequent external shocks and volatile flows of foreign resources. This phenomenon, known as “Dutch Disease Symptom” is evident from Table 3, which allows comparing the structure of GDP and the *per capita* GDP of the USA and the Latin American countries. At the level of development or Latin American countries, the share of GDP of agriculture and manufactures should be around 13 and 26% respectively.

It is highly surprising that the sectors in which Latin American countries do have comparative advantage and are export oriented activities (mining and agriculture in Chile, Agriculture in Brazil and Argentina, and labour intensive manufactures in Mexico) have a very low participation in GDP. All countries have lost participation in world production in these sectors in which they have comparative advantage. Similar path is evident in the structure of employment (Puyana, 2008a).

**Table 3**  
Structure of GDP by sectors, in percentages (1960-2006)

		1970	1980	1990	2000	2006
Argentina	Agricul.	9,6	6,4	8,1	5,0	8,4
	Manufac.	31,5	29,5	26,8	17,5	22,3
	GDP/Cap.*	6617,0	7550,8	5592,5	7702,9	8692,6
Brazil	Agricul.	12,3	11,0	8,1	5,6	5,1
	Manufac.	25,9	21,5	19,6	19,5	13,5
	GDP/Cap.*	2001,3	3557,5	3373,5	3700,5	4043,9
Chile	Agricul.	6,9	7,3	8,7	6,1	4,1
	Manufac.	25,9	21,5	19,6	19,5	13,5
	GDP/Cap.*	2219,7	2520,1	3092,8	4916,7	5896,3
Colombia	Agricul.	25,7	19,9	16,7	12,9	12,0
	Manufac.	21,2	23,9	20,6	15,8	16,7
	GDP/Cap.*	1194,9	1621,2	1874,5	2009,9	2316,6
Mexico	Agricul.	12,7	9,0	7,8	4,2	3,9
	Manufac.	23,2	22,3	20,8	20,3	18,0
	GDP/Cap.*	3576,4	5114,2	4966,3	5935,0	6386,7
USA	Agricul.	3,5	2,9	2,1	1,2	1,2
	Manufac.	ND	22,0	19,4	17,0	14,4
	GDP/Cap.*	18150,0	22567,9	28262,6	34600,3	37791,4

GDP/Cap\* In constant 2000 dollars.

Source: Own elaboration based on WB, WDI, CDR 2008.

The pattern of change of the structure of total employment by sectors confirms the decline of tradable sectors. During 1980-2006, employment in agriculture and livestock in Mexico fell from almost 30% in 1980 to 17% in 2006, in mining the reduction was from 1.3 to 0.4% and employment in manufacturing shrank from 13% at the end of the seventies, to 11% by the end of the period. In 2006, the services sector concentrated 57% of all employment while construction accounted

for 11.8%. In Chile, we see a similar trend and structure, with a lower participation of agriculture and a larger one in the remaining sectors. Argentina has the lowest employment in agriculture and the highest in services. Brazil and Colombia still have over 22% of total employment concentrated in agriculture. All have expanded the occupation in services well over 55%, as evident from Table 4.

**Table 4**  
Structure of Employment by Productive Sectors, in percentages (1960-2006)

Período	CHILE					MEXICO				
	Agric.	Mining	Manuf.	Const.	Serv.	Agric.	Mining	Manuf.	Const.	Serv.
1960-1970	24,8	3,2	17,3	7,9	46,8	47,4	1,3	15,0	3,9	32,3
1970-1980	17,8	3,1	15,8	6,1	57,2	33,1	1,2	13,8	6,5	45,3
1980-1990	17,6	2,1	14,5	5,4	60,3	27,2	1,1	11,8	8,9	50,9
1990-2000	16,0	1,8	16,0	7,6	58,6	22,9	0,5	12,1	10,2	54,2
2000-2006	131	1,3	14,0	7,8	63,8	20,0	0,4	11,9	12,1	55,5
2004	19,2	0,5	11,1	12,4	56,9	13,0	1,3	14,1	7,8	63,8
2005	12,6	1,3	13,3	8,0	64,8	17,5	0,45	10,2	15,2	56,6
2006	12,5	1,4	13,3	8,4	64,4	16,8	0,4	10,1	15,6	57,1
Argent*	1,1	ND	14	9,8	75,1					
Brazil*	20,4	0,3	13	7,3	59					
Col*	23,2	0,6	13,1	5,1	58					

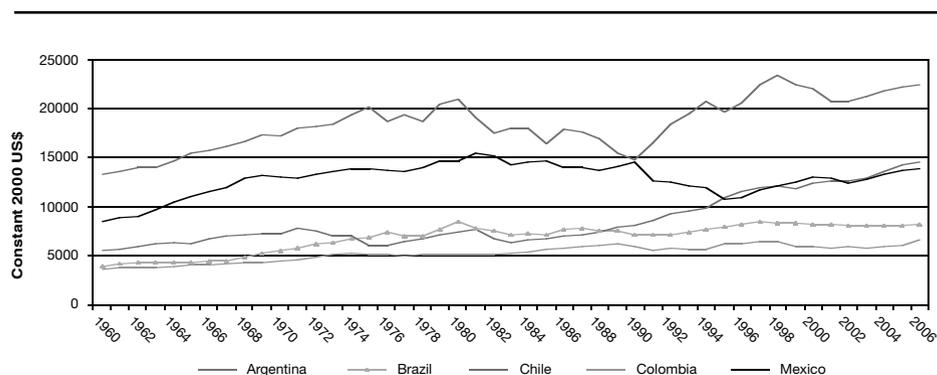
\* Data for 2006

Source: Own calculations based on the data bases of CEPAL, ILO.

To summarize, the trajectory of the structure of GDP and employment did not follow the path expected from the theory. Expansion of the high productivity tradable activities did not materialize and tradable sectors declined, while construction and services expanded. The services sector has segments of high productivity, such as the banking system, by now fully privatized and controlled by foreign banks. Important foreign investments went to internal retail business, but there is a very large segment of low productivity and low income services, which absorbs the bulk of precarious employment. No one of our countries is important exporters of services as India, China and some Caribbean countries are.

The evolution of productivity *per worker* countries confirms the diverging path of the economies: In all countries, productivity expanded quite intensively during 1960-1980. The pace slowed after 1982 and did not recover. Nevertheless, Chilean productivity out passed Brazilian and Mexican ones. Mexico registered the lowest productivity growth for the entire period and during 1980-2006.

**Graph 1**  
Value Added per Worker (1960-2006)  
Constant 2000 dollars per worker



Growth%	Argentina	Brazil	Chile	Colombia	Mexico
1960-1980	2,35	4,03	2,40	1,70	2,48
1980-2006	0,53	0,34	2,21	1,07	-0,10
1960-2006	1,27	1,72	2,02	1,38	0,96

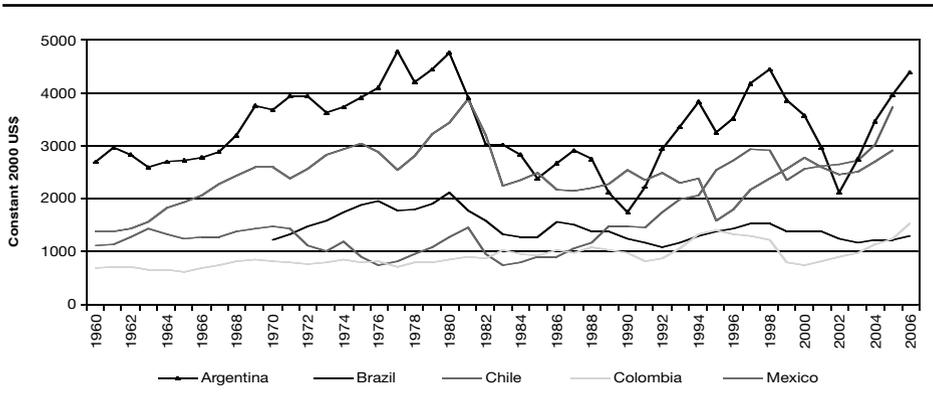
Source: Own elaboration based on WB, WDI, CDR 2008.

In all countries and main sectors (agriculture, manufactures, mining and construction) productivity gains emerged because of the drastic cutback in employment as a share of total employment. This is evident when comparing the shares of each sector in tables 3 and 4. Employment in agriculture and in manufactures, as percentage of total employment, decreased at highest speed than the share in GDP. In these conditions, labour has moved from agriculture, to services and construction, sectors with low productivity, in relative terms. The reduction of the share of employment in agriculture has been even more acute than in manufactures, and that is true for Argentina, and Mexico. Brazil and Colombia and Mexico have retained more employment in agriculture, but productivity remains relatively low.

The gains in total economic productivity coming from the transference of labour out of rural activities have been rather low. Countries could have increased production of the transable sectors with high comparative advantage to supply foreign markets and, so doing, could simultaneously increase productivity and product volume and create more jobs. That was the aim of the liberalization of foreign trade re-

forms and of the changes in the labour market. One of the reasons for the feeble growth of productivity of all countries, except Chile, is the evolution of the gross capital formation *per worker*; during 1970 and 2006. In Argentina, Brazil and Mexico we registered a reduction in this variable from the record level of 1979, 1980 and 1981, respectively (Graph 2). Only in Chile and Colombia GKF *per worker* in 2006 was the highest of the entire period. Low investments explain, at least partially, the frail expansion of productivity and the accumulation of working force in the informal sector. The new flows of FDI concentrate in services and natural resources, with a rather low participation of agriculture and manufactures.

**Graph 2**  
Gross Capital Formation Evolution per Worker (1970-2007)  
In constant 2000 dollars



Source: Own elaboration based on WB, WDI, CDR 2008.

Gross fixed capital formation (GFKF) in percentages of GDP, is well below the standard norm for developing countries suggested, by Isham *et al.* (1999). For countries at the level of development in our sample, GFKF should represent at least 24% of GDP, with public investments covering no less than 50% of that, in order to maintain robust growth, increase productivity and competitiveness and exports so that production and employment can be expanded. The fact that investments, as percentage of GDP, have remained almost constant suggests that returns to capital have increased as percentage of GDP and increases in profits have not been saved nor converted in investments. Thus, in productivity growth, Latin American countries are lagging behind China, India or the USA. From 1980 to 2008, China's GDP *per worker* expanded at the impressive annual

average rate of growth of 6.4%, while Brazilian and Mexican productivities stagnated (Conference, Total Economy Database, 2009).

### **LABOUR MARKETS AND POVERTY**

In this section, we will show the evolution of labour markets as indicated by the Gross Activity Rate (GAR), the urban open unemployment rate and the expansion of the informal sector, which allows us to estimate the relation between GDP growth and employment generation, calculating the GDP elasticity of employment. In the following section we present the trajectory of real minimum and average wages.

In all countries, GAR has expanded quite substantially. The increments coincided with crisis, as real wages decrease and unemployment rises, more persons look for work, further depressing wages. It is evident in Mexico (1995) and Chile, the GAR increased from the eighties to the mid nineties when the economies fell into crisis, as well as during that period in the nineties when the economies started to grow. Mexico presents a unique case in which GAR is substantially larger and unemployment lower, due to low income and lack of unemployment insurance, Table 5.

The Mexican economic crises deteriorated the labour market to such a degree, that it is nowadays questioned whether the employment indicators are diagnosing the health of the economy. This is inferred from the low rate of urban unemployment during the crises of 1983, 1995 and 2004, when unemployment only reached 7, 6 and 5%. This can only be explained by the high rate of informal and precarious employment. The Mexican labour market adjusts itself to the shocks and crises through deep salary reduction and in the remaining countries through unemployment and a less stern reduction of salaries. These diverging adjustment routes may signal the disposition of the Mexican labour sector, organized into powerful unions, to reach agreements with the government and the employees, to reduce minimum and medium wages, as has been done in periods of crisis (Lustig, 1992; Thorp, 1998; López, 2000). In all other countries, unemployment explodes above 15% during recessions. In Argentina, Chile, Brazil and Colombia the labour reform and the liberalization of the labour market were intensive, aiming at lowering the protection given to labour (Edwards *et al.*, 2000). Salary indexation to inflation was eliminated, laws for laying off workers were liberalized and contributions to social security were reduced. In addition, the rules for enterprise bankruptcy and for opening new economic units were relaxed and the banking system was deregulated. All these measures did reduce the labour costs but failed in reducing the impact of crisis on employment as indicated by the severe increases in unemployment during the ongoing crisis.

**Table 5**  
Gross Activity Rate (GAR) and Urban Open Unemployment (1980-2007)

Año	Gross Activity Rate GAR*					Urban Unemployment Rate**				
	Arg.	Brazil	Chile	Col.	Mex.	Arg.	Brazil	Chile	Col.	Mex.
1980	51,2	61,6	50,3	52,3	55,9	2,6	6,3	11,7	10	4,5
1985	54,3	63,2	52,2	57,3	57,3	6,1	5,3	17,2	13,9	4,4
1990	57,6	64,6	54,2	63	58,4	7,4	4,3	9,2	10,5	2,7
1995	59	69,1	55,6	65,5	60	17,5	4,6	7,4	8,8	6,2
2000	61,1	68,2	54,6	68,6	60,7	15,1	7,1	9,7	17,3	3,4
2001	62,1	67,9	54,5	69,2	60	17,4	6,2	9,9	18,2	3,6
2002	63,3	68,4	54,1	69,8	60,1	19,7	11,7	9,8	17,6	3,9
2003	63,7	69	54,4	70,1	59,6	17,3	12,3	9,5	16,6	4,6
2004	63,8	68	53,6	70,6	59,7	13,6	11,5	10	15,3	5,3
2005	64,4	67,9	53,2	71	59,4	11,6	9,8	9,2	13,9	4,7
2006	64,9	67,9	52,9	71,3	59,2	10,2	10	7,7	12,9	4,6
2007	64,9	67,6	53,1	72	59,3	8,5	9,3	7,1	11,4	4,8

Source: Own elaboration based on ECLAC: Bases Estadísticas. Consulted in: <<http://websie.eclac.cl/sisgen/ConsultaIntegrada.asp?idAplicacion=1&idTema=5&idioma=e>>.

No labour reforms have been legislated in Mexico due to political resistance in congress and the strength of public sector unions. Nevertheless, there is a *de facto* reform, since the main increase in employment is in work without an indefinite contract, on call, and with no social security benefits.

One of the most stressing changes in labour market is the sustained increase in informal work. In all five countries informality, which covers all sectors and especially new entrants, even with college degrees, shows permanent increases. By 2005, informality among workers with higher education increased in Mexico by 12%, in Argentina by 20%, while in Chile it was 64%, according to SEDLAC (2009) estimates, despite the liberal reforms to the labour market and in social security policies (Edwards *et al.*, 2002). The reforms did not succeed in reducing the tendency to avoid paying social security contributions, which was its main objective; they only contributed to increase the returns to capital. Informal work in Mexico is almost three times higher than in Chile, therefore, the role played by the informal sector in labour markets of each country should be different. In the Mexican case it is more appropriate to consider some of the effects of the surplus labour economy upon salaries, productivity and, domestic demand and fiscal accounts, among others.

The above mentioned changes in the structure of the labour market are reflected in the trajectory followed by employment earning, both real minimum and average. The standard argument is that with advances in education and changes in the economic model, there should be a substantial increase in labour productivity and a sustained rise in wages. These effects are supposed to be brought about by other changes: As the economy opens up to international competition it moves towards the production of goods with comparative advantage and therefore to more labour intensive ways of production demanding more labour, the relatively plentiful factor. As the process advances, the share of wages in national income increases, along with a corresponding reduction in the share of profits. That is, liberalization will increase the elasticity factor in developing countries, “[...] this will ensure that globalization will improve the elasticity factor as well as growth”, Osmani (2003: 22).

For several reasons, however, in Latin America the effects of trade liberalization do not necessarily follow this pattern (Stallings, 2000: 261; Fitzgerald, 1994). All countries, with differences in time and intensity, show the effects of the ‘lost decade’ on real minimum wages and real average salaries and a relative recovery of the minimum wages starting in the early two thousands.

**Table 6**  
Index of Real Minimum Wages and Medium Real Salaries (1980-2005)  
2000=100

	MINIMUM REAL WAGES					AVERAGE MEDIUM REAL SALARIES				
	Arg.	Brazil	Chile	Col.	Mexico	Arg.	Brazil	Chile	Col.	Mexico
1980	132	135	66	93	312	121,3	90,9	67,9	64,9	114,1
1985	153	126	50	102	224	16,6	95,7	63,5	75,0	86,6
1990	78	74	58	100	145	93,3	99,6	71,2	76,3	88,9
1995	99	87	75	96	113	94,2	95,4	88,0	86,4	100,9
2000	100	100	100	100	100	100,0	100,0	100,0	100,0	100,0
2006	193	145	116	108	99	84,2	84,9	1046	102,4	110,0
GROWTH RATES										
1980-85	6,3	-1,1	-4,5	1,8	-6,2	1,9	1,3	-1,1	3,0	-4,8
1985-90	-15,1	-7,5	1,6	-0,8	-7,1	-5,7	1,6	1,3	-0,1	0,7
1190-95	3,7	-1,5	6,1	-1,2	-5,6	0,9	-2,2	3,9	1,9	3,0
1995-2000	-07	3,4	5,4	0,7	-5,0	0,8	1,5	2,8	3,0	-2,1
2000-06	10,8	5,3	3,9	1,5	-0,5	-4,6	-5,5	2,0	2,1	5,3
1980-06	3,6	0,7	2,5	0,6	-4,2	-1,2	0,0	2,1	2,1	0,1

Source: Own elaboration based on ECLAC: Bases Estadísticas. Consulted in:  
<<http://websie.eclac.cl/sisgen/ConsultaIntegrada.asp?idAplicacion=1&idTema=5&idioma=e>>.

Mexico suffered a dramatic fall in the minimum wage, since the index fell from 312 in 1980 to 99 in 2006, and it is the only country in Latin America where minimum wages in 2006 were lower than in 1980 and in 2000. Real average and minimum wages decreased in Argentina and Brazil during 1980-2006. In Mexico, average wages registered the largest increase of all countries, with a 10% growth from 2000 to 2006. The second segment of Table 6 shows the rates of growth of both wages. Mexico shows a clear tendency to a dramatic deterioration of minimum wages and the fastest expansion of average salaries. Just the opposite trajectory registered in all other countries, which preserved the value of minimum wages and a relative decline in average wages. We could suggest that in Mexico wage policy was less attentive to the needs of the poor population than specially Argentina, Chile, Colombia and Brazil.

Poverty increased after the reforms up to the mid nineties. The speed and intensity of poverty, and the changes in poverty varies from country to country. Table 7 presents the evolution of poverty in Chile and Mexico, during 1970-2006.

**Table 7**  
Chile and Mexico: Persons living in conditions of poverty and extreme poverty, percent of total population (1970-2006)

CHILE							MEXICO						
Año	Poverty			Extreme poverty			Año	Poverty			Extreme poverty		
	Total	Urban	Rural	Total	Urban	Rural		Total	Urban	Rural	Total	Urban	Rural
1970	17	12	25	6	3	11	1970	34	20	49	12	6	18
1987	38	37	45	14	13	16	1977	32	ND	ND	10	ND	ND
1990	38,6	38,5	38,8	13	12,5	15,6	1984	24	28	45	11	7	20
1994	27,6	27	31,1	7,6	7,1	9,9	1989	47,7	42,1	56,7	18,7	13,1	27,9
1996	23,2	22	30,4	5,7	5,1	9,4	1996	52,9	46,1	62,8	22	14,3	33
1998	21,7	20,7	27,5	5,6	5,1	8,6	2000	41,1	32,3	54,7	15,2	6,6	28,5
2000	20,2	19,7	23,7	5,6	5,1	8,4	2002	39,4	32,2	51,2	12,6	6,9	21,9
2003	18,7	18,5	20	4,7	4,4	6,2	2005	35,5	28,5	47,5	11,7	5,8	21,7
2006	13,7	13,9	12,3	3,2	3,2	3,5	2006	31,7	26,8	40,1	8,7	4,4	16,1

Source: Puyana (2008 a).

Both countries reduced poverty and indigence, Chile up to 1970 and Mexico from 1970 to 1984. This path reversed because of the crises suffered by Chile (in 1973 and 1982) and Mexico (1982, 1986 and 1995). In the eighties and part of the nineties, slower growth implied lower

employment rates, decreased real salaries and lower public social expenditure. In Chile, the reduction of poverty started when the democratic government initiated income distributive fiscal reforms. Chile returned to the low level of poverty existing in 1970 only between 2003 and 2006 and Mexico did so in 2006. In Argentina, poverty incidence in 2006 was considerable (23% of total population) higher than in 1970 (9% of population), reflecting the severe impact of the crisis the country suffered in the late seventies, early eighties and late nineties, which was perhaps the most severe. Colombia is the only country with a very high poverty incidence in 1970 (54% of total population) and has not reduced it even during growth spells. In all countries, the major effort has been in reducing rural poverty and rural indigence. An important reduction in poverty and indigence did take place during the period 1990-2006, but just to recover the ground lost after the reforms. The most remarkable is Brazil that during 1990-2007 reduced the incidence of rural poverty from over 70 to 45% and rural indigence from 46 to 18%. A similar path, although less intensive was registered by Colombia, Chile and México (Puyana, 2008b). The 2008 crisis has erased almost all gains and poverty is rising again.

### **LINKING ECONOMIC GROWTH AND EMPLOYMENT**

The employment elasticity of GDP is one way to visualize the strength and direction the link between GDP growth and poverty. With greater elasticity, the capacity of the economy to generate employment increases and the possibilities of reducing poverty improve. Labour elasticity of GDP measures the changes in employment level, not changes in the rate of occupation, an important problem in developing countries. For growth to reduce poverty, labour demand must reduce hidden unemployment, underemployment and informality. If these conditions are met, there would not be any changes in the employment rate but the labour force would move towards better-paid activities. Such a strategy requires employment growth to surpass that of the economy and to sustain long-term growth and income improvements, productivity has also to increase. Since GDP growth depends on the expansion of productivity and employment, both elements have to register simultaneous increases.

The GDP elasticity of employment detects the periods where GDP growth integrates higher or lower increases in labour. However, employment elasticity of GDP is the reverse of productivity. Elasticity which is larger than unity indicates decreasing productivity and, inversely, elasticity which is lower than the unit implies that productivity is growing, (Islam, 2004). The promotion of intensive labour growth should not be the only purpose of a poverty reduction policy,

since that would imply the fall of productivity and diminishing income (Islam, 2004). A growth strategy should attempt, in the first place, to diversify production to include a wider range of production with differing elasticities, and secondly, to increase labour intensity and productivity. Total labour elasticity depends on the elasticities of the different economic activities and their total weight in GDP and employment. A strategy that combines productivity increases and production expansion in activities of greater elasticity and higher labour intensity is feasible. (Islam, 2004: 5; Khan, 2005) This strategy may lead to a type of growth with increased total elasticity, even if in some sectors it may decline (Ibid.). Any policy for raising productivity of the total economy should start by increasing it in the activities weighing more on employment and product, and shifting labour from less productive activities to those of higher productivity. (Ul Haque *et al.*, 1995; Osmani, 2003; Khan, 2005; Gutiérrez, 2008; Loayza *et al.*, 2006)

The shifts of labour to higher productivity activities leads us to consider the real capacity of poor workers and of those involved in low productivity and low income activities, to become part of the expanding higher productivity sectors. This refers to the widening of the volume and quality of labour, or the *integration factor*. “[...] the measure by which the poor are able to join the economic process in such a way as to take advantage of greater possibilities of improving the quality and quantity of employment, when there is growth and the employment potential expands” (Osmani, 2003: 11). This movement implies important structural changes in the economy. These changes could induce the expansion of production and employment in the activities with higher productivity and improvements in real average wages and income for the self-employed. Another way to perceive the effects of structural changes is whether the population involved in low productivity activities diminishes and their income increases, or both. This would lead to an improvement in the distribution of income and consumption and to a greater participation of labour in income.

As mentioned before, the rates of growth of GDP *per capita* have been lower than before the structural reforms and insufficient to reduced poverty in a considerable degree, mainly because of the pattern of job creation. In the following sections we will present some relations to illustrate the above arguments, based on elasticities. We do not pretend to demonstrate any exclusive cause-effect relation, but to demonstrate that the pattern of growth followed has reduced the GDP elasticity of labour and induced ever growing capital intensity, without important total productivity increases.

We show the different trajectories of GDP and employment growth in Table 8, lines 1 and 3. During the entire period (1980-2006), Argen-

tina and Brazil, registered the lowest economic growth, total and *per capita* and, in all countries, but Mexico, the economy expanded faster than employment. That was the trend prevailing during 1980-1990. In Argentina, employment registered the fastest rates of growth during 1980-1990 while the economy contracted. Table 8, line 4 shows the trend in unemployment and the contrasting pattern of Mexico. While, Argentina, Chile and Colombia registered double digit unemployment, in Mexico the record level was 4.9%. It is clear that the economies need very high rates of growth to expand employment and reduced unemployment.

In general terms, labour elasticity of GDP (line 13), for the whole period, was in Chile and Colombia well below the unity, and lower than in other countries. Only Mexico registered elasticity above the 1. That means that in all countries, except Mexico, productivity increases were instrumented at the cost of labour intensity. The sharpest decreases in labour intensity of GDP took place in Chile and Colombia, the countries with the lowest labour elasticity. That is evident when comparing lines 13 and 12, in Table 8. One explanation of reduction of labour elasticity accompanied by rather low productivity growth is that labour has not moved from low productivity to high productivity activities, despite clear improvements in education, (Puyana, 2008b). The inverse relation between increments in productivity and labour intensity is clear in all countries. We calculated simple correlation between the two variables. In the Chilean case a one percent increase in productivity generated a 0.50% fall in labour intensity<sup>3</sup>. This result is similar, although weaker, in all other countries. When regressing capital and labour intensity, the results suggest that, for instance for Argentina, a 1% increase in the capital intensity of GDP, generates a reduction of the labour intensity of 45%. Some facts are surprising and troublesome: first is that capital *per* worker registered a declining tendency from the record level of 1980, nevertheless, capital accumulation is the most important variable explaining GDP growth, and it induces the reduction in labour elasticity of GDP (Puyana, 2008b).

We estimate the partial elasticity of work with respect to wages and investments, to explore the role of the cost of labour and capital intensification in the decline of labour elasticity (lines 13 and 15, Table 8). In theory, wage elasticity may be negative, that is, when salaries fall, employment should rise and decline when remunerations rise (Khan, 2005). We found that for the entire period

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3 The obtained value of the  $R^2$  was systematically above 80%.

that expectation was not fulfilled, since wage elasticity is positive in all countries but Argentina. In Chile, Mexico and Brazil, even in periods of high average growth in wages employment grew. From the results we may suggest that average real wages were not the main cause for the expansion of unemployment and the reduction of job elasticity of the product, since during 1980-2006 real average wages increased at a lower rate than total GDP total and *per capita* GDP. The Chilean case is illustrative. The period of the fastest total and *per capita* Chilean GDP growth was 1990-95, during which, the GDP elasticity of work fell to 0.3, the lowest registered and minimum wages increased more than medium salaries, but less than *per capita* GDP. In that period, Chilean the increases in unemployment were the second lower registered since 1980. However, in Mexico, the strongest increase in average wages, well above the rise in GDP, took place in 2000-06 coinciding with very intensive growth of unemployment and almost stagnant employment. Partial labour elasticity of capital *per* worker (line 16, Table 8) can be expected to be either positive or negative, since capital would replace labour, but GDP increases resulting from capital accumulation would generate employment. In our case study, the obtained elasticities are positive. In Argentina GFCF was negative when the GDP descended. In Mexico, the expansion of investment was rather feeble, below GDP growth and the resulting elasticity is positive and high. GFCF in Mexico speed out after 1990. The negative sign of the elasticity results from declining investments rather than from drops in employment when investments grew. In Chile, only during 1980-85 did elasticity turn negative due to the fall in investments, coinciding with very low total and *per capita* GDP expansion. So, as before, we cannot conclude that capital accumulation is the main reason for the decline in the labour elasticity of the economies under scrutiny. In our growth model, the main variables explaining employment generation were GDP expansion. One percent change in GDP induces a 0.58% change in employment. The second most important variable is GFKF with a positive but less strong relation than GDP. In the case of Chile, other variables in direct direction but not highly significant are urban population, secondary education and the growth of the agricultural sector. It is interesting that the variables related with the external sector, such as the external coefficient of GDP, as well as the import or the export orientation coefficient are not significant in some cases, the relation is indirect.

In lines 16 and 17 we calculated the ratio of the rate of change in poverty to GDP, and employment. With stalled GDP growth (and at the same time with increasing employment), we expect that the

ratio of poverty rates of change to GDP growth should have a negative sign. That happened in Chile over the entire period but not in Mexico, where both output and poverty increased over 1980-85. We do not comment the Argentinean results since information is missing and irregular. In all countries, poverty declined after 1990 when the economy increased rapidly. A similar relation can be observed between poverty and employment. The value of the ratio is positive, in all countries (except Chile), suggesting that both variables change in the same direction. Only during 2000-06 we obtained, for Brazil, Colombia and Mexico, the expected negative value of the ratio, which means that employment expanded and poverty fell. In Chile we obtained as well a negative value, for the whole period and for all sub-periods.

The value of the relation is very high, implying high impact from employment to poverty. In our understanding, unemployment is the main reason for poverty increase in this period. Poverty and indigence are very sensitive to the reduction of growth, as indicated by the ratios calculated for the frequent crisis that affected Latin American economies.

As mentioned, there is not definite consensus about the relation between income concentration and growth. Nevertheless, in general terms, countries with high concentration of income and wealth need higher rates of GDP growth to reduced poverty and income concentration may induced less than optimal resource allocation and lower economic expansion. Latin America is the most unequal region and situation aggravated after the reforms. In lines 18 and 19, Table 8, we present the ratios of Gini to GDP growth and Gini employment. We expect a negative value of the first ratio, since fast economic growth will reduce income concentration throw employment generation and salary increases.

The same sign would be expected for the Gini employment ratio. In all countries (except Argentina), the Gini of income fall during 1980-2006 but at much lower pace than GDP expanded, for that reason the value of the ratio, although with the right negative sign, is very low. This result may confirm that the region needs very high rates of growth to reduced income concentration and eliminate the negative economic and social effects of inequality. The so small reduction of the Gini also suggests that the impact of social policies is not particularly strong. The ratio Gini employment (line 19, Table 8), follows the same trajectory of the GDP-Gini, therefore, no additional observations are needed.

We can conclude that the economic variables presented in Table 8 are not the main factors behind the decreases in poverty and income

concentration. Other forces are behind it. In the first place, we have to mention the impact of social policies, such as the programmes of conditioned and targeted cash transferences that all countries have put in motion since late eighties. In second place is the impact of remittances on income of poor households, which are especially important for Mexico and Colombia.

**Table 8**

The relation between GDP and productivity growth, employment, poverty and income concentration.  
Labour elasticity and capital intensity (1980-2006)

	Variable	Argentina						Brasil					
		80-06	80-85	85-90	90-95	95-00	00-06	80-06	80-85	86-90	91-95	96-00	01-06
1	A% GDP	2,12	-1,33	-1,54	5,18	1,74	2,77	2,52	2,52	3,07	1,78	2,41	3,12
2	A% GDP per capita	0,83	-2,81	-2,97	3,77	0,56	1,76	0,77	0,22	1,10	0,18	0,88	1,68
3	A% Employt	1,62	2,18	1,57	0,91	0,64	2,71	2,22	3,58	3,33	1,11	1,30	3,22
4	A% Unemployt	10,20	4,63	6,50	9,92	15,32	14,99	6,73	6,60	4,02	5,00	6,33	9,80
5	A% GFKF	3,33	-7,41	-5,35	9,99	0,10	7,87	1,11	-2,67	3,15	1,51	2,34	2,44
6	A% Real Averg Wages	-1,23	1,93	-5,71	0,93	0,83	-4,57	0,02	1,30	1,56	-2,19	1,49	-5,55
7	A% Real Minim Wages	7,90	6,31	-24,22	22,14	-0,46	12,14	0,72	-1,13	-7,51	-1,51	3,25	5,94
8	A% GINI	2,10	-	-	1,89	4,86	0,77	-0,03	1,69	1,27	-0,69	-0,08	-0,89
9	A% Poverty	39,94	-	-	145,75	57,82	9,02	2,67	-	34,01	16,53	-3,82	-0,29
10	A% Indigence	50,42	-	-	-	111,26	35,21	-7,92	-	-	-9,39	-15,42	-4,62
11	A% Capital per worker	1,50	-9,27	-6,80	9,11	-0,43	4,00	-1,03	-6,00	-0,08	0,40	1,07	-0,75
12	A% Labour Intens GDP	-0,17	3,85	3,49	-3,70	-0,87	0,007	-0,20	1,28	0,40	-0,54	-1,07	0,10
13	Labour Elastic GDP	0,76	-1,63	-1,02	0,18	0,37	0,98	0,88	1,42	1,08	0,62	0,54	1,03
14	Labour Elastic of RAW	-1,32	1,13	-0,27	0,98	0,77	-0,59	97,02	2,76	2,13	-0,50	0,87	-0,58
15	Labour Elastic Capital	0,49	-0,29	-0,29	0,09	6,50	0,34	2,00	-1,34	1,06	0,76	0,55	1,32
16	Ratio A% Poverty/A%GDP	18,80	-	-	28,11	33,15	3,25	1,06	-	11,08	9,29	-1,59	-0,09
17	Ratio A% Poverty/A% Employ	24,63	-	-	159,68	90,30	3,33	1,20	-	10,22	14,96	-2,95	-0,09
18	Ratio A% GINI/A%GDP	0,99	-	-	0,36	2,79	0,28	-0,01	0,67	0,41	-0,39	-0,03	-0,28
19	Ratio A%GINI/A% Employ	1,29	-	-	2,07	7,59	0,28	-0,01	0,47	0,38	-0,62	-0,06	-0,28

## STRATEGIES AGAINST POVERTY

**Table 8**

The relation between GDP and productivity growth, employment, poverty and income concentration. Labour elasticity and capital intensity (1980-2006)

		Chile						Colombia					
	Variable	80-06	80-85	85-90	90-95	95-00	00-06	80-06	80-85	86-90	91-95	96-00	01-06
1	A% GDP	5,1	2,3	6,8	7,9	5,3	4,2	3,3	2,6	4,6	4,5	1,7	3,8
2	A% GDP per capita	3,5	0,7	5,0	6,0	3,8	3,1	1,4	0,4	2,6	2,5	-0,1	2,2
3	A% Employt	2,9	2,4	4,9	2,4	1,7	3,6	2,3	0,9	3,2	4,4	0,7	2,3
4	A% Unemployt	10,6	15,9	12,9	7,9	7,7	9,4	12,6	11,1	11,8	9,5	14,1	16,0
5	A% GFKF	8,0	2,5	15,1	12,3	5,9	8,0	5,7	4,4	3,8	10,7	-7,5	12,7
6	A% Real Averg Wages	2,1	-1,1	1,3	3,9	2,8	2,0	2,1	3,0	-0,1	1,9	3,0	2,1
7	A% Real Minim Wages	2,5	-4,5	1,6	6,1	5,7	3,2	0,6	1,8	-0,8	-1,2	0,6	1,2
8	A% GINI	-0,4	-	-1,6	-0,7	0,1	-0,7	-0,4	-	-4,6	3,6	2,4	-0,9
9	A% Poverty	-11,91	-	-9,87	-16,52	-7,23	-11,06	10,36	-	-	32,59	6,90	-2,17
10	A% Indigence	-16,54	-	-	-37,17	-6,37	-13,46	0,43	-	-	15,44	2,46	-5,92
11	A% Capital per worker	5,07	0,29	9,79	9,71	4,12	4,36	3,39	3,35	0,67	6,14	-7,92	10,36
12	A% Labour Intens GDP	-1,92	0,58	-1,78	-4,97	-3,24	-0,59	-0,90	-1,58	-1,42	0,001	-0,78	-1,42
13	Labour Elastic GDP	0,57	1,05	0,72	0,31	0,33	0,85	0,70	0,37	0,68	1,00	0,44	0,60
14	Labour Elastic of RAW	1,40	-2,18	3,83	0,62	0,61	1,81	1,09	0,31	-28,94	2,31	0,24	1,08
15	Labour Elastic Capital	0,36	0,97	0,32	0,20	0,29	0,45	0,41	0,21	0,83	0,42	-0,10	0,18
16	Ratio A% Poverty/A%GDP	-2,34	-	-1,45	-2,10	-1,37	-2,61	3,14	-	-	7,31	4,15	-0,57
17	Ratio A% Poverty/A% Employ	-4,14	-	-2,03	-6,77	-4,17	-3,07	4,45	-	-	7,35	9,53	-0,95
18	Ratio A% GINI/A%GDP	-0,08	-	-0,24	-0,09	0,02	-0,17	-0,11	-	-1,00	0,81	1,44	-0,25
19	Ratio A%GINI/A% Employ	-0,13	-	-0,33	-0,30	0,06	-0,21	-0,15	-	-1,47	0,82	3,32	-0,42

		Chile					
	Variable	80-06	80-85	85-90	90-95	95-00	00-06
1	A% GDP	2,86	3,23	1,87	2,19	3,51	2,91
2	A% GDP per capita	1,13	0,93	-0,13	0,33	1,98	1,80
3	A% Employt	2,95	3,78	3,73	1,95	3,06	1,87
4	A% Unemployt	4,28	4,93	3,62	3,58	4,82	4,30
5	A% GFKF	3,71	0,48	3,43	1,97	6,30	4,36

		Chile					
	Variable	80-06	80-85	85-90	90-95	95-00	00-06
6	A% Real Averg Wages	0,13	-4,84	0,74	3,02	-2,12	5,26
7	A% Real Minim Wages	-4,19	-6,18	-7,12	-5,62	-4,07	-0,04
8	A% GINI	0,31	-	19,20	-7,40	0,62	-1,88
9	A% Poverty	1,11	-	22,91	3,39	1,18	-5,91
10	A% Indigence	-4,95	-	-	-1,76	2,44	-12,10
11	A% Capital per worker	0,63	-3,39	-0,31	-0,21	2,84	2,42
12	A% Labour Intens GDP	0,17	0,69	1,91	-0,15	-0,33	-0,98
13	Labour Elastic GDP	1,03	1,17	2,00	0,89	0,87	0,64
14	Labour Elastic of RAW	22,63	-0,78	5,07	0,65	-1,44	0,36
15	Labour Elastic Capital	0,79	7,90	1,09	0,99	0,49	0,43
16	Ratio A% Poverty/A%GDP	0,39	-	12,26	1,55	0,34	-2,03
17	Ratio A% Poverty/A% Employ	0,38	-	6,13	1,74	0,39	-3,16
18	Ratio A% GINI/A%GDP	0,11	-	10,28	-3,39	0,18	-0,65
19	Ratio A%GINI/A% Employ	0,10	-	5,14	-3,79	0,20	-1,01

Source: Own elaboration based on CEPAL and WB data bases.

Social policies, the provision of social services for all the population, are the result of the social contract and social priorities. Since 1990, public social expenditure *per head* has increased in all countries under scrutiny. In Chile, it has grown at an annual average rate of 39.2% and by 11.5% in Mexico, and at similar rates in Brazil, Argentina and Colombia. The main emphasis has been on education, which expanded several times more than on health. Despite the fact that the expenditure *per capita* differs quite substantially from country to country, see Table 9, (columns 1-3-7) the expenditure as percentage of GDP is rather similar. In Chile, the biggest effort in public social expenditure took place during 1990-2001 and decelerated thereafter. The increases in social expenditure as a percentage of GDP decelerated in all countries in different periods, suggesting that the economy grew faster than the resources dedicated to the accumulation in human capital. It is particularly so in Mexico during 1999-2001 and in Chile, in the period 2001-2005. Lower rates of economic growth and the resulting reduction in fiscal income may be the causes. Social expenditure follows the economic cycle and can be volatile and, in the GDP downturns, social expenditure may fall more intensely than the economy.

Generally, in all Latin America, fiscal policies are much less distributive than in Europe and other regions of the world. Market income is “[...] largely determined by market rewards to the private

assets and efforts of individuals, and by the underlying distribution of those private assets” (Goñi *et al.*: 7). Disposable income, after taxes and after transfers in kind and in cash, is almost the same as the market income. In Chile and Mexico, two countries with the most distributive fiscal policies (Goñi *et al.*: 7) the difference between the Gini coefficient of market and disposable income is about 1.5%, in sharp contrast with Europe where the difference is 12 % on average (Goñi *et al.*: 7-8). The reduction of the Gini during the period 2000-06 was 0.32% points for Chile and 1.22% in the case of Mexico. Despite that, given the low GDP elasticity of the Gini, we could assume that the main factor for the reductions in inequality were fiscal policies, mainly cash transfers. These transfers support consumption and have little effect on the concentration of assets. Some of the transfers were made to poor families on condition that their children regularly attend school and undergo periodic health check-ups. Programmes of this kind act as investments in human capital and their effects on income concentration and poverty will be measurable once the beneficiaries join the labour force.

Table 9

	Expenditure in Education			Public expenditure in Health			Total Social Expenditure		
	Per cap.	As % GDP		Per cap.	As % GDP		Per cap.	As % GDP	
	2001-06	90-01	2005-06	2001-06	1990-01	2005-06	2001-06	1990-01	2005-06
Argentina	406	3,5	4,8	362	4,3	4,5	768	7,8	9,3
Brazil	187	3,7	4,7	190	3,6	4,8	377	7,3	9,5
Chile	190	2,3	3,3	192	1,8	2,8	352	4,1	6,1
Colombia	84	2,6	3,7	50	1	2,2	134	3,6	5,9
Mexico	241	2,9	3,9	167	2,9	2,7	408	5,8	6,6

Source: Based on CEPAL, 2008 “Panorama Social de América Latina 2008”. In: <<http://www.eclac.org/cgiin/getProd.asp?xml=/publicaciones/xml/2/34732/P34732.xml&xsl=/dds/tpl/p9f.xsl&base=/dds/tpl/top-bottom.xsl>>. Accessed April 15, 2009.

Remittances from Mexican workers in the United States grew from to 2.5 billion dollars in 1993 to over 27 billions in 2008, reaching close to 2.83% of the GDP. In 2005, Chile only received remittances for three million dollars, which represented 0.003% of the GDP (WB, 2008: WDI, 2008). Remittances helped to reduce Mexican poverty and income concentration (Brambila, 2008). Average monthly remittances received by 1.4 million of households were US\$ 215, which represented 36% of their total monetary income CEPAL (2005: 99). It reduced extreme and moderate poverty by 1.6% and 1.3% respectively, and the Gini coefficient by 1.3% (p. 105). CEPAL, registered a similar effect, although less intensive was registered in Colombia.

## CONCLUSIONS

This paper analyses the economic trajectory the relations between economic growth and poverty reduction through the generation of employment. Growth in all the countries analyzed reduced tempo after reforming the economy and implementing the new economic model. Labour productivity developed at very low rate, so did salaries and employment. Tradable sectors retreated as source of GDP en employment; therefore, labour did not moved from low to higher productivity activities. In general, the rates of growth of the economy have been disappointing, well below the level required to create formal employment and reduce poverty. Minimum and medium real salaries/wages have considerably declined. Unemployment is low in Mexico and Brazil, thanks to the intensive expansion of informal labour.

Productivity is at the core of the differences in the patterns of economic growth between countries. Chile has managed to increase productivity and has outperformed all other countries, especially Mexico and Argentina. Paradoxically, Chilean, Argentinean and Brazilian geographical location is one of the country's comparative advantages while Mexican vicinity may be one disadvantage. In effect, the agriculture of these countries is complementary to the USA and other developed countries agriculture while Mexican agriculture competes with USA agricultural produce in the sense that it produces the same (corn, fruits, vegetables) at the same time and at different prices. With NAFTA, Mexican agriculture has declined.

The movements of labour among sectors, and between the principal divisions of the manufacturing sector, do not indicate that labour is migrating from low productivity activities to the higher productivity sectors. The movement has been from agriculture to construction, the sector with the second lowest productivity. The new entrants to the urban labour market are inflating the informal sector. All this indicates that poor workers do not have the qualifications/skills required to integrate into the growth process. Therefore, productivity gains from movements of factors of production are rather small and the impact on poverty limited. At a two-digit level of the manufacturing sector, labour has not moved to the high productivity branches, neither has it moved to activities linked to exports. Manufacturing has not attracted labour.

There is the urgent need to reverse the fall of agriculture and the stagnation of manufactures as sources of GDP and employment, since it is a structural imbalance affecting total economic productivity, rural and urban incomes and the volume and growth of domestic demand, and the degree of food security.

The employment elasticity of GDP has been falling since the eighties and with it the labour intensity of the economy. One factor behind

the reduction of unemployment has been the contraction in labour participation rates. The wage elasticity of employment has been negative and falling, since we registered positive employment growth and declining wages. Therefore, salaries are not the cause of the reduction in labour intensity of the two economies scrutinized.

The reduction in poverty and in inequality that took place in recent years is the result of different factors in each country. In Chile and Brazil, economic growth has furthered the reduction of poverty in two ways: first by improving salaries thanks to increased productivity and second, by providing the fiscal resources to finance targeted and conditioned poverty programmes. In Mexico, since growth has been rather feeble, the reduction of poverty has more to do with factors not directly related to the pattern of growth. These factors are, firstly, the remittances from Mexican workers in the USA. Second, there are the effects of the public programmes for poverty reduction; and last, but not least, the significant reduction in the rates of population growth. These elements are common to all five countries. The reduction in income concentration is directly related to poverty reduction. Whether the current model of social policies and fiscal expenditure aimed at reducing poverty and inequality are sustainable, has yet to be seen. In any case, the recommendation is to create the conditions for the creation of better jobs on a sustainable basis.

From the above summary we can suggest the lines of action to reduced the negative effects emerging from growth to poverty through employment: first of all to induce higher rates of growth of the value added of the more labour intensive sectors in which a faster productivity should be stimulated; secondly, to eliminate the constant tendency to the revaluation of the national currencies and the emerging discrimination against labour intensive sectors; secondly, to change the mandate given to the central banks to care only for stability sacrificing growth and employment, which has resulted in the revaluation of the currency mentioned above.

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## **SECOND PART**

### **POVERTY DIAGNOSIS FROM “THE SOUTH”**



ANDRÉS GARCÍA TRUJILLO\*

## 2.1. SOCIAL POLICY IN THE NEOLIBERAL ORDER

### CONDITIONAL CASH TRANSFER PROGRAMMES AS MECHANISMS OF POLITICAL LEGITIMACY IN LATIN AMERICA

#### ABSTRACT

This paper aims to contribute to the construction of an alternative understanding of Conditional Cash Transfers Programs (CCTP) in Latin America through the analysis of *Families in Action* (FA), implemented in Colombia since 2001. It is relevant to examine such programs not only in terms of their direct impacts but also in relation to the model of economic growth they are part of. The larger picture of the neoliberal economic and political project within which *Families in Action* takes place allows elucidating the limited scope of this intervention in terms of poverty reduction. In this light, *Families in Action* is only a palliative strategy that mitigates the effects the economic growth model generates (land concentration, unemployment, informality). CCTP, besides their mitigating effects, also produce important political effects that should be incorporated into the analyses of such interventions. *Families in Action* in particular has contributed to the ideological, institutional and social sustain of the current regime in Colombia and its neoliberal project, strengthening the presidential figure and modifying the State-citizenship relation, substituting the framework of rights and duties for one of personal favours and gratefulness.

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*Families in Action* is a social programme in Colombia that provides grants to poor families conditional on the fulfilment of certain goals related with education, health and nutrition. Beneficiary households receive a 'nutrition component' worth \$50,000 (around US\$25) *per* month for every children aged 0 to 6, only if the mother participates in growth and development check-ups for children, a vaccination programme and some "classes" on hygiene, diet and contraception. For the "education component", beneficiary households receive payments of \$15,000 (around US\$7.5) for each child enrolled at and regularly attending primary school and of \$30,000 (around US\$15) for each child in secondary school.

The rationality behind this Conditional Cash Transfers Programme is that the conditioning of monetary grants to educational or health requirements allows combining poverty alleviation in the short term with long term objectives related with the accumulation of human capital (Villatoro, 2005). The premise behind such intervention is that the intergenerational reproduction of poverty is related to the lack of investment in human capital and that the conditioning of cash transfers might generate incentives for this investment in poor households (CEPAL, 2000).

Currently, CCTP represent the avant-garde of multilateral organizations: these programmes condense and put into practice World Bank's and Inter-American Development Bank's most recent theoretical and policy precepts. According to these institutions, the expansion of CCTP in the region is the logical consequence of the conceptual and policy advances these programmes have incorporated and the positive impacts they have demonstrated. After the first two CCTP, *Beca Familia* (Brazil) and *Oportunidades* (Mexico), between 1995 and 2007, fourteen countries in the region have developed their own version. Today, there is a regional consensus around the fact that CCTP are the most efficient and effective poverty reduction strategies.

Usually, governments and multilateral organizations have promoted studies on CCTP that privilege either the analysis of institutional processes (programmes' design, implementation and follow-up) or impact evaluations (Cohen and Franco, 2006; Rawlings and Rubio, 2003; Villatoro, 2005, 2007). While these studies have allowed strengthening the technical aspect of social expenditure, they take for granted the social policy conception behind CCTP and do not link it with a larger context, for example, in terms of the macroeconomic models that countries in the region have adopted in the last decade and the relation these interventions have with the political regime.

The aim of this paper is to contribute to an alternative understanding of CCTP in Latin America, attempting to expand the lens through which they have generally been assessed. The analysis of *Familias en*

*Acción (Families in Action)*, the Colombian CCTP implemented since 2001, sheds a light on the way these interventions have contributed to legitimize the consolidation of the *neoliberal order*<sup>1</sup> in the region. It is relevant to conceive *Families in Action* not only as a social programme with explicit objectives related to human capital formation and poverty eradication, but also as a political instrument of the current Colombian regime. The positive impact results of *Families in Action* in nutrition, health and education are important for the country's social development; however, when the programme is framed within the larger economic growth model in which it is inscribed, these impacts seem more like ways of mitigating the consequences of the economic policies than ways of overcoming the causes of poverty. *Families in Action* only procures to counterbalance the anti-poor economic model prevalent in Colombia, characterized by high levels of assets (income, land) concentration, unemployment and informality.

Besides the impacts strictly related with its objectives, *Families in Action* may have as well political effects that strengthen the political regime, which can be analyzed in their ideological, institutional and social dimension. The high popularity the presidential figure was able to maintain 8 years in power, was greatly due to *Families in Action*, which generated significant political capital to the Executive power.

This paper is organized in three sections. In the first one, the growing importance of *Families in Action* in the Colombian government's social policy is described to then move on into a discussion on how this social programme articulates itself to the economic growth model. Then, in the second section, the political effects of *Families in Action* are examined, evidencing how this intervention has operationalised in practice the legitimation of the current Colombian political regime. Finally, in the third section, some brief conclusions are put forward, outlining some of the central questions formulated by the Seminar.

## **FAMILIES IN ACTION AND THE COLOMBIAN ANTI-POOR GROWTH MODEL**

The explicit objectives of *Families in Action* (FA) are to “protect and promote human capital formation of children between 0 and 17 years old members of poor households, through the support of households' investments” (Department of National Planning, DNP, 2000). In the

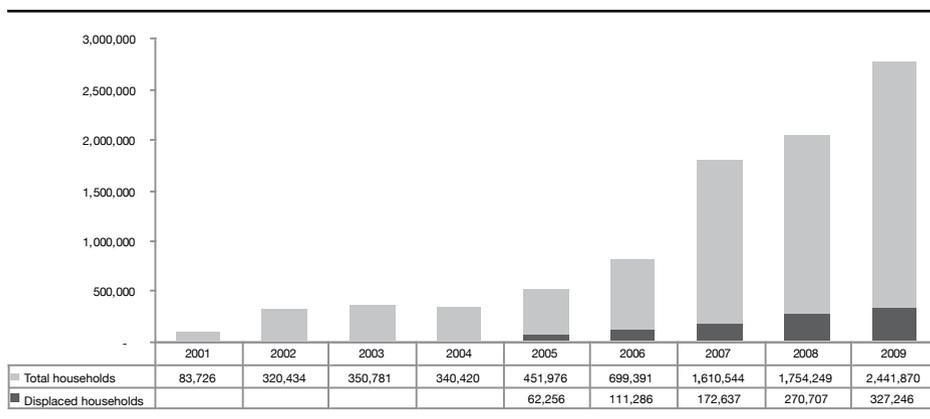
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1 In this new phase of capitalism, capital has become into a juridical-economic order. Some have called it the “political constitution of the market” or the “neoliberal order”, in the strict sense of law (Estrada, 2006). In this order, the normative contents of “global law”, related with economic deregulation and fiscal discipline, have been incorporated into the national legal orders.

process of fulfilling these objectives, the programme has, undoubtedly, become one of the main referents of Alvaro Uribe government’s social policy. While it initiated in 2000 with Andrés Pastrana’s government (1998-2002), in the frame of the *Social Support Network* (RAS, for its initials in Spanish)<sup>2</sup>, it has been under Uribe’s administrations (2002-2006, 2006-2010) that the programmes’ development and massive expansion has taken place, as it is shown in Figure 1.

Originally targeted only towards poor households of rural areas (DNP, 2000)<sup>3</sup>, since 2007 the programme jumped onto urban areas and larger towns, reaching a widespread coverage. Thus, between 2002 and 2009, the programme increased its beneficiaries from 320,434 to 2,441,870 families, including urban and rural families from poor sectors and, more recently, internally displaced families. Considering population estimates of 2005 Census, the current coverage of the programme represents 23% of total Colombian households (10,570,899) and 50% of total poor households (4,866,187), evidently significant numbers.

**Figure 1**  
Families in Action Beneficiary Households (2001-2009)



Source: Sistema de Gestión y Seguimiento a las Metas de Gobierno (SIGOB), 2009.

2 An emergency strategy put in place to confront the severe social and economic crisis that Colombia experienced during the late nineties.

3 Colombia has a system of identification of households eligible for social programmes (called SISBEN) that classifies households in categories according to their living conditions (roof and walls’ materials, access to public services, sanitation, overcrowding, education of the household head, etc.). In the first phase of FA, the targeted population were households belonging to SISBEN 1 (the lowest level) living in municipalities with a high rural population percentage (DNP, 2000).

This coverage expansion has meant as well an increase in the programme's resources needed to provide the monetary transfers to each household every two months. With data available until 2005, it is possible to see how the programme's budget has been increasing over time, from representing 0,02% of GDP in 2002 to 0,1,% in 2005 (see Table 1), percentage that has increasingly grown in the last four years.

The expansion was, in great part, sustained by the results of the early impact evaluation carried out in 2003, which demonstrated that the programme had positive effects on the health and nutritional levels of children under 5 years old and on the school attendance of children between 12 and 17 years old in rural households (DAPR/FIP/DNP, 2006). This evaluation also led the government to elevate FA into a fundamental component of the social agenda of the *National Development Plan 2006-2010*, (DNP, 2006), as it constituted the core of the Poverty Reduction Strategy, representing 57% (US\$58,000 million) of the total 4 year national budget, equal to \$228,185 billion Colombian pesos (US\$102,000 million) (DNP, 2006: 617). Since then, Uribe's government has established a solid normative, financial and institutional framework in order to implement FA, spearhead of the new social policy conception that the Colombian State adopted in 2005, based on the World Bank's *Social Risk Management* framework (Holzmann and Jorgensen, 2000).

**Table 1**  
Budget of Families in Action as a Percentage of Colombian GDP (2001-2005)  
(In current millions of Colombian Pesos)

Year	GDP	FA	Budget of FA as % of GDP
2001	188,558,786	32,905	0,02
2002	203,451,414	106,799	0,05
2003	228,516,603	281,295	0,12
2004	254,405,241	200,212	0,08
2005	283,847,595	245,272	0,09

Source: Núñez and Cuesta (2006) based on Department of National Statistics (DANE) and DNP.

An important step in this process was the creation in 2005 of *Acción Social*, a centralized presidential agency that was given the task of administering resources coming from various national (*i.e.* Social Solidarity Network) and international sources and implementing social programmes at the national level, including FA. In four years, *Acción*

*Social* has grown to become a highly-budgeted<sup>4</sup>, widely known institution that is associated by the population with the president. Moreover, financially, in 2007 Uribe's government guaranteed further funding for FA from the multilateral institutions (US\$1.812 million), for its 2007-2010 expansion phase (Arias, 2007: 3) and, in early March 2008, president Uribe demanded to his staff to double the 2010 target of beneficiaries, from 1.5 million families to 3 million families.

Considering the increasing importance FA has acquired in Uribe's social policy, especially since its second administration in 2006, it is indeed useful to ask how it relates to the rest of Uribe's policies and its overall economic model. According to the Colombian government (DNP, 2007), FA is a central element of the Social Protection System that has been designed. On one hand it protects poor households' consumption levels during times of crises, keeping poor households from falling way under the poverty line. On the other hand, through its nutritional and educational conditionalities, FA assures that human capital is created amongst poor children so as they can overcome poverty in the long-term.

Following Bhagwati (in Sarmiento *et al.*, 2005: 4), assessing the effects a programme like FA has in poverty reduction is only one side of the coin. Poverty reduction must complement *direct social policies* (health, education, dwellings, nutritional supplements, subsidies to consumption) that allow improving the quality of life of the poorest sectors of society, with *indirect channels*, which refer to policies geared towards promoting economic growth that improves poor households' living conditions. If the benefits of economic growth concentrate in "not poor population", then the rate of return of growth is negative for the poor. Moreover, if the rate of return of the poor is not positive enough in a particular growth model, then the potential population to be beneficiary of the direct channels would increase. There must be coherence between both direct and indirect policies or, to put it in another way, between social and macroeconomic policies, in order to have an impact on poverty reduction. A direct policy without adequate indirect policies turns out to be an assistentialist mechanism without real impact on the structural conditions that determine poverty. Hence, the need to frame FA within the larger context, in order to determine to what degree is it really affecting poverty determinants.

Sarmiento *et al.* (2005), through the *Poverty Equivalent Growth Rate* (PEGR)<sup>5</sup>, analyzed the extent to which economic growth in

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4 In 2009 Acción Social budget represented 8.04% of the total national budget available that is distributed amongst all State sectors. Defense sector represents 8.16% of the total budget (SIGOB, 2009).

5 Measure proposed by Kakwani, Khandker and Son (2004) to establish the relationship between the magnitude of growth and the way its benefits are distri-

Colombia in the 1996-2004 period benefited the poor (pro-poor growth). Their conclusion was that, in average, economic growth in this period did not favour the poor (anti-poor growth) and, contrary to what is commonly thought, added that while growth does not always benefit poverty reduction (through the mythical trickle-down mechanism) it can actually deepen it sometimes (*immiserizing growth*). “Growth can either reduce or generate poverty, depending on what happens with *inequality* during the growth process” (Sarmiento *et al.*, 2005: 6-7; emphasis added). In this way, in order for economic growth to have a real effect on poverty reduction, it must be accompanied by *redistributive policies*; hence, an increase in *per capita* GDP is not sufficient in poverty reduction, the same way subsidies such as FA are not enough. What is needed, above all, are “strategies oriented towards improving access to assets such as land, capital, credit and education and policies directed, for example, towards making more equal the tributary system” (Sarmiento *et al.*, 2005: 19)

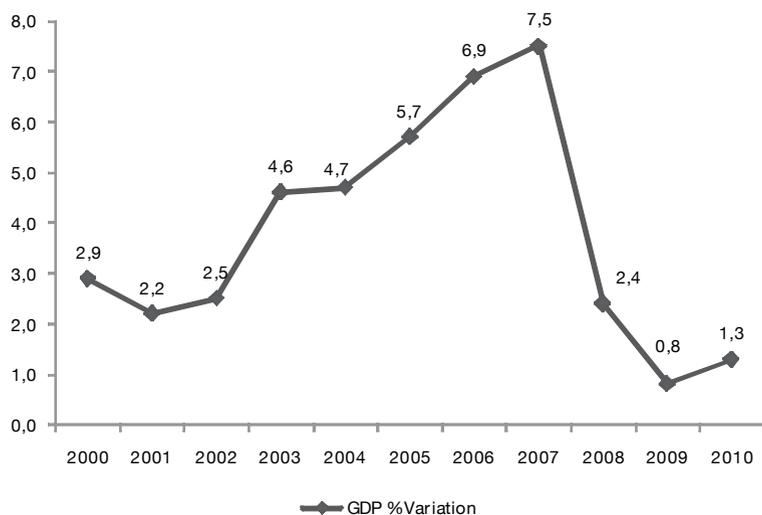
Having this in mind, we should answer whether Uribe’s government has designed and executed indirect policies geared towards the poor or not; depending on this outcome, we may be able to frame better FA and to state whether Uribe’s social policy affects poverty eradication. From the government’s perspective, between 2003 and 2007, there was a virtuous cycle –that consisted in generating security that turned into confidence and, in turn, into higher foreign investment and economic growth, that led to an increase in household’s income and, thus, to a reduction of poverty and incidence (DNP, 2007)– which had a positive impact on poverty reduction. From this point of view, FA served as an important direct policy that complemented and supported other government’s actions, thus being an effective poverty reduction strategy.

From another perspective, however, and having recent evidence that signals the slowing down of such growth, it is possible to argue the contrary. Between 2003 and 2007, the Colombian economy had its greatest economic growth in the last forty years, growing in average at a rate of 5,88% and reaching outstanding rates in 2006 (6,9%) and 2007 (7,5%), as it is shown in Figure 2 (CEPAL, 2009). However, poverty reduction during this same period was not as outstanding.

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buted amongst poor and not poor. See Kakwani, Nanak; Khandker, Shahid and Son, Hyun 2004 “Pro-Poor Growth: Concepts and Measurement with Country Case Studies”, in *International Poverty Center Working Papers* (Brasilia: UNDP), N° 1.

**Figure 2**  
GDP % Variation in Colombia (2000-2010)



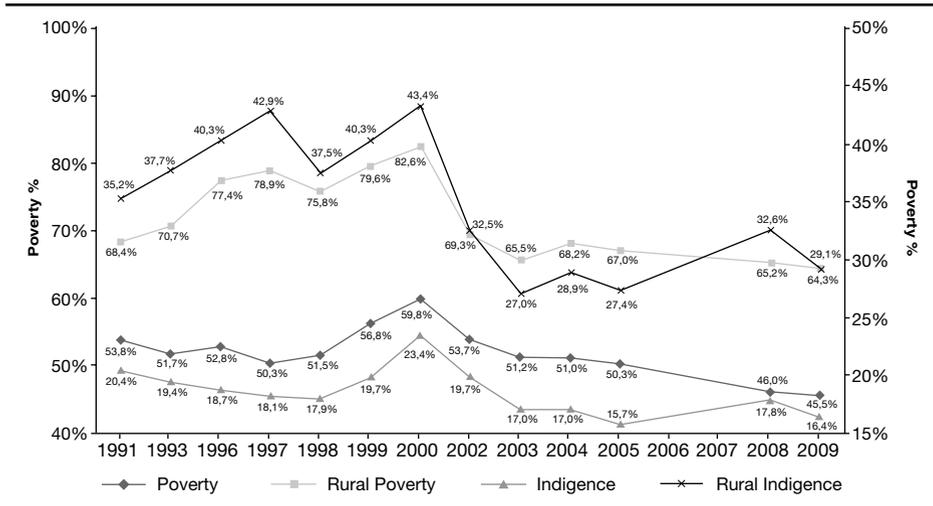
Source: Own estimates based on DANE 2010. Estimate of 2010 is based on the data of the first trimester.

Between 2002 and 2009, as it is shown in Figure 3, poverty<sup>6</sup> decreased 8.2%, passing from 53.7% to 45.0%; rural poverty decreased 5.0%, from 69.3% to 64.3%. Nonetheless, for that same period, indigence, or extreme poverty, only decreased 3.3%, from 19.7% to 16.4%.

Hence, the poverty reduction gains that may have taken place during the expansive cycle (2003-2007) were not enough. According to government's estimates (DNP, 2009), social programmes that, like FA, provide monetary subsidies, have a positive impact in the conditions of poor and extreme poor population, achieving a 1.5% decrease in extreme poverty. Nonetheless, this impact does not compensate the losses in poverty reduction caused by indirect policies that were anti-poor. As Vilas (1997) puts it, social policy plays as a last-resort mechanism after the economic policies have already done the damage.

<sup>6</sup> The national poverty line in 2009 was estimated in \$281,384 Colombian pesos, equal to US\$140.5. The national extreme poverty line in 2009 was estimated on \$120,588 Colombian pesos *per* month, approximately US\$60.

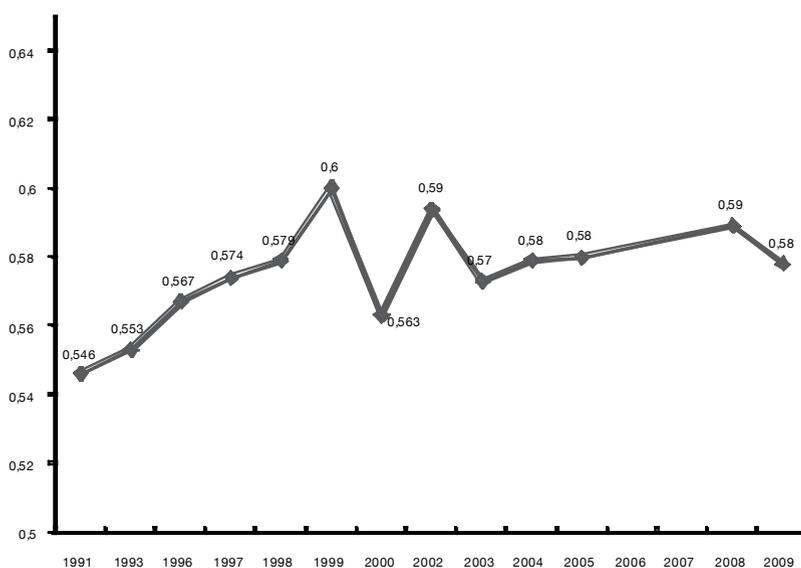
**Figure 3**  
Poverty and Indigence in Colombia (1991-2009)



Source: Own estimates based on DANE, Encuesta Continua de Hogares (ECH) for the periods 1991-2000, 2002-2005 (I semester). There is no data available for the years 2006 and 2007, as these were the transition years between the ECH and the Gran Encuesta Integrada de Hogares (GEIH), an improved version of the national household survey. In September 2010, DANE published the poverty indicators for 2008 and 2009, based on the new methodology of the GEIH 2006.

The Gini coefficient, which measures inequality levels in Colombian society, illustrates that the recent growth it did not translate into a significant improvement in income distribution; in fact, in 2009, the Gini only decreased 1 unit in relation to 2002, passing from 0.59 to 0.58 and, compared with 1991, it augmented the historical levels of income concentration, as it is shown in Figure 4. Moreover, land concentration augmented in the last 10 years, since the country experienced the most significant counter land reform in its history, being around 5.5 million hectares of land (out of the 14.3 million available for agriculture) violently appropriated by armed illegal actors from rural settlers and peasants, which caused an internal forced displacement of between 3 and 4.5 million (Comisión de Seguimiento a la Política Pública sobre Desplazamiento Forzado in Área de Memoria Histórica, Comisión Nacional de Reparación y Reconciliación, 2009: 23). Agricultural policies such as the Program *Agro Ingreso Seguro*, initially designed to decrease rural inequalities, ended up funding large agro-industrial projects (*i.e.* palm oil) and traditional landowners (Revista Cambio, 2009), further deepening the gap between rich and poor in rural areas and leaving small producers with even less opportunities to generate income and lessen the gap.

**Figure 4**  
Gini Coefficient in Colombia (1991-2009)



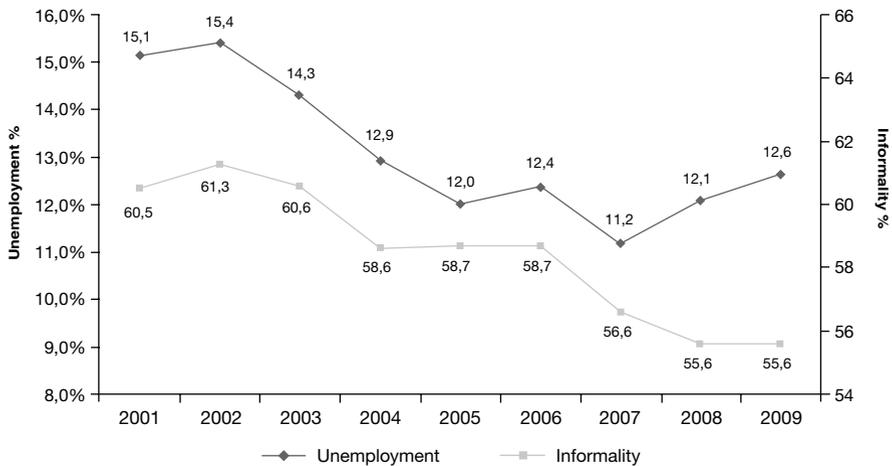
Source: For 1991, Encuesta Nacional de Hogares (ENH), December. For 1992-2000, ENH, September. For 2001-2005, Encuesta Continua de Hogares (ECH), third trimester. For 2008 and 2009, the recent data provided by DANE in 2010, based on the GEIH.

Both phenomena, the lack of significant impact of growth on poverty reduction and income distribution inequality are strongly related with the structure of the labour market in the country. As it is shown in Figure 5, despite the economic growth, unemployment stayed above 11% and increased between 2008 and 2009, reaching 12.6%. In addition, informality levels stayed over 55%, evidencing the lack of formal job creations. As the growth model was not able to create the conditions (indirect policies) for the population to adequately enter the labour market, the government turned to subsidies, to compensate for the households' lack of sufficient income.

The current growth model, lacking redistributive and adequate employment policies, as it is based on the concentration of capital assets, overtly contradicts FA objective of poverty eradication. The Colombian government has not been neutral and has actually been a strong supporter of capital accumulation, for example, subsidizing big businesses and promoting privatization processes (Libreros and Sarmiento, 2007). Contrary to the government's arguments, its social policy does not really seek to modify structural social inequalities in

Colombia, but to mitigate the effects of the neoliberal accumulation strategy and thus to politically justify it.

**Figure 5**  
Unemployment and Informality in Colombia (2001-2009)



Source: Own construction based on DANE. Annual unemployment data obtained for July, and annual informality for April-June. As the informality data for 2009 is not available yet, it was assumed that the same as in 2008.

## POLITICAL EFFECTS OF FAMILIES IN ACTION

Some authors (Laurell, 1994; Dresser, 1994; Soederberg, 2001) have argued that *Pronasol*, a social programme implemented in Mexico in 1988 that preceded CCTP, played important political effect providing legitimacy to Salinas de Gortari administration (1988-1994). Regarding *Familias in Action* I argue that such intervention has produced significant effects within the Colombian political sphere that are worth examining. The hypothesis I propose is that, as a mechanism of the *State's apparatus*, FA produces “unexpected”<sup>7</sup> or implicit political

7 In his study on Lesotho’s development apparatus, James Ferguson (1990: 251-277) uses Foucault’s argument regarding the “instrumental-effects” of political technologies such as the prison. Ferguson’s main argument is that, even though rural development projects in Lesotho promoted by the State and multilateral organizations failed, the collateral or instrumental effects of these projects had long term consequences for the communities involved in them. The same way that Foucault’s prison, which fails respect its explicit objective of reforming the criminal but is successful in producing a normalized and disciplined society, development apparatus shows a significant productivity: not only does it contributes to the State’s control of the population but it also depoliticizes the problems of poverty it sought to resolve in the first place.

effects that contribute to strengthen Uribe’s regime, which in turn is inextricably linked and instrumental to the neoliberal accumulation strategy. These political effects explain, more than any other reasons, the continuity and expansion of such programme.

The political effects of FA may be disaggregated into three types of effects, having each one of them a specific purpose and operational mechanism: (i) *ideological effects*, (ii) *institutional effects* and (iii) *sociological effects*. The ideological effects of FA not only refer to ideas and symbolic representations but also to material practices that the programme carries out in order to inculcate and reproduce the political domination of Uribe’s regime. The institutional effects, in turn, have to do with the institutional arrangements and the State’s organizing that this programme has generated in order to strengthen and sustain Uribe’s regime within the State’s apparatus itself. Finally, the sociological effects have to do with FA’s discourses and concrete strategies specifically geared towards the population, in order to modify the State-society relation in favour of Uribe’s political regime. Table 2 summarizes these effects which will be examined in what follows.

**Table 2**  
Political Effects of Families in Action for Álvaro Uribe’s Government

Type of effect	Purpose	Operational Mechanism
Ideological	<ul style="list-style-type: none"> <li>To sustain the continuity of structural reforms (i.e. labour, health and pension systems) and the dismantlement of social rights</li> <li>To demonstrate that the government has a “social face” beyond its economic commitment with national and transnational capitalistic interests.</li> </ul>	<ul style="list-style-type: none"> <li>Provision of the subsidy to extreme poor.</li> <li>Extension of the programme for an undefined period and to large urban areas.</li> </ul>
Institutional	<ul style="list-style-type: none"> <li>To guarantee the Executive’s hegemony within the State’s apparatus.</li> </ul>	<ul style="list-style-type: none"> <li>Execution of Presidency’s resources obtained from social public expenditure’s centralization.</li> </ul>
Sociological	<ul style="list-style-type: none"> <li>To strengthen the support towards Uribe’s political project in the regions and in popular neighbourhoods of main urban areas.</li> <li>To bring the population closer to the president’s figure.</li> </ul>	<ul style="list-style-type: none"> <li>Creation of clientelistic networks, first, in rural areas and then in large urban areas.</li> <li>Handing out of the subsidies during Community Councils led by the president.</li> </ul>

Source: Author’s construction.

### IDEOLOGICAL EFFECTS

FA has improved school assistance and children’s health and nutrition in poor households, a result that is far from being undesirable or un-

necessary in a country like Colombia, still with relatively low social development indicators. What is problematic is that this programme has taken place at the same time that Uribe's regime has deepened the neoliberal structural reforms that bring down the conception of *social rights* expressed in the 1991 Constitution. Thus, even though it has no real interest in protecting such rights, Uribe's regime, through the provision of subsidies to poor households via *Families in Action*, has been able to acquire a "social face". This is what I call the ideological effect of FA.

In the last two decades Colombia has adopted a neoliberal order, characterized by a State that is geared towards national and transnational capital interests (Estrada, 2006). Uribe's administration, with the purpose of consolidating this order, has rigorously applied the points outlined in the International Monetary Fund (IMF) Standby Agreement (2002). Therefore, labour flexibilisation, for example, a requirement posed in the Agreement's document<sup>8</sup>, translated into the labour reform (Law 789 of 2002)<sup>9</sup> (Estrada, 2006: 268-269). While it is true that with this reform there was a relative increase in employment levels between 2002 and 2005, this increase took place in detriment of labour's quality: in 2005 there was a smaller utilization of labour force, an increase of sub-employment and an increase of part-time labour (Farné, Granados and Vergara, 2006). Moreover, with recent data, the evidences of the effects of the labour reform are quite precarious, as unemployment levels have increased again. Between 2002 and 2008, 2.4 million of jobs were created, when the economy needed to create 4.7 million of jobs: 2.4 million for the population entering the labour market (300,000 *per year*) and 2.5 for the unemployed population (Bonilla, 2009).

Along the same lines, two other issues that have been furthered reformed according to neoliberal precepts, are the health and pension systems. In 2002, the pension reform was approved (Law 797 of 2002)<sup>10</sup> and in 2007 the final phase of the public social security was initiated. The dismantlement of universal social protection, in detriment

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8 The agreement document established that "this reform should reduce labour costs through the extension of working hours and the reduction of extra hours' payments and lay-off compensations" (FMI/Ministerio de Hacienda, 2002: 14).

9 This reform was based on the need to generate jobs and dynamism in the economy in a context of post-crisis. In order to reach its goal, it promoted, amongst other actions, extending the daily shift and reducing the additional payment for weekends and holidays.

10 Conceived as part of the "fiscal adjustment", this law introduced an increase in the number of weeks that a person needs to contribute and an increase in the monthly payment.

of the conception of social rights, has occurred parallel to the so-called “fight against poverty” characterized by its targeted interventions, such as FA, in the poorest sectors of society. Between 2002 and 2008, FA exponentially increased its beneficiary households from 350,781 to 2,441,870, as it was shown in Figure 1. The lack of job creation and the worsening of social benefits (health, pension) was compensated with transfers to lower income families who, it may well be the case, were furthered impoverished after the labour, health and pension reforms. To what extent then, FA’s subsidies have influenced the perception lower income households have of Uribe’s government? Obtaining a concrete answer to this question would require having data from the households with statistical significance. Nonetheless, it is not at all implausible stating that, while it was planned with specific objectives and intentions<sup>11</sup>, FA’s poverty discourse and concrete practice –mitigation of poor household’s misery– have produced a “non-planned” effect: absolving Uribe’s political regime from any responsibility of the economic reforms’ negative impacts in lower income households. The results of 2010 legislative and presidential elections, in which Uribe’s candidates won with a substantial margin and reiterated that Uribe’s project is the first political force in the country, may shed a light into such ideological effects. In this way, FA, adopting Ferguson’s term (1994), acts as an “anti-politics machine”; it “incidentally” *depoliticizes* the poverty question, converting it into an urgent social problem that must be resolved through governmental action (conditioned grants), even though it is caused and reproduced by the political regime that claims to eradicate it (Lo Vuolo *et al.*, 1999).

In its expansive phase, FA –going against its original design which established a maximum duration of three years– does not have anymore a temporal limit<sup>12</sup>. Changing its objective, from being a short-term programme aimed at counterbalancing the effects of the economic crisis in lower income families to being a programme aimed at protecting and promoting human capital in lower income families, FA has been able to extend in time. This extension however has not been completely based on technical criteria and it is possible to argue that it has also obeyed to political reasoning. In 2007 the expansion

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11 For Ferguson (1994), the most important effects of a social intervention may be the ones that were not planned beforehand, those that were not even in the minds of the planners. This applies perfectly for the case of Families in Action.

12 According to Núñez and Cuesta (2006: 269), “initially a household could benefit from FA for a maximum of three years [ ] however, the continuity given to the programme has made that today there are families that have been involved in it for even five years. Currently, there is no limit to the grants received”.

of FA into large urban areas took place; the exponential increase in total beneficiaries was in partly due to this jump into the cities. What calls the attention is that this ‘urban phase’ of the programme did not consider the impact evaluation’s recommendations, which stated that the programme should target only rural households (DAPR/FIP/DNP, 2006: 159-160). From a political perspective then, an alternative understanding of this expansion could be that, as the *hegemony construction* role FA was playing in the rural areas had reached its limit it moved into larger urban areas.

The anti-politics machine of FA also works at another level. Based on the technical discourses of multilateral organizations, this programme has promoted a “culture” of social interventions in which the *targeting on the poor* principle has replaced the *formalization of labour* principle in the social policy’s formulation process (Giraldo, 2007a: 242). This has led to a concrete ideological effect: the judgment of the government’s results in terms of social indicators is centred now in poverty issues (coverage, attendance capacity) and not anymore in labour’s quality or social security’s universality, both obstacles of the neoliberal accumulation strategy (Lo Vuolo, 1999). In this strategy, workers’ salaries and social benefits are not anymore an investment but rather expensive administrative costs and unproductive expenditures that affect companies’ competitiveness. The new labour discourse promotes “entrepreneurship” and flexibilisation, on one hand, and public assistance (cash transfers), on the other, for those that have still not been able to insert themselves in the labour market (Giraldo, 2007b). Now, besides this ideological support, the Uribe’s regime requires as well strengthening the Executive power. FA has also been very effective in this task, especially due to the institutional and social effects it has produced.

#### **INSTITUTIONAL AND SOCIAL EFFECTS**

One of the main requirements for the maintenance and consolidation of Uribe’s political project is the obtainment of hegemony within the State’s apparatus. Far from being homogenous, these apparatus is conformed by multiple sectors, branches, institutions, functionaries, each one of them with particular interests and needs. The hegemony of one of these apparatus’ fractions depends then on its capacity to mobilize and obtain political support.

Since the start of his administration, Uribe has sought to obtain State’s hegemony through the strengthening of the Executive power. For Moncayo (2004: 352), Uribe’s political regime has given an exacerbated supremacy to the presidential institution, almost to the point of reaching a personal exercise of power, “without any dissent or alter-

natives from other branches or institutions of the public sphere”. This has been possible due to the massive citizen’s support Uribe received since he was elected in 2002 (with 53.2% of the votes) and to its capacity to align Congress’ majority around his political project. Nonetheless, it is worth mentioning that this political support has been recently questioned on the grounds that it was influenced or even forced by paramilitaries’ violent actions (*i.e.* Romero and López, 2008).

In order to be politically legitimate, the Executive’s construction of hegemony over other branches of the State’s *apparatus* has been sustained in arguments referring to the “common interest” or “collective will”. Amongst the diverse mechanisms the Executive has used to provide itself with further power<sup>13</sup>, the reform to the territorial transfers has definitely been one of the most subtle and effective ones. The Central government achieved taking away resources constitutionally assigned to regional and local governments translating them to the Executive power<sup>14</sup>. One of the arguments exposed to justify this recentralization of social public expenditure was that FA’s expansion required further resources in order to reach more people. In this way, Uribe’s regime was able in 2006 to further reduce regional and local government’s resources, a tendency that had began in 2001, and that according to Rodríguez (2007: 145) represents a loss of more than 52,2 billion pesos (of 2006) (around US\$23,000 million), for the period 2008-2019, in their income. Figure 6 shows how the resources (as a percentage of GDP) of decentralized entities significant decrease with the approval of the Legislative Act of 2001, further deepened with Uribe’s government, going against what had been established in Law 60, 1993 in terms of the percentages that these entities should receive for their own social investment (health, education and sanitation). An explanation to such modification is that the Executive was in need of a mechanism that allowed it to exercise political power in the regions. After the process of decentralization that took place in the nineties, Colombia’s central government, alike other Latin American countries, entered into political deficit: besides its taxing and repres-

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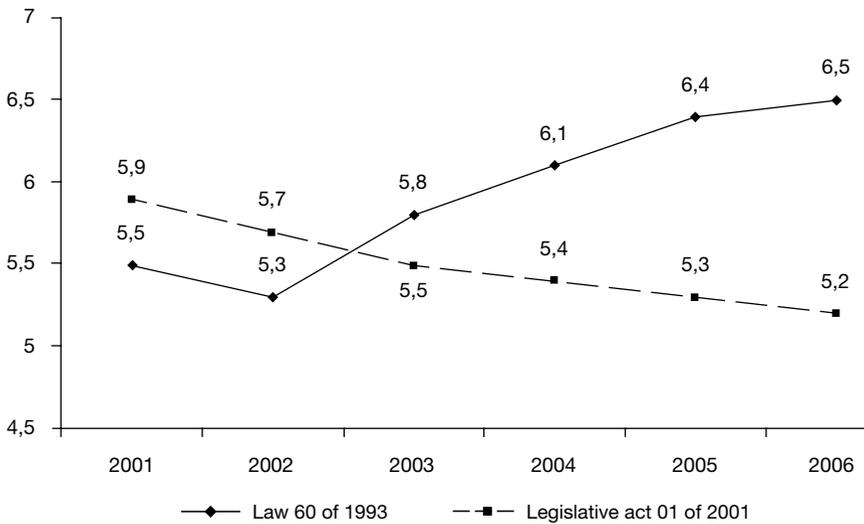
13 Since Uribe was reelected in 2006, the Executive power has been able to co-opt the different branches of the State’s apparatus. In one way or another, Uribe has been able to politically influence the Constitutional Court, the Superior Council of Judicature, the Central Bank, the Office of the Attorney General, the National Television Commission, the Treasury Inspector’s Office, the Supreme Court of Justice and the Procurement’s Office.

14 The 1991 Constitution sought to strengthen political, fiscal and administrative decentralization through assigning to the regions a fixed percentage of the Nation’s Income which should be spent in health, education and sanitary services, according to the local priorities and citizen’s participation.

sive functions, the Executive remained without legitimating functions that would allow it obtaining support. Recuperating political power has meant then recentralizing social public expenditure *via* a cut of territorial transfers and spending these resources in cash transfers in the name of the President.

**Figure 6**

Transferences from the Central Government to Decentralized Entities as percent of GDP in Colombia (2001-2006)



Source: Rodríguez (2007).

This concentration of resources in the Executive power has had, in turn, the purpose of “providing cohesion to the political fractions agglutinated under Uribe’s regime” (Rodríguez, 2007: 146-147). Nonetheless, it is not legitimate presenting it this way. That is why since the National Development Plan 2006, the government stated the need of reforming the territorial transfers in order to achieve its poverty reduction goals (DNP, 2006). Despite the problems territorial entities have had managing these transfers; these are also used for social services. Thus, it is not that without the recentralization there will not be resources for poverty reduction strategies; what is really affected without it is the central government’s capacity to directly spend resources in the regions and obtaining political credits from it. FA is the perfect receptor of these resources: opposing such a reform would

mean going against a programme that seeks to eradicate poverty. FA, hence, displays a concrete institutional effect: justifying the concentration of public resources in the Executive power.

According to Yepes (2007: 5), the reduction of the transfers has meant that, at least, \$5 billion (US\$2,200 million) are taken away from the local and regional governments and transferred to *Acción Social's* budget, specifically to FA. These numbers are bigger now as with the doubling of FA's target –from 1,5 million families to 3 million families– the programme's 2006-2010 budget increased from \$1,84 billion (US\$813 million) to \$3,55 billion pesos (US\$1,559 million) (El Tiempo, 2008). This means that the Executive will need to subtract these resources from somewhere else. Only in 2008, FA's expenses were around 1 billion pesos, which indicates that that the concentration of resources in the central government has no return.

With the social investment resources in its hands, Uribe's regime counts with the material means to consolidate its political hegemony within the population. FA's grants modify the State-citizen relation, defining social public expenditure not anymore in terms of State's duty (and citizens' right) but in terms of a president's favour. These grants thus generate certain political effects of a *social character* related with the increased support towards the government in rural areas and popular urban neighbourhoods, bringing the population closer to the president's figure and demobilizing popular and grassroots critical social processes.

In the first place, FA reproduces the typical deformations of an assistentialist scheme, such as clientelism and a return to charity. Assistentialist mechanisms such as FA may be interpreted "as favours through which a system of recommendations is produced and a body of intermediates is generated" (Giraldo, 2007a: 210). Some studies (Rodríguez, 2007: 371-372) have already evidenced how SISBEN –the system that is in charge of reporting FA's beneficiaries– has taken place accompanied of political favours that have nothing to do with the technical character this programme argues it has.

FA's assistentialism has become one of the new ways of creating clientelistic networks. For many authors, these clientelistic relations were useful for the 2010 legislative and presidential elections (Gaviria, 2008; López, 2008; Revista Cambio, 2008). The growing expansion of FA, hence, does not stems out from technical parameters but from mere electoral ones: "three million families represent at least six million votes in the presidential elections" (Gaviria, 2008). Three million families that, summed up, equal to around 20% of Colombia's population. FA has become then a populist mechanism of the government that has inevitable effects in the political scenario. The televi-

sion commercial that the Presidency used in the political campaign of 2006 perfectly illustrates the political benefits of this programme: “Go ahead, Mr. President”, in such a way one of the beneficiaries of FA’s subsidies expressed his support to Uribe’s ideas and actions (Giraldo, 2007b: 9).

Moreover, Global Exchange (2010) recently examined the results of legislative elections evidencing how the exponential increase of FA’s beneficiaries in certain regions between 2006 and 2010 is closely related to the exponential increase Uribe’s candidates had in the votes obtained. One of the cases this study provides to illustrate the coincidence between FA’s beneficiaries growth and electoral growth is the one of senator Piedad Zuccardi, elected senator of Bolívar department, for the U Party, one of the political parties that supports Uribe’s political project. According to the study, in 2010 Zuccardi obtained 13,692 votes in five municipalities of this department, while in 2006 she had only obtained 4,716 votes. During this same period, the number of households registered in FA in these municipalities increased from 6,153 to 21,702. In these municipalities, judicial authorities have received claims regarding how this senator has influenced the inclusion or exclusion of families from the programme.

It may also be argued that FA has contributed to strengthen one of the characteristics of Uribe’s political regime, that is, the deinstitutionalization of the State for his own benefit. Through FA and other mechanisms like the Community Councils, has achieved that the relation of the people with the State is equal to the personal relation between the president and the population. The subsidies, despite being sustained by an institutional framework, are, ultimately, determined by the president’s willingness, by his “care” for the poor, as it was evidenced in a Community Council where the president spontaneously demanded duplicating the number of families involved with the programme<sup>15</sup>.

Being subject to Uribe’s discretionarily, and not to a State’s policy that responds to the conception of state’s obligatoriness, FA’s subsidies leave aside the fact that social protection is a right and turns it into a favour. FA replaces the figure of the citizen subject of rights with the one of beneficiary target of focalized grants. Thus, the element of demand that is constitutive to rights is replaced by one of thankfulness, generated by the provision of the subsidy. For Yepes (2007: 7), “while

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15 In that occasion, Uribe declared, “we have to make all the effort to have 3 million families in *Families in Action*. To the bandits: stick and to the poor, care. This is the only way we can progress in this country”. (Secretaría de Prensa. Presidencia de la República, 2008; author’s translation).

the poor remain poor, they will keep returning with gratitude what the ruler provides as favours". The predictions regarding the electoral platform that the current political regime is currently constructing through FA are then not at all unsound.

FA not only allows strengthening the figure of president Uribe within the population, but may also operate as a social control mechanism, preventing that critical poverty transforms into threaten to governance. Subsidies, then, generate "grateful poor", weakening critical popular social processes (Giraldo 2007a). According to Lo Vuolo *et al.* (1999: 12), poverty reduction policies, "do not seek overcoming the problem, but only to circumscribe it to a limited social space and codify it in such a way that the margins of social tolerance are extended in order to impede the alteration of the "healthy" fraction of society". In periods of social tension, subsidies usually increase so as to weaken opposition.

### CONCLUSIONS

This article has explored one of the Seminar's questions regarding the intentional and unintentional consequences of standardized policies and interventions from the North, as it has analyzed the way in which the Colombian Conditional Cash Transfers Program *Families in Action*, beyond its explicit objectives of poverty reduction, provides political effects that legitimize the current government. It has put forward the idea of transcending the ways in which CCTP have been traditionally analyzed, arguing the importance of examining these programmes in the light of the wider macroeconomic context and the political effects they produce.

Even though the social conditions of Colombian vulnerable sectors have deteriorated since Uribe's regime came into power and the growth model has actually not favoured the poor, FA has contributed with Uribe's sustained popularity within the lower-middle classes in urban and rural areas. The subsidies have acted as palliatives in a context of furthering impoverishment and social insecurity, growing informality and labour flexibilisation. Moreover, they have justified social public expenditure's recentralization, so as to the Executive power gain back the political power it had lost during the decentralization process. And, finally, it has effectively modified the State-citizenship relations.

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**EUGENE NDUBUISI NWEKE\***

## **2.2. OWNERSHIP QUESTION AND POVERTY REDUCTION STRATEGY IN NIGERIA**

### **WHAT HAS GONE WRONG?**

#### **ABSTRACT**

Ownership of policies is premised on the capacity of interest groups and individuals to be more effective by forming a critical mass that aggregates and articulates public policies. The essence is that ownership of policy provides an enabling environment for both government and citizens to accept or reject or modify pro-poor policy. This paper hinges on this and argues that National Poverty Eradication Programme (NAPEP) of Nigerian State failed to reduce poverty because it lacks ownership of the citizens. It adds that this has exacerbated the pouncing of abject poverty on Nigerian citizens. To this end, this paper adopts the ‘common agency theory’ as framework of analysis through which the origin of vision, participating stakeholders and understanding of the pro-poor strategy is examined to determine the “ownership” standing of NAPEP. The finding reveals that the scope and content of Nigeria’s poverty reduction strategy is comprehensive. However, what has gone wrong is lack of adequate consultation, home-grown ideas and low level understanding from the citizens. It also notes that, resulting from this, it was hastily accepted and launched by Nigeria government in a bid to attract fund from World Bank. This

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affected the implementation and eradication of abject poverty given that its origin is externally based and driven by International Financing Institutions (IFI) without input from target beneficiaries, civil society organisations, organized private sector. Above all the entire process lacks the commitment political/public officials. This therefore accounts for unending increase in the number of people living in poverty. The study concludes that NAPEP by virtue of the exclusion of non-state actors in the various policy making structure alienates the citizens from making inputs towards the governance of the pro-poor programme. As such recommends strategies that can enhance ownership in NAPEP.

### **INTRODUCTION**

Poverty is a perennial issue, which has always been important in social policy and in international development debates. It is conditions in which people lack the opportunities to develop capabilities required to live a basic human life and are excluded from society and development process. In addition, poverty is lack of certain capacity such as being able to participate with dignity in societal endeavour (Aluko, 1975; Sen, 1987). Given this, poverty creates a circumstance of inability in attaining a minimum standard of living that give rise to insufficient food, clothing and shelter. Also associated with poverty, is low levels of; life expectancy, education and access to health care and high infant mortality. To this end, poverty is a state of hopelessness whereby an individual lives a life worth below US\$ 1 a day, cannot access basic human needs required for survival, voiceless and powerless resulting from lack of ability to participate in public decisions that could improve his standard of living.

In Nigeria, the prevalence of poverty is disturbing and widespread despite efforts and resources committed in the fight against poverty for the past two decades amid plenty of resources; oil, solid mineral resources, agricultural resources and human resources. Nevertheless, Nigerian state has remained challenged by protracted military regimes, ineffective governance, weak public institutions and widespread corruption thereby contributing to widening the horizon of abject poverty. To this effect, the post –military government streamlined and rationalized function of core poverty alleviation institutions and agencies. For example, the Nigerian Agricultural and Cooperative Bank (NACB) the People's Bank of Nigeria (PBN) and the Family Economic Advancement Programme (FEAP) were merged to form the Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB). The government later in 1999 launched poverty alleviation programme (PAP) which was later reorganised and named

National Poverty Eradication Programme (NAPEP) in 2001 following the adoption of World Bank designed Poverty Reduction Strategy Papers (PRSP).

Although these programs exist, statistics on human development and social provision reveal that abject poverty has continued to pounce on Nigerian citizens. This is argued to be the result of disconnect of the people from the pro-poor policy. Therefore there is need to integrate the citizens into pro-poor policy process if poverty reduction strategies are to be implemented successfully with desired impact of leveraging hardcore poor from poverty. To this end, this paper is therefore compelled to critically appraise the policy process of NAPEP to determine its “ownership” standing. The essence is that ownership of policy provides an enabling environment for both government and citizens to accept reject or modify pro-poor policy. Further more, it is “premised on the belief based on three decades of experience that unless countries assume responsibility for their own destiny and commit themselves to transform the lives of their most deprived citizen, no policy reform or economic transformation is feasible and no donor can impose this on a country however weak they may be”(Sobhan, 2003: 6).

Against this background, the section two of this paper discusses the concept of Ownership and its framework of analysis. The third section uses National Poverty Eradication Programme (NAPEP) as a case study to explore policy ownership in relation to formulation and implementation of pro-poor strategy at the three levels of government in Nigeria. Whereas the fourth section examines how the involvement of international Financial Institutions (IFI) in the design of poverty reduction strategy has affected the dwindling poverty profile of Nigerian state, the paper concludes by suggesting alternative strategies that could address the challenges of increasing poverty amid international assistance in Nigeria.

### **THE CONCEPT OF OWNERSHIP AND FRAMEWORK OF ANALYSIS**

Ownership is an indefinite concept in development policy. It is perceived and interpreted differently by people and institutions. However, Ownership in whichever perspective is a relation among stake holders in development, particularly their respective capacity, power or influence to set and take responsibility for a development agenda, and to muster and sustain support for policy or otherwise. Nkombo (2008: 1) identifies such stakeholders to include; governments of developing counties, communities and organization in those countries, outside the government: donors or multilateral development agencies and financial institutions”. This confirms the variety of perceptions and

explanations associated with ownership that dissolve into different aspects such as control and stakeholders' interest.

Accordingly, Johnson and Wasty (1993: 2) further describe ownership using a four dimensional variables; "locus of initiative; namely, who had the initiative in formulating and implementing the programme, the degree of collaboration in working out the programme, and whether or not the funding for the programme was extended despite certain reservations of the authorities (disagreements and reluctance to implement some aspects of the programme). The second dimension is the level of intellectual conviction among key policymakers namely, the degree to which there was consensus among policymakers on the nature and causes of the problem, the choices open for its resolution, and the approach to be taken. The third dimension is the expression of political will by top leadership: as reflected, for example, in upfront actions and public statements. The fourth dimension comprises efforts toward consensus-building among constituencies, for instance, by eliciting broad participation in the programme design and in launching a broad-based public campaign to elicit support for the programme outside the central government". All these combine to achieve *national ownership* which Klick *et al.* (1998: 87) describe as "when the political leadership and its advisers, with broad support among agencies of state and civil society, decide of their own volition that policy changes are desirable, choose what these changes should be and when they should be introduced, and where these changes become built into parameters of policy and administration which are generally accepted as desirable".

In a similar view, Omotunde, (2005: 3) notes that this form of ownership include the "(i) the right of the country representatives to be heard in the process of diagnosis and programme design, (ii) the freedom and ability of the country to choose the programme to be implemented, without coercion, than about (iii) who designs the programme". From the perspective of the Paris Declaration on Aid Effectiveness, signed in March 2005, ownership is described as "developing countries' exercising effective leadership over their development policies and strategies and coordinating development actions, that strengthen the impact of their common efforts on poverty reduction" (Renzio, *et al.*, 2008: 3).

In the view of International Monetary Fund (IMF) ownership is a "willing assumption of responsibility for an agreed program of policies, by officials in a borrowing country who have the responsibility to formulate and carry out those policies, based on an understanding that the programme is achievable and is in the country's own interest

(World Bank/IMF, 2001c: 3). This is the point on which the concept of ownership is debated as well as the bane for poverty reduction in Nigeria. The perspective of IMF advocates in this regard means that, to “own” a policy, it is not necessary that government officials think up the policies themselves or that the policies are independent of conditionality. This is far from the desired ownership for poverty reduction.

### **THEORETICAL BACKGROUND**

Consequent upon the arrays of definitions, policy ownership is examined from the perspective of conceptualizing or understanding a vision both by policy planners, implementers and beneficiaries. In this respect the *common agency* which is also known as *multi-principal games* is adopted as an explanatory framework of analysis. This theoretical framework is derived from two models, the theory of veto players within government and theory of special interest group (SIG). The theory of veto player was developed by George Tsebelis (2001a). It likens decision in policy making process of various political organizations as veto players within a domestic government and notes that there are different principals who must agree on a given policy or policies based on their interests. On the other hand, Special interest group theory (SIG) is developed by Wolfgang Mayer and Alex Mourmoras (2002). The special Interest Group (SIG) refers to those whose interests are separated from those of the people at large and use their power to influence government policy choices.

These circumstances occur very often in political processes in which all shades of individuals conceive government as an agent that must be lobbied in order to contribute to policy making. In the light of this, Grossman and Helpman (1994: 834) notes that “Common agency is the name given to a multilateral relationship where several principals simultaneously try to influence the actions of an agent”.

Essentially “common agency theory” as applied to explain policy ownership in relation to challenge of poverty reduction strategies in Nigeria suggests that state policymakers and external organization as IMF should build national ownership in policy process to avoid weakness that goes with failed policies. It is then expected that multiple objectives and interests pursued by governments and strong individuals should be harmonized as their policy choices reflect the concern of diverse constituencies inside and outside of government. This drives the argument that government needs to achieve a common agenda in the policy process including the parliament, regional and local authorities and other constitutionally recognized actors both state and non state actors in policy process. Other actors and interest groups considered relevant should be taken into account in public policy

process. These actors are international players, active domestic SIG, labour, industry, professional bodies and non-governmental organizations. Considering this, Boughton and Mournouras (2002: 7) note that the outcome of common agency model where applied, is “the need to achieve equilibrium of a non-cooperative game”. However where the state is captured by SIG be it IFI or domestic, the policies of such state mostly do not achieve the policy desire that make positive impact on the generality of the citizens.

It against this premise, that policy ownership is associated with different perspectives and explanations but united primarily in the context of common belief that the state through the government, acts on behalf of the country as a whole. In the same vein the non-state-actors with their multiple parties and heterogeneous interests influence the outcome of the policy thereby exercising their ownership rights in public policy process. Hence external or international bodies such as IMF are expected to buy into the harmonized interest of government to realize national ownership of pro-poor policy. The import of this reflects concern on explaining how external agencies sway the state authorities to embrace their version of policy reform.

Furthermore, while this framework takes for granted that government must lead the process of building ownership, it must however consult a broad group of stakeholders from among political parties, NGO, community organizations, media, academia, etc in order to foster true ownership. In addition true (national) ownership entails having sufficient political support within a country to implement its developmental strategy, including the projects, programs, and policies for which external partners provide assistance. It equally requires that government achieves sufficient support for the strategy among stakeholders within and outside of the government. This likely includes line ministries, parliament, sub-national governments, civil society organizations, and private sector groups.

National ownership therefore extends beyond the government: it requires the active participation of non-state stakeholders. Participation by actors outside national governments functions as an end in itself by promoting accountability and also greatly improves the design and effectiveness of development interventions. Reflecting on this assertion, justifies the relevance of common agency theory as a framework for pro-poor policy process that can shrink the ownership gap in the poverty reduction strategy of Nigerian state. This theoretical approach becomes more essential for designing nationally owned poverty reduction strategy given that International Financial Institutes (IFI) are influencing and dominating Nigeria’s policy space with strategies from the North. These strategies as argued lack national

ownership required to eradicate abject poverty from the citizens who ought to steer pro-poor policy process. This argument derives from the belief that “policies that originate from society and whose content reflects popular assessment, aspirations and needs, are more likely to be successfully implemented” (Mukandala, 2006: 3).

### **OWNERSHIP ANALYSIS OF NATIONAL POVERTY ERADICATION PROGRAMME (NAPEP)**

The Framework, “common agency theory” appropriately analyzes the ownership of NAPEP. Essentially, it is necessary to use this framework so far explained to establish the origin of NAPEP, its vision, consultative process, conception and understanding both to government and beneficiaries at the three levels of Nigerian governments.

#### **ORIGIN OF NAPEP**

The origin of NAPEP is traced to failed pro-poor strategies of various governments in Nigeria. The ownership analysis of NAPEP stems from an observable fact that the war against poverty has been a common denominator of all governments in the history of Nigeria, though fought in a number of ways. At the first instance, the strategies were through ministries/agencies. The efforts in this regard focused on agriculture and rural development policies, trade, fiscal and monetary policies. As such various policies and programmes were designed to bring about economic growth that could reduce poverty, which would invariably lead to higher standards of living. The programmes and initiatives include Operation Feed the Nation (OFN) of 1979, later changed to Green Revolution and lasted till 1983, Peoples Bank, (PB) National Agriculture, Cooperative and Rural Bank (NACRB), Directorate of Food, Roads and Rural Infrastructure (DFRRI), and Better Life/Family Support Programme (BLP/FSP). Also introduced are, the Family Economic Advancement Programme (FEAP) and National Directorate of Employment (NDE). More importantly these efforts, attention and strategies at addressing poverty challenges in Nigeria remained superficial and uncoordinated until 1999 when a civilian regime was inaugurated.

In a response, to establishing a more comprehensive agency, Poverty Alleviation Programme (PAP) was established to unify the diverse pro-poor strategies. This was an interim measure to address the problems of rising unemployment and crime wave, particularly among youths. Essentially, the primary objectives of PAP are three-fold: reduce the problem of unemployment and hence raise effective demand in the economy; increase the productiveness of the economy; and drastically reduce the embarrassing crime wave in the society.

Specifically the government targets among others: provide jobs for 200,000 unemployed; create a credit delivery system from which farmers would have access to credit facilities; increase the adult literacy rate from 51 to 70% by year 2003; shoot up health-care delivery system from its present 40 to 70% by year 2003; increase the immunization of children from 40 to 100%; raise rural water supply from the present 30 to 60% and same for rural electrification; embark on training and settlement of at least 60% of tertiary institutions' graduates; and development of simple processes and small-scale industries" (Central Bank of Nigeria, 1999: 68).

Being an interim, it was later reorganized and named National Poverty Eradication Programme (NAPEP) in 2001 following the adoption of Poverty Reduction Strategy Papers (PRSP). Be that as it may, its origin like the previous strategies is the vision of the World Bank and IMF. It is conceived as a new development paradigm to reduce poverty and improve the effectiveness of development assistance through adoption of Poverty Reduction Strategy Papers (PRSP). The introduction of the PRSP by the IMF and the World Bank in December 1999 provided an operational vehicle for its formulation and implementation at all levels of government.

The NAPEP blue print was formulated through a consultative process. Government official, particularly from 13 ministers whose ministries are involved in poverty alleviation participated in the consultative workshop with World Bank and IMF officials for adoption of the strategy. The participating ministries in the scheme are those of agriculture and rural development, education, works and housing, women affairs and youth development, industry, science and technology, solid minerals development, water resources, health, power and steel, employment labour and productivity, environment and finance. Other participants included the Chief Economic Adviser to the President, who later became the National Coordinator of NAPEP, civil society organisations such as Non-governmental organisation, community based organisations, private sector and trade unions. In all, Obadan (2002: 14) notes that, "only a few of them were selectively invited to consultative workshops where they sometimes received only limited background information regarding the Poverty Reduction Strategy. Also, participatory structures were formed on an *ad hoc* basis without clearly established mechanisms for collaboration among various stakeholders, governments and donors".

The implementation of NAPEP is sequel to the approval by the Federal Executive council in 2001. It envisages at first stage, to contain the spread of poverty and mitigate its most acute manifestations. It therefore combined employment-intensive growth with human re-

source development, accompanied by a safety net for the hard-core poor. Also, it is aimed at strengthening social protection systems for vulnerable groups, improving access to education and health services, and promoting entrepreneurship for the poor.

The National Poverty Eradication Programme is classified into four, namely: Youth Empowerment Scheme (YES), Rural Infrastructure Development Scheme (RIDS), Social Welfare Service Scheme (SOWESS) and Natural Resources Development and Conservation Scheme (NRDCS).

The Youth Empowerment Scheme aims at achieving poverty reduction among youths through the following strategies; capacity acquisition, mandatory attachment, productivity improvement, credit delivery, technology development and enterprise promotion. The component activities expected to realise the Capacity Acquisition Programme (CAP) include training, apprenticeship, investment inducement seminars, exposing participants to various applications of science and technology and adaptation of simple technologies in the exploration and exploitation of available resources. The Mandatory Attachment Programme (MAP) is designed for graduates who have completed their mandatory National Youth Service but yet to secure full-time employment even when such graduate has undergone NAPEP's capacity building courses in any corporate organization. The attaché receives the sum of N10,000 every month. The last in the Youth Empowerment Scheme is the Credit Delivery Programme which aims at providing credit facilities to graduates of YES programme to start their own businesses that lead to enterprise promotion.

The second part of the programme is the Rural Infrastructure Development Scheme (RIDS). It aims at provision of potable and irrigation water, transport (rural and urban), rural energy and power support to the rural poor. The main expectation is that these activities will guarantee poverty reduction among the extreme and sustainable development through; Rural Electrification, Rural water development and supply, Rural Transportation Development and Rural Communication development in Nigerian villages.

Thirdly is the Social Welfare Service Scheme (SOWESS). This component of NAPEP deals with Special education, primary health-care services, establishment and maintenance of recreational centres, public awareness facilities, youth and student hostel development, environmental protection facilities, food security provisions, micro and macro credits delivery, rural telecommunications facilities, provision of mass transit, and maintenance culture.

The fourth is Natural Resource Development and Conservation Scheme (NRDCS). The aim of this strategy is to harness agricultural,

water and solid mineral resources, conservation of land and space (beaches, reclaimed land, etc.) particularly for the convenient and effective utilisation by small-scale operators and the immediate community. (FRN, 2001: 3; Aliyu, 2001: 4-5). By this expanded discussion on the origin and nature of poverty reduction strategy in Nigeria; it is significantly shown that the content and scope of NAPEP is no doubt comprehensive and reflects the multi-dimensional nature of poverty.

In the next section, the usefulness of ownership analysis of poverty reduction strategy is shown to determine how the implementation of NAPEP has fared in eliminating abject poverty in Nigeria. It is extended to explain the ownership of vision, its conception and application across the three tiers of government.

### **OWNERSHIP OF NAPEP AND ITS IMPLEMENTATION**

Achieving implementation reflects concern on ownership of vision. This is because as Akash (1998: 96) argues "ownership of vision is important .If the vision is conceived and imposed by an external force, then the degree of commitment or the quality of support at home is likely to be weak .On the other hand, a domestically owned vision generally reflects a higher degree of commitment through a more realistic concentration of the vision". To this end, we therefore ask, what is the relationship between ownership and implementation structure of NAPEP within the three levels of governments in Nigeria?

Taking it from the national level, the NAPEP Blueprint (2001) has the National Poverty Eradication Council (NAPEC) as the apex organ for policy formulation, coordination, monitoring and review of all poverty eradication activities in the country. The council is chaired by the President while the Vice-President is the Vice Chairman. The Secretary to the Government of the Federation is the secretary of the organ, while 13 ministers whose ministries are involved in poverty alleviation activities are members. The participating ministries in the scheme are those of agriculture and rural development, education, works and housing, women affairs and youth development, industry, science and technology, solid minerals development, water resources, health, power and steel, employment labour and productivity, environment and finance. The Chief Economic Adviser to the President and the National Coordinator of NAPEP are also members of the council.

This apex body possesses the entire authority that determines the nature and manner in which resources are allocated as well as the beneficiaries. Be that as it may, the compositions of this body are mostly the members of federal executive council. This composition shows that the ownership of the poverty reduction strategy is to great extent in hands of government elites and therefore certifies NAPEP as

a policy product of few government officials (executives) in collaboration with donors (IMF and World Bank) to propagate the adoption of strategies from North in poverty reduction. While few executives of the federal government remain at the policy centre of poverty reduction, other state actors such as the parliament or parliamentarians that represent(s) the entire citizens are excluded at this important aspect poverty reduction policy process. Similarly other non-state actors as labour and civil society organisations are equally debarred from making direct input in poverty reduction policy process at the national level.

At the regional level (State governments), the ownership status of the poverty reduction strategy merely reflects concern on consolidating what is obtainable at national level. The state government is expected to facilitate the implementation by existing as a coordinating unit headed by State Coordinator. It has its highest decision making organ, State Poverty Eradication Council (SPEC) with the Governor as the chairman. Like the national, the members of the SPEC include the relevant commissioners responsible for state poverty eradication programmes and the State coordinator of NAPEP. The body is expected to submit quarterly report to the NAPEP to update NAPEP of the activities.

At local government base, what exists as the structure for the national poverty eradication reduction programme is the Local Government Monitoring Committee. The responsibility of the committee is to facilitate effective implementation of NAPEP intervention initiatives. While these efforts and structures are put in place, it is observed that it is devoid of the essential ownership principles that could drive the fight against abject poverty. The local government structure for poverty reduction strategy rather does not recognize the observation of the NAPEP blueprint that the failure of previous pro-poor strategy is a function of lack of proper targeting and input of beneficiaries. In as much as this is acknowledged, it is not reflected in its formulation and implementation. The NAPEP action plan only recognizes executive state actors at federal and state level and the special interest of the IFI to the exclusion of Local government and non-state actors in the entire poverty reduction policy process.

This therefore explains that poverty reduction strategy as initiated and implemented in Nigeria disconnects the hard core, those at verging of drifting into abject poverty and civil society organisations including other non-state actors from taking active part in the entire pro-poor policy process. On the other hand, the programme rather reflects a design from North that is the interest of World Bank and IMF. This design it concerns Poverty Reduction Strategy Papers (PRSP) is

characterised by; financial and trade liberalization, privatization of public enterprises, public sector reform and maintenance of current account and fiscal balance consistent with lower debt levels. Also associated with this is the heavy involvement of international donor in preparing documents and conditionalities in release donor fund. The internal SIGs who have captured Nigerian state, further contribute in alienating the citizens especially the poor from benefiting from the available opportunities offered by the pro-poor policy. This they do by diverting the opportunities provided by PRSP to their *kingsmen* and allies as political patronage. All these reveal that NAPEP rather than allowing the national interest to propel in the fight against poverty acts the script of the IFI. The implication of these reflects on Human Poverty Index (HPI) examined in three basic dimensions of human development on percentages between 0 and 100%. The human poverty index (HPI) of 1999-2007 is shown in table below

**Human Development Report. Human poverty index (HPI) (1999-2007)**

Human Development Reports (HDR) (YEAR)	Human Poverty Index (HPI)		Population of people not expected to survive at age of 40 (Longevity) %	Population without Adult literacy (Knowledge) %	Population without access To water, health & sanitation %
	Rank	Value %			
1999	63	38.2	33.4	40.5	51
2000	62	37.6	33.3	38.9	51
2001	59	36.1	33.7	37.4	43
2002	58	34.9	33.7	36.1	43
2003	54	34	34.9	34.6	38
2004	57	35.1	34.9	34.6	38
2005	75	38.8	46.6	33.2	40
2006	76	40.6	46	NA	52
2007	80	37.3	39	30.9	52

Source: United Nations Human Development Reports on Human Poverty Index 2007.

Taken for granted that the prerequisite for reducing poverty in any country is to ensure that the process of poverty reduction strategy is people-driven, with broad-based participation of civil society and other relevant stakeholders, NAPEP ought to be owned by three main actors; the State, Civil society (including traditional civil society groups and social movements beyond the NGO phenomenon like labour, students' organizations, rural and community based groups), and market (the private sector).

This takes us to the participation concern that determines a process through which stakeholders', that is state-actors and non-state

actors, shape and share control over poverty reduction initiatives. These stakeholders are vital ingredient that promotes national ownership in the process of reducing poverty. Considering this, it is desired to note that the level of participation and agreement of the executives, civil society, political parties and Parliaments in the governing process of poverty reduction in Nigeria does not reflect the true dimension of national ownership. The implication is increase in the number of people living in poverty in irrespective of several efforts. Above all, the introduction as well as implementation of post military poverty reduction strategy (NAPEP) which has capacity of reducing poverty in Nigeria unfortunately failed to stem the rising population in poverty over years because of inputs from the south, the target citizens and state.

However, to buttress that ownership challenge remains a clog in fighting poverty in Nigeria, the poverty situation in Nigeria shows that poverty has increasingly worsened from 1980 to 1996 (Federal Office of Statistics of Nigeria (FOS, 1999) and has not improved. The incidence of poverty rose from 28.1% in 1980 to 46.3% in 1985, but dropped to 42.2% in 1992 from where it rose sharply to 65.6% in 1996. This continued to raise to 70% in 2001 Canagarajah, Ngwafon, and Thomas (2002). Similarly, the data from National Bureau of Statistics, 2005 puts poverty incidence at 54.4% at estimated population of 126.3 million and 68.70 millions living in poverty. The trend indicates that there is a drop in the incidence but the population in poverty (68.7 millions) shows that more Nigerians are living below poverty line. The details of poverty profile in Nigeria are shown in the table below.

**Table 1**  
Poverty trends in Nigeria (1980-2004)

Year Poverty	Incidence %	Estimated Population (Million)	Population in Poverty (Million)
1980	28.1	65m	17.7m
1985	46.1	75m	34.7m
1992	42.7	91.5m	39.2m
1996	65.6	102.3m	67.1m
2004	54.4	126.3m	68.70m

Source: National Bureau of Statistics (2005).

While the trend of poverty as explained in the above table reflects the general poverty spread over years, the study identifies two levels of poverty in Nigeria; core poor and moderate poor. Considering the period, 1980-2004, the proportion of the core poor increased from 6.2% in 1980 to 29.3% in 1996, and then came down to 21.8% in 2004. For the moderately poor the picture is quite different as the proportion recorded

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increased between 1980-1985 from 21.0% to 34.2%; and for 1992-1996 from 28.9% to 36.5%; but decreased during the periods 1985-1992 from 34.2% to 28.9%; and in 1996-2004 from 36.3% to 32.4 %.

**Table 2**  
Distribution of the Population in Poverty (Using three Boundaries)

Year	Core Poor %	Moderately Poor %	Non-Poor %
1980	6.2	21	72.8
1985	12.1	34.2	53.7
1992	13.9	28.9	57.3
1996	29.3	36.3	34.4
2004	22	32.4	43.3

Source: National Bureau of statistics (2005).

Besides, the UNDP (2003) estimate puts the percentage of the poor in Nigeria between 66 and 70%; it is based on the estimate incidence increase of 10% every three years. This confirms the consensus that, poverty and people entering poverty status is on the increase. (World Bank, 1990; Fields, 2000). In the same vein, Kirk Leigh (2007: 9) reports that, Nigeria is now considered “one of the 20 poorest countries in the world. Over 70% of the population is classified as poor, with 35% living in absolute (core) poverty”. Going by the statistics and by the 1991 population figure of 120 million, those living below the poverty line were 84 millions. If the country’s population has grown to 140 millions according to the new 2007 figures then, by analogous reasoning, the number of people living on less than one dollar in a day must have risen up to 98 millions. This means that another 14 millions impoverished people have been unleashed in the country, Nigerian *Business Day* (June 7, 2007: 52). A greater majority of the poor classified in this category are rural dwellers that depend on agriculture for food and income. The table below illustrates the distribution of poverty by sector.

**Table 3**  
Relative Poverty Incidence by Sector (1980-2004)

Year	Urban %	Rural %
1980	17.2	28.3
1985	37.8	51.4
1992	37.5	46
1996	58.2	69.3
2004	43.2	63.3

Source: National Bureau of Statistics (2005).

It can be seen, that for each year, poverty incidence has predominated in the rural areas. As Nigerian National Bureau of Statistics (NBS 2007: 25) records, “the population of Nigeria is increasingly becoming one of the poorest in the world with income *per capita* less than US\$500. In addition one of every five Nigerian children dies before his or her fifth birthday, while one of every three child is malnourished. The child mortality rate among children living in the poorest 20% of the population is three times as high as the rate among children of the wealthiest 20%.” This no doubt has put many Nigerians in the jeopardy of impoverishment and of course the need to fight the scourge becomes of essence.

The situation of poverty, besides, the preponderance of poverty amidst anti-poverty strategy in Nigeria further attributes the result to the cut off of the people from the pro-poor policy. Accordingly, Ajakaiye (2002: 25) adds that Nigeria government established NAPEP to address “the problem of ineffective targeting of the poor, lack of involvement of beneficiaries, social partners and other stakeholders in planning and evaluation and top bottom approach in programme planning and implementation”. However, the key lesson that emerges from this is the incontrovertible fact that the poverty reduction strategy of Nigerian state is not targeted at poor considering that NAPEP policies and programmes have no input from the people. This follows that National ownership which guarantees a deep appreciation and commitment to the policies as well as their better understanding is not available in NAPEP.

### **THE IMPORTANCE OF OWNERSHIP TO NAPEP**

The absence of ownership is a critical missing link. For the reason that when policies are owned and managed by concerned people, an enabling prospect that improves the chances of success through an injection of historically derived practical realities in the policies and programmes are assured. Accordingly, Dahl (1971: 8) adds that “what determines public policy is actually the net effect of the pressures of interest groups, which are usually so many and balanced that no single one wields excessive power”. In addition, policy ownership recognizes that participation of citizens especially those targeted by pro-poor policy increases the propensity of the programme to succeed. This centres on the premise that poverty reduction strategy begins with the citizens, especially the poor contributing in shaping the policy. This is not limited to the targeted beneficiaries alone because based on the principle of Common Agency, a world of interest groups, together with parties, the government, donors and others, come together for talking, negotiating and forging a consensus. Essentially, this

synergy allows interested parties to get involved as they share in the vision of the programme which invariably enhances their willingness and understanding of Poverty Reduction Strategy.

As earlier noted NAPEP by scope and content has the capacity of eradicating extreme poverty but bedevilled by absence of vision, commitment and understanding which has constrained the programme from realising its objectives. All these could be addressed if there is policy ownership. Essentially resolve the various incongruities that exist within the citizens and lack of understanding by policymakers. To this end, the fundamental burden of poverty reduction strategy of Nigerian State is caused by overwhelming influence of donor interests becomes controlled once poverty reduction enjoys the status of National ownership. Also the primary challenge to the prevailing lack of Government and citizen commitment to reduction of extreme poverty will be resolved by policy ownership.

Ownership promotes governance structure that facilitates bottom driven poverty alleviation strategy. For instance, the development of NAPEP as requirement for accessing resources under the World Bank's poverty reduction and growth facility (PRGF) should have reflected peoples view especially the targeted poor as a way of accessing their commitment and understanding of the PRSP cared for them. This is captured in the review of the PRSP approach by United Nations Conference on Trade and Development where it notes that "the new focus on poverty and social problems does not replace the development strategies implemented under structural adjustment programmes but complements them. This is because; the underlying premise of the PRSP remains liberalization, greater openness and rapid and close integration into the world economy as the key to growth. The PRSP continue to reflect the SAP emphasis on 'belt-tightening' economic frameworks, liberalization, and privatization". (UNCTAD 2002: 58). UNCTAD further cautioned that the approach is unlikely to succeed if it is simply a matter of integrating pro-poor public expenditure patterns with deeper and broader structural reforms and the macroeconomic policies of the eighties and nineties. Agreed that Nigeria's poverty reduction strategy (NAPEP) is an adoption from PRSP, it falls short of national ownership resulting from lack of popular participation and initiatives required of stakeholders. The policy ownership if introduced could check the concurred ambivalence of top political leaders and resistance by other senior politicians and government bureaucrats that embrace NAPEP.

It is therefore, noted that if the poverty reduction strategy is shrouded with principles of ownership Nigerian government will not be implementing ideas that emanate from North (IFI) and other de-

velopmental partners without critical input that serve their interest and need.. The conditionality has constrained such freedom thereby preventing the country from taking the lead in pro-poor policy as well as undermined her ability to advance human well being. This view is shared by Commission on Human Security which notes that, “human security starts from the recognition that people are the most active participants in determining their well-being” (CHS, 2003: 68). It is therefore obvious that interventions aimed at reducing poverty are bound to meet with limited success if the poor themselves are not given a prominent voice in selecting, designing and implementing poverty reduction programmes and projects. The reasons are obvious: “Poor women and men have detailed knowledge and have context specific criteria about who is poor and not poor” Narayan (2000: 274). Therefore, the participation of organized social and political groups is a key strategy for promoting national ownership and domestic accountability. At this point, it is noteworthy, to examine how ownership can be brought into poverty reduction strategy of Nigerian government.

#### **CHALLENGES TO INTRODUCING OWNERSHIP IN NAPEP**

Besides the imperatives that Ownership will make NAPEP work for Nigerians, it is limited by its dynamic nature and conflicts. This is not limited to Nigeria alone; most other African countries suffer the same. “For too long, Governments in developing countries and major donor agencies started with top-down approaches with well-meaning experts telling local communities what to do”. (Johnson, 2008: 5) She further notes that this approach is still common today and leads to a range of problems which includes; first, the diagnosis of the problem is often incorrect. Second, even if the diagnosis is correct, without local participation the design of the intervention may be flawed. And third, and perhaps most important, if local people don’t participate in the process of decision-making, they don’t own the project. They will watch from the sidelines, wondering why certain decisions were made, and assuming that if the whole thing breaks down someone else will come and fix it. Instead, what we need is for people to own the decisions, and be deeply involved in determining the success or failure of the outcome. This played out in the structural adjustment programmes (SAP) of the past where the aid conditionality of donors restricted the initiatives and ability of Nigerian State and later caused civil protest of 1986. By this circumstance, Nigeria state lacks visible progress towards developing country-driven strategies, due to two aspects of the PRSP process: (i) the international donor community is too heavily involved in preparing documents and organizing consultation processes; (ii) donor funds are released with implicit conditio-

nality. This will remain so until Nigerian state grows out of debt and aid dependency.

Adding to this is the strong desire of development partners to still prefer to have development programs they can identify as their own. In this regards the nature and manner donors often come to recipient countries with their own priorities and projects, in a hurry to meet targets and disburse money has led to inadequate consultation and understanding that are pillars for achieving policy ownership. The consequence is hasty actions which limit inputs from the potential pro-poor beneficiaries.

Accordingly, this attitude has made Nigeria government to mould proposals to what the donors “want to hear”; so as to attract the World Bank contribution to its financing. This drives the inability Nigerian government to essentially reflect broad based participation of civil society, marginalized groups (the poor), private sector, and non-government organization in programme. This is equally evident in the composition of the policy actors that make up NAPEP Council and responsible for lack of coordination at three levels of governments, thereby contributing to set backs that hinder the objectives of wiping out absolute poverty. The foregoing is a prominent challenge that what thwarts true ownership in anti-poverty programmes and development policies in Nigeria.

Politics and policy making in Nigeria is characterized by rent seeking behaviour and patron-client relations. These kinds of political systems offer little coordination of policies, low inputs from the people and poor delivery of services. These imperfections open opportunities for the government to pursue its own interests and for special interest groups (SIG) to influence their own way. As a result of these influences, these organizations become transformed by their managers into “rent-generating machines”, diverting resources from producers or consumers for the exclusive benefit of small groups of politically connected people. “Ominously, these special interests –including those controlling oil, natural resources and other wealth– sometimes turn against reforms even if they are pro-market in general, when they fear that their privileged positions and capacity to earn rents are under threat”. (Dalmazzo *et al.*, 2001: 12). These bring to the fore the issues and problems associated with political culture and the politicisation of programmes and projects. However, the Nigerian reality, point to the fact that, political differences, are decisive factors in the accentuation of poverty in different location in Nigeria. This arises when relevant schemes and programmes are resisted in some regions/zones or states simply because of the perceived advantages the implementation could confer on some political parties.

Above all, ownership helps in achieving good management needed to fight poverty. Nigeria has challenge here, not due to lack of resources but inability to make their economy work for the citizens. This has consistently led to beggarly manner in which Nigerian state relate with Bretton Woods Institutions. Therefore there is need to ensure that macro economic targets that will translate to structural, physical and human development targets are at reasonable balance. For all intents and purposes, this will reduce the dependence of Nigerian governments on aid as alternative to increase their budgets and deliver goods and services or other political promises made to citizens to the risk taking policy actions that could undermine their political support and or cost them the next election.

### **STRATEGIES FOR ENHANCING NATIONAL OWNERSHIP IN NAPEP**

That lack of ownership in NAPEP is causing increasingly unabated rate of poverty in Nigeria is already established but lessons emerging from it suggests ways ownership can be brought in, to make it work for the people, especially the extreme poor. It is therefore imperative that NAPEP pays more attention to including the poor and other stakeholders in the quest for the achievement of human advancement in Nigeria. In this regards, there is need to embrace shared-governance in poverty reduction process. Shared-governance is the process where by government, the multiple partners and interest groups actively participate in formulating and implementing pro-poor programme. Essentially, Ajakaiye (2002: 27) adds that “considerable resources can be mobilized if the private sector organizations, non-governmental organizations and community based organizations are invited to make specific contributions. Their substantive involvement in terms of pledges of resources will promote the transparency, accountability and bottom up approach to diagnosis, analysis; strategizing and implementing poverty eradication programme in Nigeria. Above all it will make for sustainability of programmes, because changes in leadership and other actors are unlikely to happen simultaneously in government, private sector, NGO and CBO”.

The import of these remark is an emphasis on collective responsibility achieved by joint effort of concerned stakeholders that seek to address the challenge of policy inconsistency and exclusion in a pro-poor policy that characterize Nigeria’s poverty reduction strategy. The exclusion of non-state actors does not only affect the legitimacy of the formulated policy but participation and accountability. Therefore, “empowering the poor requires the removal of all institutional barriers that limit their choices and prevent them from taking action to improve their well-being. More particularly, empowering the poor

includes strengthening the basic principles of good governance by enhancing popular participation, improving efficiency in pro-poor development and promoting democratic accountability and transparency” (Bonfiglioli, 2003: 67).

Concurring to these submissions, it is emphasized that, “there should be sufficient participation of the grassroots people in the identification and implementation of projects affecting their lives based on broad consensus. This will not only increase their commitment to such programmes but will also de-emphasize the erstwhile perception of such programmes as conduit pipes for national cake sharing, which they feel is responsible for their poverty” (Obadan, 2002: 24). To make amends, the pro-poor policies should involve the formation of a “contract” between (actors) the state, citizens and donors (where applicable). The configuration of donor partners, state and non-state actors in public policy arena forms the “iron triangle” of public policy. The notion of an “iron triangle” promotes policy actors relation “with one another –of alliance, disregard overt competition– constitute the social relations of governance through which struggles over influence and outcomes are played out”. (Ojanen and Gould, 2003: 48). At this juncture, the following strategies are considered in order to attain the benefits of bringing ownership in NAPEP.

### **CONSULTATION**

Specifically, enhancing ownership of NAPEP can start with technical committee to prepare guidelines for an interactive consultation process with government officials, NGO, women’s associations, trade unions, religious associations, traditional authorities, research institutions, media, farmers’ associations and development partners at local, State and national levels. The technical committee should propose the terms of references, the time line, the structure and process for participation of the various groups.

The consultation process should begin with the grassroots, from Local Governments through the State to the National levels. In essence, the justification for these reflects concern on the fact that greater number of the poor dwell at rural areas. Therefore getting the local government official, internal partners (community based organizations, women’s association, trade unions, religious associations, traditional authorities and farmers) and external partners to participate and contribute their views and interests will no doubt lay a foundation for sustainable policy ownership for poverty reduction in Nigeria. At the state and national levels, government officials, internal and external should meet and brain storm in order to contribute their views in designing National poverty reduction strategy. However at the end of

various group consultative meeting on the four themes of NAPEP, there shall be a joint National consultative forum where each entity should send two delegates to harmonise their propositions with the technical committee. It is expected that the consultation will allow for production of qualitative and quantitative data from perception of poverty surveys both from the rural and urban. This will be achieved through a combined method small group discussions, interviews and direct observation on poverty and its solution.

### **IMPLEMENTATION**

The outcome of the consultation process will guide the restructuring of NAPEP to reflect principles of ownership at the level of implementation. The implementation structure should take into consideration previous marginalized groups as local government, parliament and civil society organisations. The Legislative Assembly should be adequately involved in implementing NAPEP. The parliamentarians as the representative of the citizen have lots to do in ensuring that principles of national ownership are promoted. The parliamentarians should engage in oversight functions such as monitoring the various activities geared towards implementing NAPEP, especially in budget monitoring and public finance management. This is essential given that legislative assembly have people from various backgrounds; geographical locations and political parties that allow for effective debate and inputs.

Local government officials should be involved in the formulation and implementation process just as suggested at the consultation level. The role of the local level is most essential because this is where the greater population of the poor find themselves and their direct participation in deciding, identifying and managing the process that lift them from poverty will get desired result. More so owning the implementation process of NAPEP from the local level bridges the gap that had caused the insufficient transfer of resources to the local level by NAPEP. This can be achieved through decentralization of responsibilities which had been much centred around national and to a little extent at state level. Therefore strengthening the capacity of local governments to elaborate and implement local development plans, effectively and transparently manage and account for budgeted expenditures and their knowledge on monitoring and evaluation, is needed to ensure that an effective and timely implementation of NAPEP is achieved.

Also, the governments at all level is encouraged to engage civil society groups to monitor and evaluate the implementation of NAPEP through the establishment of an Observatory for NAPEP monitoring and evaluation. The institutional set-up of the Observatory, its specific responsibilities and its relationship to the Government's central, state

and local steering committees and monitoring and evaluation units are very essential in two significant ways. One, the civil society observatory checks the parochial and politicization of identifying target beneficiaries of NAPEP. Secondly it stands in gap between government official and citizens to ensure financial and process accountability as well as measure the impact of NAPEP in fighting poverty in Nigeria.

The role of development partners that is, the IFI in implementing NAPEP is very critical since the manner and nature of their involvement is attributed to major cause of lack of ownership in NAPEP. To reverse this role, government should play the leading role in the NAPEP consultations and implementation; development partners could provide financing for various stages of the process and also participated in thematic groups, alongside other stakeholders. However the government and civil society groups should drive the entire inputs required in fighting poverty without adopting their documents. This if achieved will avoid the repeats of SAP and other related developmental initiatives of the North that are driven by liberalization policies of IMF and World Bank. On the other hand, an advice to IFI is that they should recognize that domestic factors do matter and it is crucial to identify entry points for effective assistance in order to promote the integration of aids into Nigerian governments' development agenda.

### **FOCUSED POLITICAL AGENDA**

Ownership in NAPEP can not be achieved if there is no effective leadership. Nigerian state is quite unlucky in this area as it has very unstable political focus. Apart from long years of military regime that has created a psyche of parochialism and rent seeking among leaders and by extension to some Nigerians ,it has remained very challenging to conduct a free and fair election for the past ten years of the present democratic regime. It is an evidence of state without focused political agenda as well as lack of fundamental for political correctness. Essentially Ownership starts with power of vote which invariably is absent in Nigeria. Therefore for NAPEP to acquire an ownership standing that can enable it fight poverty, the citizens must be empowered to have ballot box relevance .It at this stage that a leader who can stand firm and negotiate without blinking before IFI can guarantee poverty alleviation and human advancement because such person has the mandate of the citizens.

### **CONCLUSION**

Against the background of this study, its revelations have shown that there is lack of ownership in NAPEP. To arrive at this, it first shed light on the concept of Ownership and discussed from three perspectives of

origin of vision, conceptualization and active participation which culminate to establish national ownership. It also examined its theoretical background in relation to NAPEP using Common Agency model. All the same, the significance that comes into view clearly from theoretical framework of analysis examined in this study is that successful fight against poverty depends on national ownership and ownership depends on successful processes in which domestic participants effectively involved.

Subsequently, the origin of NAPEP, poverty profile, importance of ownership in poverty reduction and strategies for enhancing ownership in NAPEP are systematically examined. The result is that engaging a wide range of officials, market participants and civil society organizations in NAPEP must be given prominence. Nigerian government should as a matter of sincerity of purpose change the perception of regarding PRSP as a document prepared solely as a means of securing financial assistance or fund raising tool from the World Bank, IMF and other development partners, but rather a blueprint of Northern nations aimed at accentuating imperialism in the countries of the south. Therefore fighting and eliminating extreme poverty can not be achieved for Nigerians by IFI. Essentially what Nigerian governments and leaders need at this time is to insist on their convinced ideas and change of mind-set by government official to reposition NAPEP in the context of national ownership and reduce the incidence of poverty.

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## **THIRD PART**

# **PROPOSALS TO ALTERNATIVE POLICY DESIGNS FOR POVERTY ERADICATION**



**DENNIS A.V. BROWN, PHD\***

### **3.1. STRUCTURAL ADJUSTMENT AND THE NEGLECT OF INTERGENERATIONAL POVERTY IN THE CARIBBEAN**

#### **INTRODUCTION**

In this paper the case is made that much of the prescriptions relating to the reduction of poverty and improvement in the quality of life of the people of the Southern Hemisphere that emerged during the period of Structural Adjustment is informed by a neglect of the historical traditions that shaped the character of poverty in these places. The weight of history or the historical endowment of exploitation, deprivation and neglect that are features of historical Caribbean political economy continues to exercise undue influence on the poverty landscape of the region. This manifests itself in the form of social inequality and in circumstances and characteristics at the household level that conduce to the reproduction of poverty across the generations. This historical endowment is hardly considered in the analyses of the local context by the institutions responsible for the oversight of Structural Adjustment programmes in the countries of the South. The paper suggests that the positivist-empiricism of the Living Standard Measurement Surveys employed by these institutions obfuscates the structural inequality that sustains poverty. In-depth interviews conducted in

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poor households in the territories of the Eastern Caribbean are used to substantiate the argument. The paper closes by offering solutions.

### **STRUCTURAL ADJUSTMENT IN THE CARIBBEAN**

As policy, Structural Adjustment gives expression to mainstream Economics' trumpeting of the power of market forces as the most efficient allocator of resources in an economy. This position is in turn based on a philosophy that suggests that human beings achieve the greatest satisfaction and potential for self fulfillment when they are free to pursue their interests unfettered; hindered only by the prohibition against inflicting harm on others and the logic of the forces of supply and demand that constitute the market. The freedom *from* want that is central to communitarian approaches to social organization is replaced in this doctrine by the freedom *to* pursue those activities that allow individuals to fulfill themselves. This includes providing for themselves and their families. According to Economic Neoliberalism those in a position of want and deprivation at the end of the day are those who have not come to terms with their moral responsibility of exercising their freedom to engage in productive activities that lead to the satisfaction of some need in society.

From this position it follows that virtually any intrusion of the State into the production, marketing and distribution of goods and services in the economy is anathema. Where economic, downturn, stagnancy or crisis exists it is due to the hindrance of the free workings of market forces by the state. The solution to these problems is said to lie in institutionalization of the free market and making the private sector the main engine of growth in the economy. There is no recognition of the endowments to the contemporary character of poverty bequeathed by hundreds of years of colonial relationships. Such considerations had been recognized in those quarters from which Development Economics had emerged in the late forties through proponents such as A.W. Lewis, P. Rosenstein-Rodan and R. Nurske<sup>1</sup>. This branch of economics acknowledged the importance of colonialism in shaping some of the contemporary economic and social contours of the newly emerging countries in the South and argued that the Universalist principles of mainstream economics did not apply to them. It also recognized the limitations of sole reliance on market forces in the process of social development on which the new nations were about to embark. Even so, the prescriptions it put forward were solely macroeconomic

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1 See Meier, Gerald 1984 "The Formative Period" in Meier, Gerald and Seers, Dudley (eds.) *Pioneers in Development* (New York: World Bank/Oxford University Press).

ones, oblivious to occurrences at the level of the community and the household. Thus, while recognizing the limitations of market forces as a means of developing the economies of the new nations, Development Economics struggled with, but never successfully incorporated, the sociological categories produced by the region's history<sup>2</sup>.

Structural Adjustment (SA) was first introduced into the Caribbean in Jamaica in the latter years of the decade of the seventies. Its advent in the region was associated with the economic crisis that followed on the massive increases in the price of oil associated with the cartelization of that product by its main producers in the Middle East. This escalation in the price of fuel would have been bad enough in itself except that it took place at the same time as a decline on the world market in the prices of the primary exports of the poorer countries of the world. By the time the countries of the Southern Hemisphere turned to the International Monetary Fund and the World Bank for monies to bail them out of the crisis that faced them, the considerations of special circumstances in these countries that had informed Development Economics had been superseded in international policy circles by notions relating to the universalism of free market economics. It was argued by the International Financial Institutions (IFI) that these countries were poor and in crisis not because of the hundreds of years of asymmetrical relationships between themselves and the North Atlantic countries, or because of structural features of the global economy. Rather, they were in crisis because of the inefficiencies and corruption associated with the State's involvement in their economies<sup>3</sup>.

The results of the implementation of this policy in the countries of what was then known as the Third World were mixed. The institutional reform and rationalization of the public sector associated with the World Bank and the monetary and fiscal prescriptions associated with the International Monetary Fund led to the stream lining of what was, in many instances, an unwieldy public sector staffed on the basis of patronage rather than functionality. Fiscal imbalances were also reduced and eliminated as new canons on government's role and function in the era of market centeredness came into play. Unfortunately, many of the cushions that had been provided for the poor by government's involvement in the economy in the form of subsidies and tariffs were removed. Also detrimental, but less immediately obvious in its effects,

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2 Wisman, Jon D. 1986 "The Methodology of Arthur Lewis, Development Economics: Economics as Pedagogy" in *World Development*, Vol. 14, N° 1.

3 Lal, Deepak 1983 *The Poverty of Development Economics* (London: London Institute of Economic Affairs).

was the reduction of state involvement in sectors such as health, education and welfare.

In the most recent scenario, the proponents of Economic Neoliberalism have now, in the face of overwhelming evidence, acknowledged that the economic downturn and dampening of demand faced by countries in the South are attributable to global economic crisis initiated by the bad management of mortgage in the North Atlantic. In general terms, they have now bought into the Keynesian type response of countercyclical fiscal policy, in the short term, as a means of countering the downturn. This clearly runs counter to the substance of the approach advocated by Economic Neoliberalism since it calls for massive state intervention in the economy. This, they argue, is all the more necessary since the private financial system is now in crisis as well. They argue, though, that the general rule of state sponsored intervention to stimulate local demand is not available to countries such as some Caribbean territories that are faced with “greater vulnerabilities” and where debt repayment sustainability is a problem. Their recommendation: more loans from multilateral partners to support fiscal reform. They also stand ready to assist such countries no doubt through another round of Structural Adjustment. The IMF in particular still has no vision of the much touted economic stimulus package for the economies of the North extending to the development of social infrastructure in the South<sup>4</sup>.

### **MONITORING THE OUTCOME: LSMS AND ANTI-POVERTY POLICY**

The International Financial Institutions (IFI) as did the governments of the region recognized that, in the short run, the proposed adjustments to the macroeconomic structures would lead to social fall-outs. As a consequence technical and financial support were provided to some countries to establish policy analysis units to monitor the living conditions of the people as a means of mitigating the negative impact of this fall out. In the Caribbean, living standard measurement surveys were instituted in Jamaica, Guyana and Trinidad and Tobago<sup>5</sup>. In addition, in Jamaica a social policy development unit charged with

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4 This means that in the latest round of economic crisis the households that are most in need to these types of resources to off set historically shaped capacity limitations and constraints will be left to fend for themselves on the open, but weakened market. See speech of IMF boss Dominique Strauss-Kahn in Jamaica, reported in the *Sunday Gleaner*, December 14, 2008.

5 These surveys were later introduced in the countries of the Eastern Caribbean. In this instance, though, they were funded and supervised by the Caribbean Development Bank.

the responsibility of administering the Jamaica survey of living conditions was established in the Planning ministry. These surveys canvassed information on consumption, education, demography, health and welfare and were conducted under the technical auspices of the World Bank with funding from the Dutch government. The surveys in Jamaica were run on an annual basis and provided valuable information on the immediate circumstances faced by the people of the country in the light of the changes associated with Structural Adjustment.

Living standard measurement surveys measure consumption and provide the basis for the derivation of a poverty line<sup>6</sup>. This is based on the cost of a minimum nutritional requirement as established by international health organizations such as PAHO<sup>7</sup>. Changes over time in the levels of poverty as measured by this instrument provided an important tool with which to monitor the effect of macroeconomic policies on the social well being of the population. This instrument provided a definition of poverty that was a point in time measurement of persons falling below the line. The survey data allowed for the population to be differentiated on the basis of age, gender, geographic location, health, welfare and educational status. On the basis of this understanding poverty eradication policies were formulated and institutionalized<sup>8</sup>.

There are a number of grounds on which this approach to the eradication of poverty can be critiqued. The two that will be highlighted here are as follows: it failed, certainly in the initial stages, to address the dynamic nature of poverty. At any two points in time the households falling under the poverty line will be different since over this period some will move into poverty and some will move out. For purposes of this discussion this is important since even as some households will move into and out of poverty, some households will remain under the line for extended periods if not indefinitely. This takes us to the second critique which is the failure to link the existence of some forms of poverty in the contemporary period to the historical development of the society. World Bank methodology acknowledges the existence of chronic, or long term poverty (defined as lasting up to

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6 Ravallion, Martin 1992 *Poverty Comparisons: A Guide to Concepts and Measures Living Standard Measurement Study* (Washington: World Bank), Working Paper 88.

7 Gordon, Derek 1989 "Identifying the Poor: Developing a Poverty Line for Jamaica" (PIOJ, Jamaica Poverty Line Project) Working Paper N° 3.

8 See Government of Jamaica "Jamaica's Policy towards Poverty Eradication and the National Poverty Eradication Programme" (Kingston: Government of Jamaica), Ministry Paper, N° 13.

8 years), but nowhere mentions intergenerational<sup>9</sup>. In recent times some analysts have linked data sets from the annual surveys and in so doing captured the movement of households into and out of poverty over time over the period that the surveys have been in existence<sup>10</sup>. However, the ahistorical nature of the poverty analysis conducted in these institutional and policy circles leaves us in the darkness as to what factors have produced those households that give exemplification to Beckford's notion of 'persistent poverty'<sup>11</sup>.

The antipoverty policies/measures derived on the basis of this analysis have had only limited effect due to historically based structural inequalities and the tenacity of certain expressions of poverty associated with them. In the case of Jamaica, the country with the longest running involvement with the IFI in the region, at the height of the impact that Structural Adjustment was to have on the society in the early nineties, the percentage of the population living below the poverty line spiked to 44.5<sup>12</sup>. This was after two decades of economic privatization. The policy makers and technocrats of the Jamaican government and the World Bank were faced with the question why were significant proportions of the people not able to share in the fruits of this privatization<sup>13</sup>. The answer the World Bank provided was economic growth. It described the problem as follows: "Three problems stand out in Jamaica's experience with growth since independence. First, growth has been too slow on average and too often negative. Second, it was achieved very inefficiently. [...] Third, growth has only recently started to break down the economic dualism that Jamaica shares with many other developing countries. *Growth in the enclaves and formal sector still does not draw enough labour and material inputs from the informal sector* (World Bank 1994; emphasis added<sup>14</sup>)<sup>15</sup>". In this analysis, although allusion to structural

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9 Ravillion (p.70).

10 Handa Sudhanshu 2008 "Moving on up: The Dynamics of Poverty in Jamaica 1995-2005" Paper presented at *Jamaica Survey of Living Conditions Twentieth Anniversary Conference*, Kingston, November.

11 Beckford, George 1972 *Persistent Poverty* (Oxford: Oxford University Press).

12 Up from 30.5% in 1989. The line is derived using the methodology developed by Foster, Greer and Thorbecke and utilized extensively by the World Bank in conjunction with data from its Living standard Measurement Surveys (LSMS). See Foster, J.; Greer, J. & Thorbecke, E. 1984 "A Class of Decomposable Poverty Measures" in *Econometrica* Vol. 56: 173-177. See also, Planning Institute of Jamaica 2000 "Report on the Survey of Living Conditions" (Kingston: PIOJ).

13 See "Jamaica Country Economic Memorandum".

14 World Bank 1994 "A Strategy for Growth and Poverty Reduction. Country Economic Memorandum" *World Bank* (Jamaica), April.

15 The deep structural and historical nature of this problem is evidenced by the fact that nearly fifty years before this Nobel Laureate A.W. Lewis defined it as the chief

inequality in the form of economic dualism is made, nothing is said of the mal-distribution of resources and the social effects that are associated with it. These not only manifest themselves currently at the household level in the form of lack of education, unemployment, inadequacy of housing and so on, but are also evident in the form of historically conditioned responses that find expression in areas such as gender relations, and mating and family formation patterns.

Some of the more recent measures of poverty in Jamaica have recorded levels of 17%<sup>16</sup>. Apart from the question of the basis and sustainability of this reduction, two recent manipulations of LSMS data have pointed to the existence of a hardcore of poverty that persists and reproduces itself in spite of the efforts of the policy makers. The first has already been alluded to. It is a longitudinal analysis of annual LSMS data<sup>17</sup>. The second is the use of this data to create a poverty map for Jamaica. In the first instance the data reveal a set of households that remain under the poverty line even while others move into and out of poverty. In the second instance, the map reveals that the poorest households in the country are located in the hilly rural areas of the country to which the ex-slaves retreated at the time of manumission. In the context of the historical development of the Jamaican economy these should be seen as markers of the existence not just of long term poverty, but poverty that is intergenerational. This pattern is repeated throughout the Caribbean.

What is the nature of the organic linkages between these types of households and the ways in which the region's economy and society have developed over historical time? What special features has this experience endowed these households with and therefore what are the best means of addressing these and therefore of formulating policies that speak to their inability to provide for their members? Analyses of point-in-time statistical data from the LSMS do not answer this question. Indeed, they tell us as much as they do not about the character of the social whole and its malformations within which poverty exists and is sustained. Poverty reduction strategies based on these data that isolate demographic categories within households and provide them with welfare do not appear to have effectively redressed poverty rooted in long term structural inequalities<sup>18</sup>.

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constraint to socioeconomic development among regions such as the Caribbean. See Lewis, A. W. 1954 "Economic Development with Unlimited Supplies of Labour" *Manchester School of Economic and Social Studies*, Vol. 22.

16 Planning Institute of Jamaica (2000).

17 Handa (*Ibid*).

18 Anderson, Patricia 2001 "Poverty in Jamaica: Social Target or Social Crisis" in *Souls*, Vol. 3, N° 4: 39-55.

The answers to the questions raised above lie in the historical political economy of the region and its effect on the socioeconomic landscape in the contemporary period, including its pattern of human resource development. It is in the labour market that the household is either able, or not able to garner enough resources to ensure adequacy for its members. It is not enough though to understand this relationship between the household and this market solely in narrow, short-term, economic terminology<sup>19</sup>. Issues of historically based structural inequalities that have been reproduced in the contemporary period are also central to this discussion as well. These have been accompanied by a legacy of neglect of the development of the human resources of the region. This ensures that a disproportionate number of its poor have inherited their condition from their immediate foreparents. Furthermore, there is a synergism of self reinforcing social mechanisms at work that underlie this process. This has tended to be neglected in the analyses conducted by the international financial institutions. The mechanisms are unemployment and a historically based mating and fertility pattern that conduces to unstable family life. Both of these factors are in turn associated with poor educational performance and a consequent failure to properly equip individuals for effective participation in the labour market. The other dimension of the social totality that affects poverty and its persistence that is missed by point in time statistical analysis is social stigma, exclusion and differentiation, aspects of social inequality that have their bases in class and racial differences. These issues are brought to the fore in the life narratives presented in this paper.

The “one size fits all” approach to the analysis of economy and its social spin offs that has been one of the signal features of Economic Neoliberalism and its policy prescription Structural Adjustment has tended to be associated with an ignoring, if not abuse, of the historical traditions of actual places. More than this however, it has provided the basis for misinformed, social policies that proved to be less than effective mechanisms for the eradication of poverty. Drawing on C.Y. Thomas’ typology of Caribbean poverty, arguments are advanced in support of the salience of chronic or intergenerational poverty in the region<sup>20</sup>. It is argued that the Caribbean’s historical political economy has endowed it with a legacy of exploitation and neglect of its human resources and social infrastructure that is associated with a prepon-

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19 Anderson (2001).

20 Thomas, C.Y. 1997 “The interrelationship between economic and social development” in Girvan, N. (ed.) *Poverty, Empowerment and Social Development in the Caribbean* (Mona: Canoe Press/UWI), pp. 20-49.

derance of the category of the poor that can trace its impoverishment over a number of generations. This stands in contrast to the *structural* poor, or those persons that have been made poor by some of the changes to the macroeconomy associated with Structural Adjustment and the *seasonal* poor whose poverty is related to seasonal variation in the availability of resources.

Conceptually, recognition of the differentiated character of poverty in the region is important. Although in the Caribbean, with its historically recent experience of plantation slavery, most persons have a relatively recent immediate forebear that was poor, a distinction has to be made between this type of person (even if he or she has been made poor by immediate changes in the structure of the economy) and one that remains in a situation of need and deprivation and can identify that condition in at least two generations of immediate forebears. In this paper it is argued that understanding intergenerational poverty is fundamental to any attempt to eradicate poverty, given the region's historical legacy. Furthermore, the study of poverty using quantitative, Positivist-empiricist, point in time survey data, has not carried policy makers nearly far enough in this understanding.

The feature of Caribbean poverty alluded to would be evident from any holistic consideration of the circumstances and conditions of the region's poor and especially those of the poorest households in the region. Instead, the measures and conceptualizations of poverty that have emerged under the technical direction of the institutions responsible for the implementation of Economic Neoliberalism, in the form of Structural Adjustment in the Caribbean do two things. Firstly, they obfuscate the structural inequality that sustains poverty across the generations since the positivism that underlies them, finds expression in the statistical analysis of individual differences. This deflects attention away from the character of the socio-economic formation within which these differences occur. Secondly, there is a consequent conflation of the various categories of poor people and a prescription of corrective measures that are oblivious to their representation in the national socioeconomic landscape as well as the differences that attend each of them<sup>21</sup>. The argument for the undue significance of intergenerational poverty is demonstrated through an examination of the historical political economy of the region. This analysis is then linked to qualitative household level data collected during the course of recent national poverty assessments conducted by the author and a team of researchers

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21 See Ravallion, Martin 1992 "Poverty Comparisons: A Guide to Concepts and Measures Living Standard Measurement Study" (Washington DC: World Bank), Working Paper 88.

on behalf of the governments of the OECS and the Caribbean Development Bank in the countries of the Eastern Caribbean<sup>22</sup>.

The quantitative data gleaned by the formal survey and household questionnaires and the data gleaned from the in-depth household interviews are of course based on different approaches to the measurement of social reality. It is important though that the complementary nature of the two types of data be understood. Their combination can lend much to enhancing our understanding of the causes and sustainers of poverty as well as some of the corrective measures that can be employed in the area of policy. This can happen in two ways. Firstly, qualitative data in the form of extended discussion on a topic can alert us to measurable issues that are of significance that have been overlooked. Secondly, qualitative data can enable us to understand meanings attributed to experiences that simply cannot be measured or quantified and yet are important for social outcomes.

### **THE HISTORICAL POLITICAL ECONOMY OF THE CARIBBEAN**

The Caribbean region is unique in world historical terms. The region is composed of tabula rasa societies established to create wealth primarily for persons beyond its shores. The wealth was generated through primary agricultural activity. This external orientation held negative implications not only for the organizational structure of the economy, but also the development of its human resources and social institutional framework. Economic growth has been episodic rather than continuous. This has tended to be concentrated in specific sectors and has therefore been accompanied by high levels of un and under-employment<sup>23</sup>.

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22 The households with which these interviews were done belong to communities that were selected as a part of a Participatory Poverty Assessment (PPA) component of the Country Poverty Assessments (CPA). These have been carried out in the countries of the OECS since the mid nineties. The CPA comprises an institutional analysis, a national household survey and the PPA. The PPA was conducted after the institutional analysis and the national household survey. The selection of the communities and the households in the PPA were done in a non-random fashion. This involved the use of census data as well as on a more subjective level the opinion of community development specialists. The communities are among the poorest in the country. The households were selected on the basis of discussions with field officers of social agencies working within them as well as on the basis of discussions with community members. They represent an instance of purposive sampling since the households are selected on the basis of the fact that they face challenges in surviving. These households generally represent the poorest to be found in the poorest communities in the respective countries.

23 The exception to this general rule would be in cases where the colony became one of settlement as opposed to the usual status as colony of exploitation. Such would be the case of Barbados in the English-speaking Caribbean and Costa Rica in Central

In practical terms, this means that the range of opportunities for people to develop their capabilities has been limited. The absence of organic linkages between the primary exporting sector and the rest of the economy means that the high external capital inflow that initiates the growth process is complemented by an equally heavy outflow once the demand for the product declines. The local private sector that is an integral part of the economic growth contributes to the hemorrhage of money and capital by their proclivity for consumption, their preference for speculation over production as well as their tendency to hold major portions of their resources abroad<sup>24</sup>.

Arthur Lewis attributes Jamaica's failure to take off economically in the nineteenth Century, for example, to a number of factors having to do with the marginalization of the needs of the population. These include the underdevelopment of infrastructure which he associates with the lack of development of the small farm sector as well as a failure to develop secondary education<sup>25</sup>. In historical terms the process of wealth accumulation in the Jamaican economy can be said to have been characterized by four features that are related to the existence of local deprivation. Firstly, it depended on the availability of abundant supplies of cheap labour. Secondly, it has mostly been in the hands of foreign individuals and corporations whose chief concern has been the promotion of the export of primary produce. Thirdly, it has been insufficient to utilize the available physical resources and has therefore been attended by high levels of under and unemployment. Finally, the rate of accumulation has fluctuated over time due to three factors. The first of these is the changing levels of demand and prices for the country's primary produce. The second factor is the attendant political instabilities and uncertainties. The third factor is the unevenness in the rate of investment that has taken place in the economy<sup>26</sup>.

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America. In these places, because the colonists effectively created a home away from home they reinvested some of the surpluses generated into the infrastructural and institutional framework needed for the development of a broader spectrum of its people. See Levitt, Kari 2000 *The George Beckford Papers* (Mona: Canoe Press/UWI)

24 Harris, Donald J. 1992 "The Jamaican Economy in the Twenty-First Century: Challenges to Development and Requirements of a Response". Paper presented at the *Jamaica Thirtieth Anniversary Symposium on Preparing for the Twenty-First Century*, Kingston, p. 10.

25 Lewis, A. W. "Foreword" in Eisner, Gloria 1961 *Jamaica 1830-1930: A Study in Economic Growth* (Manchester: Manchester University Press).

26 Witter, M. 1991 "Rethinking Development: The Role of the State in Third World Development" in Wedderburn, J. (ed.) *Rethinking Development: Consortium Graduate School* (Mona: UWI).

A less than equitable history is also evident in the case of St. Vincent. This country has a long tradition of economic stagnation and underdevelopment. The sources of this underdevelopment are primarily economic, political and social. However, environmental factors have also weighed in against its full development in the contemporary period. In terms of its political economy, this territory's transformation from the un-development that characterizes existence in a state of nature was delayed by some 300 years of resistance to European domination and rule by the indigenous Amerindian population, until their defeat in 1797. This variation on the Haitian experience means that the country was incorporated relatively late into the global capitalist economy centered in industrial Western Europe. This "late" start was probably associated with the relative underdevelopment of its main economic sectors in the historical period. This in turn contributed to marked neglect of critical social sectors such as health and education. To make matters worse, changes in the international sugar market in the last third of the nineteenth Century associated with the emergence of beet as a competitor to cane undermined the viability of the industry in a number of Caribbean territories<sup>27</sup>. The high levels of crime and external migration noted in the historical records of this country are natural corollaries of such neglect. As if these problems by themselves were not enough, St. Vincent's socio-economic development has also been impeded by a litany of natural disasters. These include, in the historical period, the hurricane of 1898 and the volcano of 1902.

A similar kind of pattern is evident in the historical development of Grenada. Like St. Vincent it opted out of sugar cane production from as early as the late nineteenth Century (1891). This was replaced by nutmeg and cocoa<sup>28</sup>. According to one official report, "The colony is entirely dependent upon its agricultural resources and the leading exports are cocoa, spices and cotton. The first mentioned contributes about 85% of the exports and the second about 10%" (Grenada Annual Colonial Report, 1905). Not that this changed its essential character as a plantation society. What it seemed to have done, rather, was to retard the development of the society's class structure and social relations in a way that exacerbated the negative influences of the historical pattern of development that has been described. Data on land holdings and the relative share of land in the production of export and domestic crops bear out the plantation pattern<sup>29</sup>.

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27 Beachey, G. W. 1957. *The British West India Sugar Industry in the Late Nineteenth Century* (Oxford: Oxford University Press).

28 *Ibid.*

29 Brown, Dennis A. 2000 *The Political Economy of Fertility in the British West Indies 1891-1921* (Kingston: Canoe/UWI), p. 64.

One corollary of this kind of use of resources, and one that has implications for the thesis of intergenerational poverty, would be the existence of large numbers of under-skilled and underpaid workers. The Grenadian censuses of 1891 and 1921 tell us that of total populations of 53,209 and 66,302 respectively low level skilled workers comprised 38.6 and 36.2% of the labour force for those two census years. Presumably, if the type of economic arrangement that gave rise to the kind of human resource utilization that is reflected in the occupational profile outlined here persisted, as is argued by the proponents of Plantation theory, then so would the occupational structure and conditions of deprivation. "By the twentieth Century Grenada had become a marginal colonial possession of Britain. There were therefore no British investments in mining, manufacturing and agriculture and only limited commercial investment. Furthermore, the siphoning of the wealth of the country continued. Meeks quotes Brizan as estimating that in 1976 only 8.3% of the final value earned from nutmeg was actually retained in the economy. The rest we are told accrued to foreign companies involved in the processing and marketing of the product" (Meeks, 1988)<sup>30</sup>.

Even though insular variations exist, this pattern of wealth accumulation and the implications it holds for patterns of impoverishment lends distinction to the historical political economy of the Caribbean region. The variations have to do with a set of factors that range from accidents of history and geography to the nature and extent of the colonizing effort in any given territory. They all occurred, though, within a framework of control by external forces over the primary resources for the production of a monocrop through the use of cheap low level skilled labour power. Furthermore, to the extent that this type of political economy, or significant aspects of it, has persisted then there will also be some continuity in the patterns of impoverishment that obtain.

The problem with cross sectional LSMS as promoted by the World Bank as monitors of the social fall-out of impoverishment from Structural Adjustment is that they tend to miss the forest for the trees. Arguments about effects of structural adjustment on the quality of life of the people of the South have tended to highlight the causal relationship between the intrinsic features of this set of policies and poverty while ignoring the particularities of the societal

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30 Meeks, Brian 1988 *Social Formation and People's Revolution: A Grenadian Study*, PhD Thesis, UWI, Mona Campus.

context, including its historical dimensions<sup>31</sup>. Manifestations of impoverishment in the region in the contemporary period ought to be understood as being the product of a field prepared by the plough of history. It is only by understanding the background and continuities (institutionalization) of these contemporary manifestations of poverty that they can be effectively addressed through social policy interventions. Positivist, cross sectional survey data and a knowledge-set that has its basis in the North Atlantic academy produce a 'blind spot' in the study of poverty in regions such as the Caribbean that tends to conflate historically distinct types of poor people<sup>32</sup>.

The case study material on poverty that follows is located in the general theoretical category of Phenomenology. It is based on recognition that in order to understand and change people's circumstances one has to understand how the world in which they operate is understood by them. This is done through the use of Narrative analysis. This is a hermeneutical inspired approach that places emphasis on interpretation and context<sup>33</sup>. The interviews centered on a narration of their life experiences and how these have been affected by circumstances of deprivation by the respondents. The individual, it is held, operates within two overlapping levels of interpretation. First, there is the understanding of the world that is common to all those belonging to a particular culture and societal heritage (that which impels, but does not compel) and secondly, there is the individual interpretation and response to these circumstances<sup>34</sup>. These are reflected in the choices and decisions made by the individual. Epistemologically, the kind of approach to understanding poverty in the contemporary Caribbean that has been outlined here departs from the way of knowing that characterizes neoclassi-

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31 See, for example, Glewwe, P. and DeTray, D. 1988 "The Poor during Adjustment" (Washington: World Bank), LSMS Working Paper 48; Stewart, F 1997 *Adjustment and Poverty* (London/New York: Routledge). See also Chossudovsky, M. 1997 *The Globalization of Poverty: Impacts of IMF and World Bank Reforms* (New York: Zed/Third World Network).

32 Given the Caribbean's relatively recent history of bondage most families would have some fairly recent ancestral poverty. In this paper intergenerational or chronic poverty refers to those families that have always been poor. In the Caribbean, it is argued, the historical legacy has bequeathed a disproportionate number of such families. The seasonal poor and the structural poor are distinguished from the chronic poor by the fact that at some recent point in time they have been non-poor.

33 Patton, M. Q. 2002 *Qualitative Research and Evaluation Methods* (London: Sage).

34 The distinction made by Crotty between construction-ism and constructivism is pertinent here. See Crotty, Michael 1998 *The Foundations of Social Research: Meanings and Perspectives in the Research Process* (London: Sage).

cal mainstream economics that is the prism through which the IFI understand the world<sup>35</sup>.

### **THE NATURE OF POVERTY: CHRONIC POVERTY AND ITS INSTITUTIONALIZATION**

One useful way in which the extensive theorizing about the nature of poverty can be categorized is to understand these accounts as lying along a spectrum framed by structuralist accounts at one end and individualist accounts at the other<sup>36</sup>. The individualist explanations attribute poverty to weaknesses based in genetics or personality. The first category of explanation deems poverty to be the outcome of social arrangements that the individual has no control over. These are arrangements of classes, groups, agencies and institutions as they exist within a given socioeconomic framework that makes up any individual society. In the middle of this spectrum lies another category of explanation that locates poverty in the workings of mid-level institutions such as family and community. Proponents of this approach point to the existence of cycles of deprivation in which poor quality parenting deprived communities and low levels of aspirations and expectations become internalized and accepted as a normal part of the social milieu. Adults internalize these norms and values and in turn pass them on to their children who live their lives accordingly<sup>37</sup>.

For purposes of this discussion, the focus on some of the cultural and individual level mechanisms that contribute to the perpetuation of poverty represents an advance on the accustomed approach in social policy making circles in regions such as the Caribbean where these considerations tend not to enter the picture. Even so, the issue would seem to be a little more complex. Is it reasonable to conceive of social interactions based on a view of human beings as so entirely passive? How far does such a Functionalist type approach to the study of society take us in our understanding of and ability to modify human society? These theories also ignore the broader structural context and fail to account for how these individuals became poor in the first place<sup>38</sup>. Of course, the other question that arises here is how do

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35 For an excellent critique of this approach see Rist, Gilbert 1997 *The History of Development: From Western Origins to Global Faith* (London/New York: Zed).

36 Alcock, P. 1993 *Understanding Poverty* (London: Macmillan Press). See also Ryan, S. *et al.* (eds.) 1997 *Behind the Bridge: Poverty, Politics and Patronage in Laventille* (Trinidad: ISER/UWI, St. Augustine).

37 See for example Lewis, Oscar 1966 "The Culture of Poverty" *Scientific American*, Vol. 215, N° 4: 9-25.

38 Alcock (1993).

they escape from the cycle of poverty described by the intermediate level theories? In this regard, studies on the cycle of deprivation thesis conducted in the UK found that the children of those who were poor tended not to end up in poverty themselves, while those persons that ended up in poverty themselves did not come from poor households<sup>39</sup>. Studies of poverty in the Appalachians of North America point to the well entrenched pattern of intergenerational poverty there and indicate some of the sociological mechanisms that contribute to this phenomenon<sup>40</sup>. Is there, therefore, a relationship between the nature of the broader societal and macroeconomic context and the extent to which poverty persists within families across the generations?

The main components of the problematic that arises from this discussion are therefore as follows: how best do we understand poverty in the context of societies such as the Caribbean with an enduring structural asymmetry in its relationship to the North Atlantic economies<sup>41</sup>; what is the best way to conceptualize the relationship between the varying analytical levels that have emerged as a part of the study of poverty as a phenomenon rooted in and informed by historical experience; how much weight should be attached to human volition as opposed to structural constraint in the study of poverty over time; what are the mechanisms of transmission that lend continuity to the historical experiences and with what epistemic framework should we try to understand them; and finally what are the policy implications that follow from these considerations?

Data from three case studies are analyzed in this paper. One of the respondents is from Grenada. She is Marie, a 49 year old unemployed mother of 10 children for three different men, living in semi-urban Grenada. The other two are from the island state of St. Vincent and the Grenadines. One of these is a woman, Sylvia, unemployed mother of 5 for three different fathers. The second respondent is a man, Ska, 44 year old, small scale cultivator and father of five with three different women. At the time of the interview, Ska resided on a small plot of land in the hills of rural St. Vincent with three of his children. Their stories tell of the lived experiences of poverty in the region and its connection to the historically based structural inequalities that sustain intergenerational poverty. They also point to the mechanisms of transmission or continuity at the household level,

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39 Brown, M. and Madge, N. 1982 *Despite the Welfare State* (London: Heinemann).

40 Duncan, C. M. 1999 *Worlds Apart: Why Poverty Persists in Rural America* (New Haven: Yale University Press).

41 Of which the experience of Structural Adjustment would be one of the most recent expressions.

the interface between human agency and structure as well as the mechanisms of escape.

### **EXPERIENCING POVERTY**

In this paper poverty is understood to be a multifaceted phenomenon having as its chief characteristic an inability to afford a minimal standard of living defined either in terms of some basic need such as nutrition, or in respect of some standard commonly held by members of the society. Furthermore, its severest manifestations are intergenerational. The psychic dimensions of poverty not captured in formal questionnaire methodology also come out in their stories.

Marie says, "Sometimes when I get up at morning time or in the evening or whatsoever and look and see I don't have anything to give my children [to eat] it does disturb me. I does feel real hurt. But still, I does read my bible and I pray. I have faith and I say, is ok man the Creator won't make us sleep hungry. Even if I sleep hungry the Creator won't make my children sleep hungry. Sometimes even if is a hand of fig (green bananas) I does come upon, I will just cook it. And they will eat it. The children eating it".

Marie was born in 1961 to parents who were labourers involved in the processing of the main export agricultural crop nutmeg. In 1968 when she was seven her parents separated and she went to live with her grandmother. According to Marie, "It was hard, because I had to do things like bring load (carry produce packed in baskets to be taken to the market for sale). At that stage I not suppose to do that (she was too young she feels to be doing that heavy work)". Her grandmother Marie tells us used to be a market vendor. She continues, "And then she used to sell ice cream. I used to have to carry the (ice making machinery) for a long distance. That was on a Sunday. Then on Saturdays I used to be in town selling. I went to AC primary school. I never went to secondary". Marie says she never went to school on a regular basis, "because of my grandmother's (economic) needs". Marie says she was the youngest of the other children that her grand mother was responsible for. She had a partner,"but after a while he died. I don't think I could even remember him because he died when I was young". Marie says she did not have enough food to eat growing up with her grandmother. Even in carrying the little that she had to school there was a problem since she had no proper container in which to do so.

"I didn't use to have no books. And I remember one time I get into a fight because my friend was carrying the bag I used to put my whatever". She got into a fight and the person she was fighting with tear down my bag. "So I end up fighting with (that person)". She continues, "Then, and maybe this is why I didn't end up in secondary

school, I used to have a grand aunt and she used to have pigs and we had to go all the way up to Tallville to carry food that people use and they don't want (leftovers) they use to store it up for my grand aunt and we used to go for it. And I had to carry it on my head and children used to tease us".

The nature of deprivation and how it is experienced by the poorest individuals in these societies is also evident in the case of Sylvia, 30 something year old mother of five from the island of St. Vincent.

"Sometimes me does talk to them (her children) and mek them to know sey, if me no got, meh no got (if I don't have anything, I don't have anything). Them have to understand when me get. Sometime they bawl 'mummy, mi hungry, mummy mi hungry. Sometime me have to leave the the home and come out on the road. Sometime me go up so, sometime round so, just scrunting for a dollar, scrunting for a dollar, scrunting for a dollar, much less 50c. Sometimes I say, 'somebody can't pass and give me something, boy? Sometimes I sit down and I see a good partner (friend) pass. He will say, Sylvia, what you doing there? I say, man me just deh ya ah relax, man. Dem children at home bawling for hungry and me nuh have nothing. That is the worst thing to hear that children hungry. They will say, come. Some people carry me down to the supermarket, some to the restaurant. 'pick up' what you want. Call for what you want".

Sylvia also inherited her poverty. Her mother, she tells us, "didn't work; she made her living by 'picking up' a boyfriend, a man [...] she would supplement this activity by going in the bush to plant food." Sylvia says she knew her father when she was small but "since I become big I don't know him. He go and leave my mother when I was six years old because my mother go and have another baby that is not his, so he did not like the situation and he go and leave her [...] he used to go in the bush and plant marijuana and so". Sylvia says that her family suffered great hardships. She was eventually given to her uncle's daughter to be raised. At first she was treated good, but this changed and Sylvia says "[...] they started to treat me bad." This caused her to run away and go back to her mother. After a while she says, "a lady take me and bring me down here (the Grenadines)".

### **MECHANISMS OF TRANSMISSION (CONTINUITY)**

Intergenerational poverty is sustained by social and economic exclusion. All of the respondents can point to the inheritance of circumstances that condemned them to a life of poverty. The narrative of his life and those of his forebears provided by Ska, though, is particularly stark in its representation of this mechanism. According to Ska,

"[...] Well, me nuh know (I don't know), my old people (parents, grandparents) grow up a kind of way [certain] in life, eh? And if my old people and them did have land [things would have been different] me never have no land, man! Me never own nothing. My elders and them never own nothing. Me nuh come meet nothing [I had no inheritance]. Everything that you see me grow up with, is what I struggle for. Nothing me no meet easy in life".

The case studies provide classic examples of the relationship between intergenerational poverty, and a synergism of factors that act as major mechanisms of transmission: inadequate schooling, under preparation for the labour market and the mating and fertility practices that obtain among Caribbean folk. The mating system among the folk in the Caribbean is a complex one that derives from the experiences of Plantation slavery, African retentions and social ecological factors<sup>42</sup>. At any given time most mothers are involved in a relationship with a man that has social, but not legal sanction. The relationship in which the partners do not cohabit is known as a visiting relationship. The male partner may be involved in more than one visiting union, or might even be married or in cohabitation with another woman. For the woman such a relationship may continue indefinitely, it may be dissolved and another one entered into, or not. It might, as well, be followed by common law cohabitation or formal marriage. Although not practiced by the majority of persons in the lower socioeconomic stratum, marriage is seen as the ideal union type. In many instances it is entered into after years of visiting or common law cohabitation between a man and a woman and represents an embellishment rather than an initiation of the relationship.

These mechanisms of transmission are evident in the lives of the respondents. All of the respondents have suffered for being products of this pattern of family formation. Ska tells us that his mother worked as a labourer at a distribution centre. "My daddy? Me never did know him. Him did leave and go Barbados when I was about 7 years old. I never knew anything about him". Ska says he grew up with three brothers. He has two sisters, he says, but he did not grow up with them. "Me mother have five of us, four boys and one girl. That include me sister, but me sister never live around with us". His mother had his siblings for one man, but had him with a second man. Ska describes his life growing up as "*tough*". He continues, "at one time they used to call me 'mind meself'"; indicating that he was virtually responsible

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42 See Patterson, O. 1982 "Persistence, continuity and change in the Jamaican working class family" *Journal of Family History*, N° 7: 135-161, summer.

for himself growing up. "I had to look after my little brother after me two of us use to go school. Every recess I used to have to come and look after him. When me mummy cook in the morning this food for our lunch, because she cooks in the morning for our lunch. Evening time we used to be by our granny until she come [home]. Sometime granny gave us a little snack until she come [for us]. Otherwise I turned around and did a little thing, if is roast two potato or roast two banana. Those time we snack until mummy come. And we grew up that way until we finished school". Ska says he left school at 14 years old. "Me could'n't go through (continue school). It was tough, man. Hardship made me have to stop school. When I stopped school, the first thing I ever tried to do was to go and look a trade [skill]. But it was such a great struggle within trade life [...]"

In similar vein Sylvia locates her unfortunate situation in life at present in her childhood. Sylvia's childhood in the Grenadines, she says, was an arduous one. She was not sent to school regularly, she says, and hunger was a problem. She coped by going to the house of neighbours and begging for food and drink. She says, "I would sit and cry because I was hungry. Sometimes I would go on the beach, break coconut and eat out the inside and go to school. Sometimes I have to stay home because [I have] nothing. I can't help myself because I have nobody by my side to cook and give me something to eat. Sometimes I would get something, but sometimes is long tears from my eye; suffering. That is why I did not get the education I was supposed to get like everybody. Sometimes I does study [think about it] education; if I did have somebody good by my side to teach me and show me wrong from right. Sometimes I does study back all those things [...] I do whatever I could do just to get something to eat".

The respondents have, in turn, created families along lines that conduce to the replication of poverty from parent to child. Marie's experiences are illustrative,

"[I left school] when I was 17 and when I was 18 I got pregnant with my first son. I left school because my time did reach to leave. I did the school leaving [exam] and I still didn't pass. So when I did that I had was to leave. Then I end up going to learn to cook and bake and thing at a place they call the Centre." Marie says that when she met the father of her first child she was not working and she was living at her grandmother's home. "After when I get pregnant she get vex with me and I had to leave. I came to (present community) and I was living with an aunt of mine. And when I was 19 the child was born and then I just having them like one after the other, because I have 10".

Marie says the father of her first child was 2 years older than her. "He used to be working in the park, taking care of the park, the

grounds, but he still didn't use to come up as he should [providing support for her and the child]. When the first child was one year I was three months pregnant already. And it was just like that. The only one I did not make fast was the last girl for him. [...] I went and live with him after, when I had my second child for him; I went and live with him. The reason why I [eventually] broke up with him is because he didn't used to treat me right. He used to like hit me and leave me off like on weekend and go behind the sound system [disco]. Sometime [not] till Monday morning I might see him. I used to make coconut oil, you know I wasn't lazy too, I used to like to do something and I used to be making my coconut oil and thing. I had these two small children to look after, I still unto the coconut. I had to cook. I had to wash and everything. I used to be crying all the time. And then I still end up getting these two girls after [last two children for the first partner] and then I start checking myself, because I starting to learn. And I decide ah [I] going [to] leave him off [end the relationship] And [after] ah leave him off again ah go and take up a nex one[next man], [this time] I get five [children]. Is 10 I have, you know?" When asked why she was having so many children Marie replies, "I wasn't conscious. I wasn't conscious, because when I have the four and then I met this one and get this other one [fifth child] I start getting conscious. And then I say well I cant go down so making children, but it still happen to me, you know. And is just because of I aint working, you know and is still needs [she still has needs] and this one [man] come around and he says he still going to help. And it wasn't no help".

### **MATING, FAMILY AND THE LABOUR MARKET**

The labour market component of the dynamic suggests itself in the life circumstances faced by Marie. For cultural reasons, the primary labour market in the Caribbean favours the participation of men over women. Nonetheless, it is still a primary labour market with all of the insecurities of tenure, low level skill requirements, low pay and so on. Men, therefore, although favoured by this market (as Marie puts it, "If I could get [a job] he could get too. He is man!"), are still subject to its deficiencies. So, they are more likely than women to get work and therefore be in a position to make offers to the disadvantaged woman, but the nature of the work does not provide the level and stability of income to enable the man to make a sustained contribution to the upkeep of a family. Because of this many poor men become migratory labourers, either within their own country, moving in search of uncertain work, or overseas.

Because of the transitory nature of their stay movers are even less encumbered by what in many instances are already loose social

sanctions pertaining to the initiation of sexual relationships between men and women. The poorest women in these locales are open to the overtures of men who, at least temporarily, have a source of income. The presence of women made readily available because of their vulnerable socioeconomic position is the basis on which these types of unstable relationships rest.

For those men that choose not to move around in search of work, being in this labour market can mean that employment is, at best, intermittent. Therefore, even with the best will in the world and the greatest love for their children, such men fall short in the provision of support for their families. Even where income might be relatively steady and sustained, the greater likelihood of the woman's inability to effectively participate in the labour market places her at a severe disadvantage and effectively increases the available pool of women from whom the man may obtain sexual favours. This lends an element of instability to the existing unions and often leads to the man overextending himself in terms of families of procreation and their support within his community.

It is therefore held that the manifestation of this *absolute* poverty at the level of the individual and the household is attributable to the institutionalization of economic, psychological and sociological factors that conduce to its reproduction<sup>43</sup>. Furthermore, these outcomes should be understood to be the result of the interplay between global economic forces, and their expression at the regional and local levels, and a historically shaped capacity, manifest at the household level, to respond to these circumstances. An understanding of historical circumstances at the broader structural level and how these have become manifest at the levels of the household and the community is central to an understanding of poverty in the present day. Conceptualizations that point to historically shaped capacities to respond to an enduringly skewed and unjust opportunity structure that is a feature of Caribbean society help us to understand the salience of intergenerational poverty in the socioeconomic landscape of the region.

### **MECHANISMS OF ESCAPE (DISCONTINUITY)**

Even so, such conceptualizations still leave room for understanding change and how some households escape from the cycle of poverty since it is argued that there is a creative interplay between structure and agency in which individuals are *impelled*, but not *compelled* in their res-

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43 Miller, S. 1996 "The Great Chain of Poverty Explanation" in Oyen, E.; Miller, S. & Syed, Abdus Samad (eds.) *Poverty a Global Review: Handbook on International Poverty Research* (Oslo: Scandinavian University Press/UNESCO).

ponses to the circumstances of life<sup>44</sup>. Marie, for example, shows signs of a well developed spirituality that has allowed her to spurn overtures from men even when her household was without food. She tells us, "I came out with a lady who went to church with me too. I didn't tell her nothing [about not having any food in the house]. But when I reach here and I read, I went back to she. I say, I aint going and ask somebody who aint going to church and thing to reproach me. I went to she and then she treat me good that night [was generous to her], you know? So sometimes I does say is just God, you know? And that night I was tempted, because you have [there is] a mister, as I reach out to go to the lady he come and he tamp [touch] me on my bottom, you know? Yeah, and want to hold a conversation with me. But I wasn't up to that I was thinking about my business. So, I even say, that is the work of the Devil too, you know? [...] But I didn't give up, I still go and I get through. I could [have] just turn back and ask he. But I didn't choose to [structure and agency, impelled, but not compelled]. So, I think the word of God keeping me a lot too. I don't think I so righteous, but I trust him [...]".

Ska, after fathering 5 children with three different women has now dedicated himself to providing a stable home for the three youngest ones even while their mother lives and works in a North Atlantic country. Escape is also provided by changes in the structural arrangements that exclude the poor from resources such as education. Within the life time of the respondents there has been a significant broadening of educational opportunity for the poor. Both Marie and Ska's children have done better at school than their parents. This is, in part, the result of the parent's recognition of the importance of education and their determination for their children to obtain it. This factor was absent in their own upbringing. It is quite uncertain though whether Sylvia's children, given the levels of destitution that they face, will be able to take full advantage of these historically recent opportunities. A lot will turn on her will and determination and the proclivities that her children display.

Ska remarks that he never had the opportunities for education that his children now enjoy. He continues, "that's why me ah tell them, you can't ramp [joke] you have to go to it. Because, me no get them privilege deh. Free school! Them [his children] want new shoes and thing to wear

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44 This conceptualization is a variation on the theme of creative interplay between structure and agency that has emerged in recent social science discourse on this in response to some of the more static, one sided conceptualizations that characterize Classical and Functionalist Sociology. See Giddens, Anthony 1986 *The Construction of Society Outline of the Theory of Structuration* (w/p: University of Claifornia Press); Hay, Colin 1995 "Structure and Agency" in Marsh, David and Stocker, Gerry *Theory and Methods in Political Science* (Basingstoke: Macmillan).

to school. Me? When me was now going to school is a half of exercise book me carry. Half! Me never even write on exercise book when I started to go to school. It was slate [that I used]. Me write my name on slate before me come to meet book. Slate! That is the first thing I write my name on before me change to copy book [...]. That is what me start on, until me start to carry exercise book [and] is half an exercise book, until it come to one. Then it come to three, then it come to six. Six is when I completed Jr. 5, Common Entrance class [last class prior to high school]. That is the time I could carry six books. Before Jr 5 is 3 books I was carrying. Maths in one, English and Comprehension and Grammar inna one and me little writing book. Now, [they] getting computer in school. I cant even turn on a computer. [repeats]. But if me go trade and learn to do it, I will do it. But me cant [...] a dem [the youth] now have to go do it. Much less to go and say I am logging on [to the Internet] [laughs]”.

Qualitative life narratives provide a wealth of insight into the character of the society in which the individual lives. In the case of the poor, case studies tell of the nature of the social relations and social network of the individual; how they have lived their lives; the decisions they have made and continue to make on a daily basis and how societal circumstances have changed over time. In sum, the interviews tell us of the circumstances that led to persons finding themselves in situations of insufficiency and how they cope, adapt and adjust to such situations.

Life narratives tell us of the larger context within which poverty is created and continues to exist. This, it has been argued, is characterized by structural inequalities manifest in the access, or lack thereof, to the material and social resources of the society. They will also be manifest in the gender and familial relationships existing at the household level. Here, the human agent still has the responsibility of creative interpretation of the pre-existing social and economic arrangements. Some of the choices that are made will translate into poverty for the next generation. Some will lead to a break in the cycle. These life stories therefore provide us with a view of the interface between institutional setting and individual response that is absent from the quantitative studies. The case studies provide us with insight into the relationship between structure and agency in this process of social reproduction. They point to some of the mechanisms of continuity as well as discontinuity. Furthermore, they tell us how these experiences are rationalized by the persons living them.

### **ANSWERS: POLICY IMPLICATIONS. CONCLUSION**

The analysis suggests the existence of a social dynamic rooted in the region's historical political economy that lends itself to the transmission of poverty across the generations. The dynamic consists of an

amalgam of a set of conditioned responses, mediated by gender, to systems of inequality and exclusion that are historically based, but which continue to find sustenance in a global economic situation characterized by marked asymmetry. While it would be incorrect to understate the personal responsibility that each individual has for the outcomes that affect their lives, the data seem to suggest the existence of structural constraints in the form of cultural, economic and social endowments that impel individuals to make the choices that tend to the reinforcement of the circumstances of deprivation into which they are born<sup>45</sup>. Point in time LSMS statistical data associated with the IFI and Structural Adjustment, while providing information for the important function of counting, miss the depth and the tenacity of the problem that confronts regions such as the Caribbean. There is therefore a need for a research methodology that is heterodox in its approach to the study of social conditions in the region in order to ensure a better informed anti-poverty policy.

Structural change has to overcome power asymmetries and therefore tends to take place in a piece meal kind of way over time. Some of the case study material that has been examined point to structural changes in Caribbean society that have improved the circumstances of the region's poor. There is no question that some of the children in the case studies will enjoy better circumstances of life than their parents were able to due to the provision of social support systems in the educational system and the expansion of secondary education for the region's children. However, the retarding influences of historically based social and economic inequalities have to be acknowledged, understood and addressed in poverty eradication policies if this change is to be sustained and effective.

The study of poverty as well as plans for its eradication in regions such as the Caribbean have to move beyond the epistemic and cultural bounds of Positivist Empiricism. The holistic approach to the study of poverty in Caribbean society is in accord with the new ways of understanding society that have emerged out of the rethink of development studies and the role of the social sciences in managing social and institutional changes in the Postcolonial world. It includes calls for a new interpretive-critical dialogue that would represent a shift from the First world offering technical expertise to the Third based on the positivist mis-analysis of society and economy associated with neo-classical economics to one that enables an elucidatory interchange between both areas of an increasingly interconnected globe. This

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45 Here a good parallel to cite would be the constraining influence of grammar on language construction.

should be based on an understanding of social scientific enquiry devoid of argument by analogy between the natural and social sciences. In its place would be put one that draws more on hermeneutic approaches to further understandings of local perceptions and interpretations of what is deemed to a much more complex process of social change than was previously thought<sup>46</sup>.

The analysis of poverty in the region done in the paper points to the importance of multidisciplinary and the use of research methodology that is more naturalistic and phenomenological in character. The approach to poverty eradication at the household and community level has to be holistic and inclusive. It has to recognize that a situation obtains in which the parents of today's children and sizable proportions of young people were not able to take advantage of the broadening of the opportunity structures that might have taken place within their life time. In a sense these people have 'missed the boat' of structural change that has occurred in these societies. Or, perhaps more accurately, have been prevented from taking the boat by the social dynamic that the paper has identified. The case studies point to the significance in the reproduction of poverty of intangibles such as social exclusion and the historically and culturally conditioned responses that individuals make to them.

Understanding the intergenerational character of poverty in the region means broadening the approach to poverty eradication. It calls for an assemblage of intervention strategies that address the mechanisms of continuity, some of which have been identified here. The policy should have administrative loci in all of the social line ministries (including planning and finance), be administered by a committee of bureaucrats, and representatives from the state, a broad spectrum of international donor agencies, NGO and CBO organizations.

### **THE PRAGMATIC DIMENSION: ELEMENTS OF POVERTY ERADICATION STRATEGY**

A poverty eradication programme that is community based and encourages active participation through the development of the capacities of its members and the provision of support systems (*e.g.* provide the facilities and teach Ska to use the computer and the Internet). Specific areas of intervention: international debt relief with monies being used in poverty eradication programmes; the provision of international grants for countercyclical fiscal support geared to employment creation through the development of social infrastructure at the community le-

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46 Preston, Peter W. 1996 *Development Theory: An Introduction* (w/p: Blackwell Pub).

vel; skills training and employment that cater to out of school adolescents as well as adults; school feeding, uniforms, book rental and other support systems to the children of households that have inherited their poverty and have a particular mating and fertility profile; adolescent counseling targeted at both sexes, but especially at young girls from households with a particular mating and fertility profile; community level interventions aimed at fostering social inclusiveness (e.g. discussion of community problems, solutions and planned implementations with community members by technocrats; the development of community based homework centres) as one antidote to social exclusion, one of the main bucklers of intergenerational poverty; provision of resources such as land, technical support and irrigation in the rural areas and small business loans to households in the urban/semiurban areas); improved targeting in the distribution of resources to the needy and the use of both quantitative and qualitative indices in this exercise.

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## **3.2. POVERTY REDUCTION IN GHANA**

### **ALTERNATIVE SOLUTIONS BY THE STATE**

#### **ABSTRACT**

In Ghana, as in many other parts of Africa, poverty continues to have an indelible mark on a vast section of the population mainly due to inadequate access to education and health. The cost-recovery solutions dictated by the market logic under the structural adjustment programs (SAP) have not been effective in dealing with core poverty issues as it relates to public access to education and health care provisioning. While still situated within the neoliberal domain that privileges market solutions, the Ghanaian state in the recent past, has strategically been shrugging off the recoil order that had been placed on it. The effort at engineering alternative poverty reduction solutions so as to tone down the bare marketism is the seminal concern of this paper. Two of such social programs the Ghana Educational Trust Fund (GETFund) and the National Health Insurance Scheme (NHIS) form the locus of attention in this discussion

#### **INTRODUCTION**

The minimalist state agenda that was pursued under the neoliberal structural adjustment programs (SAP) demanded of the Ghanaian

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state to disengage itself from the provisioning of social services at non-economic rates. The logical execution of the SAP led to the wrecking of the original social contract that was established on the state's responsibility of provisioning of social services; either at subsidized rates or for *gratis* (Bangura, 1992). The praxis of extensionism that the Ghanaian state had assumed prior to the infusion of the neoliberal order in the eighties placed a veritable burden on the economy. Indeed, the ability of the state to provide social services depended very much on the fortunes of the primary commodity market. And as these fortunes dwindled in the seventies the state's capacity to keep to the tenets of social provisioning collapsed (Nugent, 1995).

The financial injection by the International Monetary Fund (IMF) and the World Bank substantially resuscitated the capacities of the various social service providers, as was for instance the case for health care provisioning and education. However, the philosophy for service provisioning had changed to one that considered social services as any other commodity on the market whose production cost must be borne by its consumers. The social policies that were rolled out to address poverty issues were underpinned by the market rationality. In consequence, access to such critical services as education and health care for the poor became difficult. Within the authoritarian realm that the neoliberal policies were initiated, it was not too difficult for the state managers to wobble through. But with the reintroduction of democracy in 1993 a dilemmatic situation arose for the managers of the state. This, on one hand, took the form of internal push for the restoration of the social benefits of the past; and on the other hand the difficulty of a dependent economy disengaging from the overwhelming unipolar neoliberal ideology. To retain the legitimacy of democratic governance there emerged some outbox reengineering that allowed the state to collectivize the financing of education and health care to allow greater public access. These collectivized solutions were adopted to reduce poverty as it relates to non-access to basic social services as health care and education. As these efforts are meant to tone down the rugged commercialization of these services, this paper focuses attention on the subtle return of the Ghanaian state to provide alternative solutions to poverty reduction strategies. These alternative solutions are discussed against the backdrop of the unhelpfulness of the bare market poverty reduction solutions of cash-and-carry system that had been imposed by the international financial institutions (IFI). The primary attention for the alternative solutions is on the Ghana Educational Trust Fund (GETFund) and the National Health Insurance Scheme (NHIS).

## THEORETICAL UNDERSTANDING OF POVERTY

The ubiquity of poverty and the variegated forms it manifests in Ghana, and in other parts of the world, renders a concise definition of the concept rather problematic. Poverty is usually conceived in absolute or in relative terms; but more importantly it is essentially an existential issue that touches on the conditions of life that a section of society experiences, as they meet the challenges of life (Bilton *et al.*, 1987). Those who view issues of poverty in absolute terms are usually concerned with certain minimum subsistence requirements that an individual needs for a healthy living in a given social setting; and within a specific temporal frame. The poor in this regard, are those who are materially deprived in meeting those minimum requirements for subsistence. Poverty is also regarded as a relative concept that utilizes the metrics of economic disparities as the basis for demarcating the poor from the better-off (Galbraith, 1958). The relative notion of poverty is normally based on a measurement criterion that adopts a formula that equates poverty to some fraction of the median income or below (Townsend, 1979).

The underdeveloped world is characterized by both forms of poverty; as not an insignificant segment of their populations have interminable struggles with subsistence. Hunger, malnutrition, filth, ill-health, illiteracy and similar melancholic existence tend to be their lot. The underdeveloped areas are also characterized by massive economic differentials that emanate from skewed access to the means of economic appropriation, and social surplus allocation. The resource limitations that confront the underdeveloped state, severely limits its capability of raising the general living standards of its people (Adesina, 2007). In the absence of social safety nets, the poor especially in Africa are particularly vulnerable as they are faced with the agonizing effects of material deprivation, and social exclusion that places them at a disadvantage vis-à-vis their social superiors. The conditions and circumstances of the poor are captured as follows: “poor people suffer physical pain that comes with too little food and long hours of work; emotional pain stemming from the daily humiliation of dependency and lack of power; and the moral pain for being forced to make choices –such as whether to use limited funds to save the life of an ill family member or to use those funds to feed the children” (Narayan *et al.*, 2000: 3).

The quote largely encapsulates the daily experiences of the poor as they encounter the limitations that material deprivation placed on them. This easily translates into emotional torments, as the poor are faced with uncomfortable opportunity costs.

However, the occurrence of poverty over the millennia does not bring unanimity in the theoretical explanations of its causations. This

is primarily due to the social dynamics that continually mutate the form, and the outward manifestations of poverty over the years. Unlike the mediaeval past when superstition and religiosity held sway, contemporary conceptualizations of poverty are no longer tied to a belief in a supernatural predetermined fate, which holds that poverty is the result of God's visitation of misery on an accursed group of people; for sins either directly committed by the victims themselves or by familial agnates (Gilpin, 1987: 265). The movement away from the Karma-determined causal paradigm has, however, not settled the theoretical explications around a single issue.

In Victorian Britain, theories on the causes of poverty were mainly couched in secularized tones; but they were equally simplistic as their mediaeval antecedents. They held the poor directly responsible for their plight. Individuals were poor because they were unable or unwilling to provide adequately for their own well-being. This point of view not only placed the burden on the poor themselves, but also exonerated society or social groups for being responsible for its causation. For instance, Herbert Spencer conceived of the poor as being 'good for nothing vagrants' that find themselves in their situation due to their 'dissolute living'<sup>1</sup>. This theoretical paradigm lost considerable explanatory strength for the most part of the Twentieth Century principally due to the socioeconomic transformations associated with industrialization and urbanization. The transformations associated with industrial urbanization eroded the communal security that the rural environment had provided previously. The nauseating poverty that followed the trail of such developments fostered a rethinking of the causes of poverty. The rethinking was again catalyzed by the secularization of society and thought that the atomized urban settings had fostered. The crystallization of the capitalist industrial society brought home the recognition that there were inevitable "winners and losers" in the new social construct. This perspective acknowledged the role of society in the creation of poverty; and hence held society responsible for ameliorative engineering. The post World War II social reconstruction philosophy was greatly informed by societal responsibility for rescuing the poor. Fabianist social benevolence was no longer considered adequate for meeting the needs of the swarming poor that the modern state was producing.

The answer to addressing the emerging issues in the post World War II era was largely based on the views of Maynard Keynes that came to dominate socioeconomic constructs until the late seventies

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1 See Offer, John 1993 *Cambridge Texts in the History of Political Thought: Political Workings- Spencer* (Cambridge: Cambridge University Press), pp. xxiii-xxiv.

(Keynes, 1973). Keynesianism demanded of the state to be economically active and to embark on policies geared towards full employment. Subsequently, the thrust of governance in the period was anchored around a social welfarist pact; which the state-managers and the general population must adhere to, and deliver on. The underlying assumption of this pact was that the individual elements in a capitalist system do not have equal access and control over the productive forces. The reward system in terms of economic appropriation and proprietary entitlements in a competitive environment also follows the logic that underlines competition; such that it ends up incarcerating a section of society in poverty.

Whereas, such inequalities may be justified by pure capitalist economism, the insecurity that such systems portend is a well known phenomenon in sociology. The welfare state based on *dirigisme* was, therefore, crafted to insulate the weak in society from the inequalities of an unbridled capitalist drive. This social reconstruction produced stupendous rise in living standards, to the point of almost eliminating absolute poverty in the post World War II industrialized societies (Hettne, 1995). The provisioning of social safety-nets, as employment, health insurance, education, unemployment benefits and shelter largely came to replace philanthropic and charity gestures to the poor, with a well-thought-out state welfare policies for poverty reduction. The social pact was, therefore, meant to redefine the *raison d' être* of governance as it established a new relationship between the governors and the governed. In this regard, the leaders came to understand that their legitimacy hinged on their ability to deliver on the tenets of the package; while the citizenry also knew that their responsibility in the social equation included their contributions for its sustainability. It was this mutual role expectations and performances that underpinned the thriving of the welfare system until the late seventies.

However, as the Western world went through the normal capitalist “boom-bust” cycle with a bust in the seventies, the statist and welfarist policies that had served so well to uplift the living conditions of the many was picked by the neoliberal ideologues, as the culprit for the economic meltdown. The state, thence suffered severe demonization for being an unnecessary deadweight on the vibrant, efficient, and effective market system (Harvey, 2005). The calls were, therefore, for the state’s recoil as a way of restoring the efficacy of the market system; and through that pave the way for the restoration of economic growth (Mkandawire, 2000). The stage was thus prepared for the promotion of the hegemony of the neoliberal order in a Hayekian state and to return to *laissez faire* economics (Hayek, 1960). It was also to re-invoke the Spencerian notions that understood social interventions

against poverty, as a sort of 'social cannibalism' as it undercuts the essence of his 'survival of the fittest' logic. The proper role of the state in the emerging order was an umpiring one, in an unrestrained market system. The market or its more innocuous euphemism 'the private sector' was now considered as the "engine of growth"; and profit making as the primary criterion for the measure of its performance.

By the beginning of the eighties the neoliberal order had congealed enough, in the West, to become an export commodity to the rest of the world. The legitimacy of neoliberalism was further catalyzed by the crumble of the Soviet empire that had hitherto provided an ideological alternative. The triumph of marketism in the emergent unipolar world was to have far-reaching consequences on the poorest continent: Africa. The dependence of African countries on Western bilateral and multi-lateral donor community is proverbial; and this exposed them to the market imperatives that had taken roots in the West. The main conduits for bringing these ideas to the African continent were the Bretton Woods financial institutions: the International Monetary Fund (IMF) and the World Bank. In this vein, financial assistance and all sorts of donor support were now predicated on conditionalities meant to delegitimize the state, and thereby roll it back from intrusive economic activities. The effort was particularly targeted at suffusing adjusting economies with the market logic and rationality so as to move them away from their prior command systems. The neoliberal order, therefore, demanded the removal of subsidies and the cost-free social interventions as they were considered as market distortions (Mkandawire, 2006). The rejection of the state as a vital economic actor began to produce problematic and crippling effects for Africa as it had depended very much on state-led approaches for development management.

### **STATE WELFARISM**

Largely, Africa emerged out of colonial rule with very thin and diminutive capitalist class that could not be relied on to braze capitalist development (Onimode, 1988). According to Claude Ake (1981) colonial rule in Africa, was not meant to produce an independent indigenous bourgeoisie and hence stultified their development. Thus at independence, there was a *writ large* evidence that the development path for Africa was going to be a very long one. To combat the near-universal pauperized conditions that colonial underdevelopment had brought into being, various shades of statist development approaches became the African norm.

In fact, the nationalist mobilization against the colonialists only made sense to the general populace when the object of the struggle was cast in bifurcated Manichean terms (Nzongola-Ntalaja, 1997). In

this sense, the defining characteristics of poverty –deprivation, illiteracy, misery and social marginalization– were to be transcended on the attainment of independence, by material abundance and prosperity. In Ghana, this was aptly captured in the aphorism ‘seek ye first the political kingdom and all other things would be added unto you’ (Rooney, 1988). For the teeming unemployed youth and the marginalized colonial subjects, the independence struggle was quintessentially also a struggle against poverty.

In the manner in which the nationalist struggle was cast, it was clear the nationalist leaders knew what their mission was going to be (Austin, 1964). But as the Ghanaian situation was also a reflection of the general African malaise of paucity of an enterprising capitalist class that could act as the engine of growth and development, the path chosen for socioeconomic progression was statism. The provisioning of social services as education, health care, public utilities were taken up by the state; and provided either by subsidization or for *gratis*. These services and similar responsibilities of the state to provide public formal jobs and utilities were measures meant to alleviate poverty. The stage was prepared for massive state involvement in the economy and for the state to wrestle with the big task of underdevelopment. The state, thereon, became the pivot around which the development management revolved (Killick, 1978). It was not too difficult for the Ghanaian state to carry out its assigned role once the commercial returns from its major export –cocoa– was doing reasonably well on the international market. The continuity of the colonial appropriation system of the surplus generated by the cocoa farmer via the state monopsony, the Cocoa Marketing Board (COCOBOD) made it possible for easy funding of the welfare contract. The beneficiaries of the social provisioning came to regard it as their entitlement and hence resisted efforts at tinkering with it. But the performance of Ghana’s economy had always been tied to the vicissitudes of the global cocoa market. When the cocoa market began to experience downturns in the mid-sixties, the state began to feel the burden of the extended responsibilities due to diminished capacity to meet its obligations (Killick, 1978). Notwithstanding the emerging economic difficulties, Kwame Nkrumah’s government was tenacious in pursuing the collectivist approach to meeting the demands of the social contract.

The effort by Kofi Busia’s right wing government to alter the welfare contract was resisted by such beneficiary constituents as university students, civil servants and the military<sup>2</sup>. In fact, it was due to

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2 Kofi Busia, the Prime Minister during Ghana’s Second Republic (1969-72) was an ardent ideological opponent of Kwame Nkrumah’s socialist leanings, who attempted

resistance to the removal of social amenities that the state had always provided that led to the military coup in 1972 (Danso-Boafo, 1996). Such efforts were interpreted as attempts to calcify class lines in the country. Successive governments, therefore, shied away from tampering with the welfarist contract and thereby maintained the statist approach at dealing with social reconstruction.

The economy of Ghana went through massive dislocation in the seventies such that by the beginning of the eighties the economy was veritably in a state of comatose (Shillington, 1992). With Busia's failure to recompose the governance pact, the state continued to be the locus of attention in addressing issues of development and policies meant for poverty mitigation. But the vitiation of the capability of the state to deliver was clear as the economy could hardly support the extensionism that it had adopted.

It was in the wake of these developments that the new military-based government of the Provisional National Defense Council (PNDC) approached the IMF and the World Bank for a financial bailout in 1983. The dealings with the Bretton Woods institutions were to remarkably change the economic and social discourse in Ghana, through the adjustment programs

### **THE STRUCTURAL ADJUSTMENT PROGRAMS AND ISSUES OF POVERTY**

The re-launch of economic growth in Ghana under the various phases of the SAP created the platform for the touting of the country as a 'success story' for all adjusting economies in Africa (Hutchful, 2002: 1). Admittedly, the economy had been lifted from an abyss of unfathomable regression to growth rates that persistently were above 5% in the adjusting years (National Development Planning Commission, 2003). It needs to be said with the same vigor that growth was restored by a rigorous application of neoliberal conditionalities. The primary goal of the conditionalities was to delegitimize the state and to retrench it as an active player in economic activities. The market was to occupy the void that the state's departure was to create. The abandonment of the original social pact went with social dislocations and vulnerabilities that gained new intensity with the application of the market rationality (Adesina, 2007). This emanated from the basic contradiction between the fundamentals of the SAP and the prior statist regime.

In the years preceding the SAP, health and education expenditure fell in both relative and absolute terms. The share of education in the

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rolling out liberal economic policies to replace the leftist programs that had been instituted at independence.

budget declined from 20.7% in 1972 to 20.2% in 1982 and health from 7.8% to 6.1% in the same period. Perhaps, one of the most dramatic developments in the social sector in the early stages of the adjustment was the significant increase in the real spending on the sector. Expenditures on health, education and school welfare together increased from 31.5% of total recurrent expenditure in 1983 to 49% in 1989. During the same period the education share of total budget rose from 21.3% to 27.9%. The corresponding increases for health and social welfare were 4.3% to 11% and for 4.3% to 9.6% respectively (World Bank, 1991: 104).

Without totally abdicating its social welfare responsibilities the Ghanaian state struggled to deliver, so as to keep the contract. But the enfeeblement the state had suffered as a result of the abysmal performance of the economy was very much in evidence; as educational and public health care institutions were left to rot. It, therefore, became a prime target of the government to rehabilitate these service provider institutions with donors' funds. Access and utilization of these services were, however, meant to be in line with the principles of cost recovery. Thus, right from the inception of the SAP in 1983, user-fees were imposed at the public health centers. The introduction of user-fee payment at health centers became full-blown in 1992 when the "cash-and-carry" system became institutionalized (Hutchful, 2002).

The implementation of the user-fee policy was, however, associated with an ignominious situation in which improved conditions at the hospitals did not march with the public utilization of services (MacLean, 1999). It is important to note that modern public health care was meant to encourage access to health care that was based on scientific diagnostics and treatment. Indeed, health care system in Ghana has always been a dualistic one in that the modern competes with the traditional (Twumasi, 1975). The earlier efforts at making health care free were modernization endeavors, as well. As the fees at the health care centers got out of reach of the poor, there arose a diminished capacity to utilize the modern health care services that the state really wanted for the people. A paradox situation thus emerged in the prevailing circumstances in which the enhanced health delivery facilities failed to attract patients (Ziken International, 1993: 14-15).

Similar situation was played out in the educational sector. In 1987 the Educational Sector Adjustment Program was launched with the World Bank support to address the problems. The adjustment program was to be comprehensive in examining issues at all levels of Ghana's educational structure; that is from the basic to the tertiary. The most visible feature of the educational sector was under-funding and the associated low morale among the professionals in the field. In

the immediate years prior to the launch of the adjustment program, the government behaved as though the educational sector was of no priority and a needless burden on the state. As under-funding and low salaries became unbearable, teachers voted out of the system with their feet to neighboring countries leaving the classrooms empty and students were left stranded (Gyimah-Boadi, 1992)

Given this situation, the rehabilitation of the educational sector gained immediacy for progress to be made. The World Bank supported program was, therefore, meant to be comprehensive in addressing the problems of the past; and thereby bring in efficiency and cost-effectiveness at all levels. To realize this, it became the objective of the restructuring effort to cut down expenditure on education through rationalization of the system that would reduce the length of study at the pre-tertiary level. Consequently, the previous length of pre-tertiary education was found to be too long, and as such was pruned down from 17 years to 12 years (Hutchful, 2002). The restructuring effort was based on the conviction that primary level education had more social returns than at the higher levels; and hence priority was placed on pre-university education for skill acquisition. To improve access the government in 1996, introduced the Free Compulsory and Universal Basic Education (FCUBE). The efforts at reducing the length of basic education and the implementation of the FCUBE greatly increased student enrolments. This produced new challenges that the implementers had not adequately catered for. The skills acquisition focus of the educational reform demanded the construction of laboratories and workshops but it was soon revealed that student numbers overwhelmed the facilities that were available. The swarming numbers that pre-tertiary institutions were confronted with were soon to become problems for the downstream institutions.

University education in Ghana had always been state sponsored and cost-free since the colonial period. Higher level education had been seen as the necessary institutions that would develop the requisite human capacities for national development and hence the premium it received; for its social returns. Higher level education also produced socioeconomic side effects as it was the surest way of vertical mobility for the under-privileged. It is exactly for these reasons that earlier efforts at removing the welfare package created lots of social tension, as it was perceived as a negation of the social contract. The Educational Sector Adjustment Program was, however, meant to interrogate some of the underlying assumptions for tertiary education, and to realign it to fit into the emerging market rationality. To realize this, the University Rationalization Committee (URC) was appointed in 1986 to report on the possible reform in this sector.

Based mainly on the recommendations of the URC, the government 'White Paper on Reforms to the Tertiary Education System' was issued in 1990. In consonance with the recommendations the White Paper focused on the mode of funding tertiary education. The new proposal for funding tertiary education was in the form of cost-sharing between government, students and the private sector. The arrangement under this new system was for government to provide for staff recurrent, capital funding and equipment grants for tertiary institutions. The students were to wholly bear the costs for lodging and incidental expenses. In this regard, the institutions were to be non-residential and cafeteria services were to be commercialized.

The introduction of user-fees for students was meant to undercut the old assumption that university education was of a critical social benefit; and pivotal for national development, which the state needed to provide full scholarships. The emergent thinking was that university education was like any other market commodity that the consumers must pay for, on the basis of the individualized utility derivation. The rationale for the imposition of fee payment on university students were captured by the URC as follows:

"Because higher education is free –with free tuition and heavily subsidized on-campus and off-campus boarding and lodging– and since neither students nor their parents bear any significant proportion of the total cost of the education of the children, except the opportunity cost of the student undertaking tertiary education, it can be imputed that there is (*sic*) therefore no pressure for cost containment or to enforce higher efficiency, from these quarters" (University Rationalization Committee, 1988: 111).

For students whose needs could out-rightly not be met by their parents, a Students' Loans Scheme was instituted in 1992. Protests by the students' umbrella organization, National Union of Ghana Students (NUGS) against fee payments failed to make any dent on the implementation of the policy; except the reduction of the loan interest from 19.5 % to 3 %. The other restructuring fundamentals remained in place as the old contract that guided the provisioning of tertiary education suffered corrosion, apace.

Though the cost of tertiary education was now shared between the state and the beneficiaries, the state continued to be lackadaisical in its funding. The upstream restructuring efforts that reduced the number of years spent in pre-tertiary education and the FCUBE began to turn out large numbers of secondary school leavers that required tertiary education. Consequently, tertiary student numbers burgeoned without corresponding adjustments in spaces for classrooms, lecture halls, laboratories and libraries. In the prevailing circumstances

quality began to suffer as the student-lecturer ratio became awful for faculty members.

Indeed, as the cost-recovery logic and rationality penetrated the thinking of state-managers, poor students became mere objects that joined the ranks of the wretched. This social category not only suffers the harassment of fee-demanding authorities, but they also found themselves domiciling in unforgiving slums. The telling psychological effects of the economic tertiary educational policies on the poor student have become phenomenal. To be certain, the implementers of the neoliberal SAP policies were not oblivious to the social costs of their policies. On the contrary, within few years of the implementation of the SAP the government began to respond to the social needs of the vulnerable elements and groups in the society. But these were done in ways that would not depart from the neoliberal paradigmatic domain.

### **INTRA-PARADIGMATIC RESPONSES TO POVERTY**

It had been recognized right from the inception of the implementation of the SAP that the paradigmatic shift was bringing forth high social dislocations and poverty; and hence the placement of necessary policies to respond to them. The policies that were implemented to address the issues, it must be said again, were not to wreck the market principles of growth and the faith in trickle-down effect. In other words, the paternalism of the state in the provisioning of services for *gratis* was no longer an option in the intra-paradigm poverty reduction policies that were lined up to respond to the emerging situations.

With the shock therapy that the adjustment was meant to embrace, it was soon realized that the effects of the program had created widespread social dislocation and poverty (Ghana Statistical Service 1989; 2000). This subsequently produced social restiveness as people had difficulty understanding the new reality. The military based implementing PNDC government, found itself estranged from the population as its legitimacy wore thin (Ninsin, 1998). The government struggled with the Ghana Trades Union Congress (GTUC), the National Union of Ghana Students (NUGS) and other significant socioeconomic formations aligned to the left for abandoning the welfarist contract. In order not to jettison the adjustment program, and to keep itself in power, the PNDC government in 1987 sponsored the Program of Actions to Mitigate the Social Costs of Adjustment (PAMSCAD) as a response to mitigating the emerging costs associated with the program. The dual objectives of political survival and to keep the adjustment program rolling underscored the implementation of the PAMSCAD.

In the existing circumstances the PAMSCAD, therefore, sought to “enhance the sustainability and acceptability of the [SAP]” (Ghana, 1987: 8) by offering assistance to those groups most adversely affected by the adjustment in order to avoid the conditions of such groups being used to create resistance to the program. For implementation purposes, the PAMSCAD identified four target groups: (a) small farmers and hired labor; (b) households with limited access to basic social services such as education, health, water, sanitation etc; (c) the unemployed and those with meager earnings especially the urban youth; (d) households in the northern regions. The problems of these groups were to be tackled by five types of projects, which consisted of (1) community initiative projects; (2) employment generation projects; (3) provision of basic needs and services; (4) education infrastructure and (5) redeployment (Ghana, 1987: 8-9)

The program implementation, however, encountered difficulties as it was meant to be a balancing act that would not undermine the adjustment process. As the government managed to contain the opponents to the SAP through the employment of repressive machinery, the commitment of government itself to the program waned. Delays characterized the implementation of projects due to *ad hocism* of institutions that were put in charge of the exercise. The provisioning of community projects were to be done with commitment counterpart funds borne by community members, but this idea was foreign to the poor folks that were to be helped. (Hutchful, 2002) The PAMSCAD by its mode of planning and implementation failed to address core issues that people were confronted with. In northern Ghana that was particularly identified for intervention the program effect was minimal resulting in the persistence of hunger and pervasive poverty<sup>3</sup>. Notwithstanding, the ineffectual nature of the PAMSCAD the government, in the adjustment years, was quite particular in ascertaining the statistical measure of the living standards of the people. This became the responsibility of the Ghana Statistical Service (GSS) that had been commissioned to carry out a series of Ghana Living Standards Surveys (GLSS).

Evidence from Ghana Statistical Service surveys on living standards revealed various aspects of poverty that are associated with occupation, gender and regional dimensions. In this regard, post-PAMSCAD policies were mostly targeted at addressing poverty issues. In fact, what has characterized the governance system has been the

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3 All the surveys conducted by the Ghana Statistical Survey that produced the Ghana Living Standards Surveys (GLSS: 1-4) have all identified the three administrative regions of northern Ghana as the poorest in the country.

multitudinous nature of poverty reduction strategies. The National Development Planning Commission (NDPC) was established to focus and coordinate on poverty related issues. It, therefore, became instrumental in drawing such poverty-focused policy documents as the Ghana Vision 2020, the Ghana Poverty Reduction Strategy I (GPRS I), 2003-2005 and the Growth and Poverty Reduction Strategy II, (GPRS II) 2006-2009.

These documents targeted poverty reduction in medium and long term perspectives. The Ghana Vision 2020, for instance, was a 25 year development program that focused on catapulting Ghana into an upper middle-income country by 2020. This was to be realized by a series of 5-year development programs that were to enhance growth and thereby reduce poverty for the realization of the vision. However, the implementation of the Vision 2020 was beset with macroeconomic instability, as the basic economic indicators were thrown out of gear; due to volatilities in the international commodity market. The nosediving of Ghana's main export commodities –cocoa and gold– throughout 2000 undercut the government's ability to meet targeted expenditures. While the country's major export commodity prices were on downhill slide, crude oil price was skyrocketing; and donor budgetary support drying up. The result was a stupendous rise in inflation reaching 42%, and lending rates at the banks peaking 52% (Institute of Statistical Social and Economic Research, 2001). The circumstances enfeebled the private sector as the cost of doing business became intolerable. The reliance on the private sector to create jobs for the reduction of poverty, therefore, became a forlorn one (National Development Planning Commission, 2003).

The Ghana Vision 2020 program was abandoned with a change in government in January 2001. The gloom that characterized Ghana's economy in 2000 made the new government to opt for the Highly Indebted Poor Country (HIPC) initiative as a way of getting some reprieve from debt overhang. The HIPC initiative was granted with the classical conditionalities (Hutchful, 2002: 247) plus the production of Poverty Reduction Strategy Paper (PRSP). The PRSP was required for committing HIPC savings to poverty reduction efforts. Thus HIPC became another channel for the implementation of policies directed at poverty reduction.

With the completion of the HIPC initiative programs, the government followed it with a more comprehensive Ghana Poverty Reduction Strategy (GPRS I) 2003-2006. Indeed, the production of PRSP was the occasion for the production of the GPRS I and subsequent economic arrangements that fitted into the national development policy. The document's subtitle *An Agenda for Growth and Prosperity* was a précis

of the policy intent. Just as the poverty reduction programs that preceded the GPRS I were to be driven by the private sector, so was this. The state's role in the context was to create an enabling environment for this to happen. Macroeconomic management, therefore, became the preoccupation of the state managers' for growth to happen. This focus took a privilege position because it was seen as the *sine qua non* for poverty reduction that would happen through eventual trickle-down effects. The government rigorously applied the requisite economic instruments that reduced the volatility, which characterized the economy prior to the implementation of the GPRS I. The fall of commodity prices that had earlier afflicted the country's major export commodities began to experience an upturn. Donor support in terms of debt forgiveness under the HIPC initiative and the resumption of donor budgetary support were also critical in the restoration of macroeconomic stability. The economic growth rates for the period averaged 5%.

It was with a renewed confidence in macroeconomic indicators that the Growth and Poverty Reduction Strategy (GPRS II) 2006-2009 was launched. The objective was for the maximization of the economic growth opportunities for poverty reduction. Poverty reduction under GPRS II was to be realized through wealth creation. The market was the avenue for the wealth creation and hence the ultimate need for all to be linked to the cash nexus that the market system provides<sup>4</sup>.

The capitalist vigor that the GPRS I and II programs were implemented overlooked the emblematic features of the population and the economy. It was, for instance, assumed wrongly that the population had become absolute converts of the Weberian *protestant ethic*, and would as such respond to the market forces once the environment was created. But the rural traditional Ghana continues to exhibit economic dualism, namely affective economy and an embryonic market system. The traditional economy, which is an affective one, places premium on social returns as a measure of success. It is also distributionist and as such contradicts the individualistic accumulative drive of the capitalist system (Gasu, 2008). It is the non-reckoning of this basic social factor that throws the overly optimism of the programs associated with poverty reduction out of alignment.

The growth for poverty reduction focus which underscored the inauguration of the GPRS II did not play well out in practice. The

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4 It is erroneous to think that everybody within the country is adequately linked to the market cash economy. A Ghana Broadcasting News Item, carried on GTV at 7 pm on May 13, 2009, reported on how parents of students in Second Cycle institutions in Kwahu North District Assembly in the Eastern Region of the country pay the fees of their wards yams, maize and cassava (mandioc).

Ghana state has not transcended the character of its colonial economy as it continues to be a primary commodity exporter. The fluctuations in the primary commodity market, therefore, tell on the fortunes of the poverty reduction programs. While the government continued to be prudent in its macroeconomic management that was expected to create the environment for the private sector, the economy in general came under stress from the middle of 2007. The crisis emanating from the global food prices, the rise of crude oil prices to unprecedented levels<sup>5</sup>, and the meltdown of the global economy due to credit crunch came to impact negatively on the country. Even though the country continued to experience economic growth during this period the poverty-reduction turnaround that was expected did not happen much.

Table 1 shows the poverty levels in the country in the period 1998/1999-2003 using welfare indicators.

**Table 1**  
Core Welfare Indicators (1998/1999-2003)

<b>Population Defined as poor (Using Welfare Indicators)</b>	<b>1998/99</b>	<b>2003</b>
Males who never attended school	21%	25.9%
Females who never attended school	41%	37.4%
Nearest Health Facility is at least 30 minutes away Urban	20%	21.4%
Nearest Health Facility is least 30 minutes away Rural	61%	57.4%
Supervised delivering assistance (doctor, nurse, midwife) Urban	79%	83.4%
Supervised delivering assistance (doctor, nurse, midwife) Rural	33%	34.7%

Source: Ghana Poverty Reduction Strategy 2003-2005.

It is evident from the Table 1 that not much has changed in terms of welfare indicators of the people in the period 1998-2003. In some cases the poverty situation, as measured by unavailability of core welfare indicators, actually deteriorated as shown by rural folk's access to health facilities where the percentage that had access dropped from 61% to 57.4%.

Notwithstanding the plethora poverty reduction programs that have been implemented in the past two-odd decades, the welfare indicators pertaining to access to health care services and education has not changed much in the period under review. This has consequently evoked rethinking of the in-box programs that were meant to address poverty issues. The effort has been geared towards bringing back new forms of collectivized programs at addressing poverty. These out-box programs for poverty reduction is examined hereunder.

5 Crude petroleum price peaked to US\$147 in July, 2007.

## **BRINGING BACK THE STATE FOR POVERTY REDUCTION**

The neoliberal poverty reduction policies have not significantly attenuated the situation of the poor in accessing tertiary education and health-care services. The return of the country to liberal democracy in 1993 began a new era, of people asking the fundamental question of the essence of governance and the basis for which legitimacy would be granted the state. As the response of neoliberal orthodoxy is found inadequate in this respect, the political class in their competition for state control began to seek new answers. But the circumstances of the immediate post-independence years were totally different from what obtains today; and as such rendering outright leftist options unavailable. The unipolar ideological world limits the choices at the disposal of the political class; but the reality within the Ghanaian political context points to two contradictory directions: The first of such directions is that the hands-off approach by the state for social welfare provisioning was unpopular; and the other was the reality that the external donor community has not relinquished the neoliberal agenda for the country.

Given these contradictory directions the state-managers became more innovative in meeting the demands from the opposite directions. While not abandoning the overall neoliberal domain, the managers devised subtleties of bringing back the state to champion the collective good that would enhance the legitimacy of the state. Since the replacement of state sponsorship of health care and education under the SAP with cost-recovery, the poor have had difficulty accessing such services. The shared responsibilities between the state, the consumer and the private sector also failed to gel. While the average consumer was financially constrained to meet the “cash-and-carry” order for the provisioning of the services, the state itself was erratic in funding the institutions that provided these critical services.

It is within this context that thinking outside the box became necessary to address the emerging issues. Two of such state-led endeavors –Ghana Educational Trust Fund (GETFund) and, National Health Insurance Scheme (NHIS)– are discussed as they contribute to the reduction of poverty on national scale.

### **GHANA EDUCATIONAL TRUST FUND**

The government’s acceptance of the recommendations of the University Rationalization Committee’s report; and the subsequent issuance of the “White Paper on Reforms to the Funding of Tertiary Education System” that instituted cost-sharing arrangement at the tertiary level, created a dilemma rather than a solution for the stakeholders. The average student, who is the consumer of the services, provided by the universities lack the

resources to meet the costs demanded of him/her. Even the government found itself in a sort of quandary as the protests from students' organizations, quaked the foundations of its legitimacy. But the cost-recovery programs were introduced with the benefit of authoritarian control. This allowed the state to employ repressive tools to manage the protests. The dilemmatic situation continued to exist as to how to fund education without upsetting the existing socioeconomic orthodoxy.

As indicated earlier, the change from authoritarianism to liberal democracy called for a new thinking and management of social needs. In response to persistent calls from civil society and stakeholders for a more sustainable educational funding the Ghana Educational Trust Fund (GETFund) was established under an Act of Parliament (Act 561) in August 2000 and came into operational in the middle of 2001 to supplement state funding of education. The Fund was meant to provide finance to supplement the provision of education at all levels, by the government. The funding for the GETFund was to be derived from the following sources: an amount of money equivalent of 2.5% of out the prevailing Value Added Tax paid to the state's VAT Service, which is responsible for the collection of the value added taxes, other such moneys allotted by Parliament for the Fund, money that accrue from the investment made by the Board of Trustees, and any other moneys or property that may in any manner become lawfully payable to and vested in the Board of Trustees of the Fund (<[www.getfund.com/stories/200807211363.html](http://www.getfund.com/stories/200807211363.html)>, accessed on May 13, 2009).

The coverage of the GETFund in assisting education in Ghana is quite extensive. The GETFund has been the main source of funding for infrastructural development in the public tertiary institutions. The Fund has also been used for faculty development, with the awards of scholarships and bursaries for human resource development. The tertiary institutions have also benefited from GETFund for research activities that academic staff undertakes.

The GETFund have also financed the building of hostels for students to ease students hassle for accommodation in non-conducive academic environments. And for students that are classified as indigents the GETFund's scholarship scheme caters for their fees.

To cater for the increasing demands for classrooms, laboratories, hostels and vehicles, the GETFund has been instrumental in undertaking projects for such purposes. The GETFund has also been sponsoring science-based television programs for secondary school students as a contribution towards the realization of the objectives of the new education program.

The contribution of GETFund in relieving the educational burden of parents is quite phenomenal as it touches every aspect of the system

in Ghana. It is in realization of this fact that the Executive Secretary of the National Council for Tertiary Education (NCTE), Paul Effah, in addressing the University of Cape Coast branch of the Graduate Students' Association of Ghana (GRASAG) captured the contribution of the GETFund as follows:

“GETFund is one of the landmark discoveries in the history of education in Ghana and if not for the existence of it, most educational institutions in the country would have died out or collapsed” (Effah, 2006)

The GETFund has thus become a poverty reduction strategy that is founded through a value added tax regime that benefits the whole society in one form or the other. The contribution of the GETFund in addressing poverty emboldened the state-managers to embark on another collective funding process meant for the collective good in health-care service delivery. This is what the National Health Insurance Scheme (NHIS) came into existence to achieve.

#### **THE NATIONAL HEALTH INSURANCE SCHEME (NHIS)**

The National Health Insurance Scheme (NHIS) was introduced in 2003 by the National Health Insurance Scheme Act, 2003 (Act 650). With the view of providing health care access for all residents in Ghana, especially the poor and the vulnerable to quality basic health care services. The National Health Insurance Scheme Act provided for three main types of scheme that could operate in the country, namely: the District Mutual Health Insurance Scheme; Private Commercial Health Insurance Scheme and Private Mutual Health Insurance Scheme<sup>6</sup>.

To operate as a District Health Insurance Scheme, the scheme must first be registered under the Company Code (Act 179) as a company limited by guarantee or shares. Thereafter the health insurance scheme has to apply to the National Health Insurance Authority (NHIA) for registration and licensing. The NHIA acts in supervisory capacity and has the responsibility for the implementation of the schemes. It also has the responsibility for regulating all the scheme operators; and to manage the National Health Insurance funds.

Funding for the NHIS is mainly from two sources –two and half % tax on goods and services that are captured by the VAT Service; and annual premium paid by non-exempt members. The NHIS has a long list of exempts that all are registered and issued cards to access health care services without payment of premium. This exempt group inclu-

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6 The District Mutual Health Insurance Scheme is the most subscribed scheme in the country.

des: contributors and pensioners on the Social Security and National Insurance Trust (SSNIT); people aged 70 years and above; children under 18 years; indigents and pregnant women (since July 1, 2008). It needs to be added that the bulk of the funds for the NHIS is sourced from the two and half % value added tax<sup>7</sup>. The exempted category does not pay the yearly premiums. The premiums that are paid by those who are eligible are scaled to meet the range of income levels. The lowest is 7.20 Ghana Cedis *per* year to the highest of 48.00 Ghana Cedis<sup>8</sup>.

The NHIS was founded as a critical pillar of the GPRS II and the expectation at the time of the inauguration of the scheme targeted 40% subscription. The subscription to the scheme by the close of December 2008 was about 62%, thus indicating a high level of access to health care services.

**Table 2**  
Coverage of National Health Insurance Scheme (December 2008)

<b>Schemes in Operation</b>	<b>145</b>	<b>Percentage %</b>
Total Registered	12, 568, 560	100%
Informal Adult	3, 727,454	29%
70 years and above	866, 956	6.9%
SSNIT contributors	811, 567	6.5%
Under 18 years	6, 305, 729	50.4%
Pregnant Women	435, 728	3.5%
Indigents	302, 929	2.4%

Source: African Health Economics and Policy Association (AfHEA) Conference March, 2009.

As indicated by Table 2 above, 12, 568,560 people of the population registered for the NHIS<sup>9</sup>. Those who are exempted from premium payment but benefit from the NHIS constitute the following percentages in relation to the total number of registered members: juveniles (under 18 years) constitute 50%, pregnant women, 3.5% Aged (over 70 years) constitute 6.9% and indigents 2.4%. This opens health care access to many a Ghanaian who otherwise could not have afforded it. The operation of the NHIS so far covers 95% of all disease con-

7 Agricultural produce within the country are exceptuated from the two and half % value added tax meant for National Health Insurance Scheme.

8 The range premium in terms of American Dollars is from US\$5 to US\$30.

9 According to the statistics derived from the African Health Economics and Policy Association the registered NHIS members constitute about 61.3% of the population.

ditions that afflict residents in Ghana. The benefit of services covers inpatients; outpatients; deliveries during complications; diagnostics; medicines (generics) and all emergencies. The extensive coverage of the benefits and the high subscriptions has resulted in high patient attendance at health centers throughout the country (Daily Graphic, February 22, 2009). This has appreciably impacted positively on the poor as the pressure of committing meager resources to health services is much more reduced. In effect the poor, for instance, is better placed to feed the family than previously.

### **CHALLENGES OF THE POVERTY REDUCTION STRATEGIES**

Even though governments in Ghana have been addressing themselves to poverty issues since the mid-eighties there are still grounds to cover in uplifting the living standards of people. The shift to neoliberal paradigm has not resonated well with a significant section of the population that understands the essence of government as one in which the state leads in the provisioning of jobs, education and health care among others. It remains a challenge for state managers to take this section of the population along to understand the workings of the neoliberal order. The effort is critical for the sustenance of the democratic process or else the state and its managers can easily lose their legitimacy.

The strategies for poverty reduction have always depended on extensive donor support and on the fortunes of the primary commodity market. Instability in the primary commodity market has always produced ripples in the Ghanaian economy that affects the meeting of the objectives of the poverty reduction policies. The Vision 2020 was greatly affected by the downward trend in Ghana major export commodity prices in 2000 (Institute of Statistical Social and Economic Research, 2001).

The two collectivized programs for poverty reduction have also been faced with some challenges. This is mainly due to the extent to which the managers' of the program push it. The GETFund, for instance, have become the solve-all program for educational funding in Ghana. This overextension of the GETFund has resulted in projects being delayed because contractors are not paid to allow timely execution of their tasks.

Similarly the NHIS has been plagued with a number of challenges that needed to be addressed to enhance its performance and accessibility. The NHIS as it operates now is limited in terms of portability. A subscriber to a particular district scheme is limited in accessing health care without payment if he/she is outside the district of registration. The non-portability of the subscriptions is mainly due non-networking

between the various administrative units. The lack of networking has also resulted in delays in claim payments to the service providers.

## CONCLUSION

The neoliberal marketism produced social dislocations that the various poverty reduction strategies have been struggling to deal with, since the eighties. The paradigmatic shift that occurred with the application of the market rationality to all social interventions made the basis for the poverty reduction strategies to be principally located within the neoliberal realm. The focus has been on growth as a strategy for development; for which the premium should be on macroeconomic stability. The cost-sharing approach which defined social services like education and health care as commodities for which the individual consumer must pay for, did not help matters. Such inbox thinking, and policies, only denied people services that could produce good social returns. As indicated by Richard Joseph

“[...] the economic weakness of African states and the hegemony of multilateral and bilateral agencies and the unobstructed workings of the market economy will accompany whatever political reforms that are introduced” (Joseph, 1997).

As Ghana continues to depend on the multilateral and bilateral donor community for the management of its economy the neoliberal conditionalities would apply to its receipt of financial assistance. This circumstance limits the radical option of a total disentanglement from the neoliberal web. What the Ghanaian state has, however, done is to employ a collective tax imposition regime to deal with pertinent social issues which rugged marketism could not adequately deal with; so as to enhance the legitimacy of the state. The two programs examined in the paper have indicated that innovative thinking is needed to enhance access to basic social services that would accelerate poverty reduction. If the challenges that the programs face are properly managed, then access to health care services and education would be enhanced for national development.

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### **3.3. FIGHTING THE “POVERTY WAR”**

#### **NON-GOVERNMENTAL ORGANISATIONS AND THE CHALLENGE OF POVERTY ERADICATION IN NIGERIA**

##### **ABSTRACT**

Nigeria is globally known to be rich due to its large human and natural resources endowment. It is however among the poorest globally with over 70% of its people in poverty<sup>1</sup>. Since poverty is undesirable,

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1 This is measured against the proportions of Nigerians living on less than US\$2 per day.

at least to the sufferers, successive governments have attempted to reduce or eradicate it. The challenge however is that poverty is increasing rather than reducing. It has been argued that in its present form, “Nigerian poverty” is largely a creation of market driven economics as exacerbated by contemporary globalization intricacies. There is thus a relationship between private sector economics as prescribed by the North and accepted by government in the South in the dynamics of poverty creation and eradication. In Nigeria, a third sector comprising NGO have emerged as partners in the fight against poverty. The snag however is that the contemporary and popular concept, principles and operations of NGO are Western. Their evolution and development are from the North while their survival is dependent upon foreign (mainly western) donors who determine their areas and mode of interventions, efficacy and sustenance. This paper adopted modernization and dependency theories to interrogate the NGO and poverty eradication interface and raise pertinent issues on the *problematique*. The methodology was largely normative. Secondary data was used with deep and comprehensive primary insights into the operations of Key NGO in Nigeria to sufficiently address potential efficacy and likelihood of failures of NGO as the possible hope in winning the “poverty war” in Nigeria and identical societies. The dynamics of sustainable alternatives were also explored. It was largely discovered that while NGO are key players in poverty eradication efforts in Nigeria, solutions to poverty in Nigeria can never be from abroad. It is also not in sentimental funding for building facilities or imperialistic law changing but local dynamics prioritization.

## **INTRODUCTION**

Poverty is a serious challenge in Nigeria. It has become so intractable that citizens now accuse the government of lack of commitment. The citizens’ position is that the government prospers from poverty creation rather than from its eradication. Given the negative socioeconomic and political consequences of poverty, it has now been recognized as a danger for the nation and particularly the sufferers who are in the majority. Poverty poses serious danger to the nation as it impinges on institutionalization of democratic processes, good governance and development. As poor peoples’ interface, poverty manifests in capacity deprivation and income deficit in a manner that prevents the poor from having the ability to build potentials and enjoy quality livelihood. Aside the two basic levels of poverty matrix in creation (government and private) the third exists –the global. The global community participates both in poverty creation and its “redress”. Global socioeconomic and political intricacies share in poverty creation through exploitation of the periphery and individual “de-

veloped” ations and United Nations (UN) contribute to campaign against poverty. Nigeria is therefore not faced with a phenomenon that is created and fought at a single/national level but nearly an intractable one that is created and fought at national and global levels.

As, sometimes, coordinated and huge the investments in poverty eradication efforts in terms of time, expertise, manpower investments and financial resources commitment, are poverty in Nigeria is endemic and has shown no sign of rescinding. The situation has thus necessitated the emergence and popularity of another level of intervention-Non-Governmental Organizations (NGO hereinafter) with origin from the global scape of United Nations (UN)<sup>2</sup>. NGO in Nigeria have their clientele, directly or indirectly, as the poor whose welfare and generalized existence they work to improve. The poor in Nigeria are individuals and groups *whose capacities to improve income earning capacities and care sufficiently for selves and significant others* have been compromised. These individuals and groups have largely dropped out of the attention span of both the government and organized private sector (Mabogunje, 2008). While market forces plunder livelihood for profit-maximization irrespective of poverty level, current happenings suggest that the government also prospers itself through social forces that disregard poverty level. Such social forces that share common characteristics with market forces and other contours of capitalism are indiscriminate tax regimes, human rights violation, lack of accountability, electoral fraud and regulations that marginalize the people, infrastructural decay and embezzlement of funds, even those meant for social utilities provision and poverty eradication. It is against this backdrop that multi sectoral approach is being adopted to fight the scourge of poverty in Nigeria. A recent and popular sector in Nigerian poverty eradication marketplace is NGO. This paper is therefore essentially situated within the modernist and dependency orientations which construct and deconstruct NGO as viable engines in poverty eradication.

## **THE NIGERIAN POVERTY SCENARIO WITHIN THEORETICAL CONSIDERATIONS**

### **MODERNIZATION THEORY**

Modernization theory is the oldest of all attempts at bringing about development in the Third World Countries (Olutayo and Bankole, 2002). The central thesis of the theory is that there are two societies and they are two extremes of a continuum. This is basically a distinction between

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2 The relationships between NGO and United Nations (UN) in terms of origin and operation are explained later in this paper.

two types of societies –the traditional and the modern. Modernization theory argues that the transition from the limited economic relations of traditional societies to the innovative and complex economic associations of modern societies depended on a change of values, attitudes and norms of people (Kambhampati, 2004). Put differently, development depended on “primitive” values being replaced by modern ones; modernization could therefore be seen as the increasing significance of economic as opposed to social, cultural, racial or religious distinctions (Kambhampati, 2004).

Within this orthodoxy, “primitive” “traditional” and “primordial” values like extended filial relationships, kin groupings and communal socioeconomic and political associations are antithetical to development and affluence. “Traditional” and “primordial” values like those aforelisted therefore should be jettisoned for modern ideals like competitiveness, rationality, acceptance of economic and technological aids to accomplish development objectives. Since modernization theory is problem solving and pragmatic, its recommendations are expected to lead to wider social, cultural and political changes in developing countries. That is, a comprehensive social and economic change of all processes and structural changes required to transform non-industrial societies into industrial societies (Kambhampati, 2004).

The notion of NGO for advocacy and programmes as given from the West through the United Nations is based on the principles of assisting developing nations to develop in terms of aids. Aids are central to the modernization thesis. Policies as aids and materials as aids were originally conceived by the West to keep developing countries non-communist (Kambhampati, 2004). The push by NGO, as already argued elsewhere in this paper, is with Western philanthropic mindset that pigeonholes local values and norms to construct and solve problems. NGO largely emerged and gained ascendancy as aftermath of Structural Adjustment Programme (SAP) era in the mid-eighties. This period incidentally coincided with whole sale incorporation of Nigeria to global economic and policy environment by the then Military Government of General Ibrahim Badamosi Babangida. The outcome of such incorporation was/is large scale austere measures and poverty. Interestingly, the trend of poverty in Nigeria is increasing due to continuous and unequal incorporations of the nation to global environments with Northern dominations. Consequences of such unequal incorporation is observable in recent inflation of basic commodities’ prices without national buffer. The rise in global food prices as very much driven by the demand side of global agricultural system (Braun, 2008) has serious adverse effects on the nation’s poor. The global financial crisis is another case for concern in terms of poverty exa-

cerbation in the country. Mass retrenchment of workers due to various reforms of government with insignificant or outright lack of compensations which is dragging more to the base of the economic pyramid (BoP) is another case. Below are tabular representations of poverty trends and patterns in Nigeria.

Poverty as defined within NGO spectrum is as defined in Western model and approach at solution with slight modifications of the pre-welfarist Victorian Britain. NGO unilaterally and teleologically design, fund and implement their policies and programmes with Western elitism that pays little attention to underlying belief, deep socioeconomic and cultural elements that will ultimately determine programme efficacy. Every society has its own inbuilt mechanisms for defining problems like poverty and has sociocultural and economic infrastructures in place to combat challenges. Before modernist orientations, traditional societies guided quality livelihood through structures like kin systems and occupations that resonate expected quality of lives. The gap within haves and have nots was clearly defined and managed to the extent that quality livelihoods are not compromised. Even those these mechanisms are not codified in law, they are known and generally subscribed to. It is therefore possible to wonder if NGO have the right operating theory, sufficient contextual understanding and sincerity of purpose in their operations. Also, it is possible to wonder whether NGO understand the political and economic undercurrents of their activities. Or, whether the problem is underestimation of local practices and structures in the face of “global” impositions of frameworks in relation to poverty eradication.

Although modernization theory has been variously criticized for being parochial, teleological, unilateral and full of gaps in development processes understanding, it still saliently guide policies across the world. The fundamental shortcomings of the modernization theory were mostly revealed by dependency theory of Paul Baran (1957) in Latin America. It is to this theory we now turn.

### **DEPENDENCY THEORY**

There are as many variants of dependency theory as one may want to consider. This is due to nearly unprecedented popularity and practical usefulness the theory enjoyed upon publication. The numerous variants of the theory have consequently led to multiplicity of terminologies and concepts credited to dependency theory overtime. However, the central exposition of the theory is still intact even in the variants. This chapter in using dependency theory pays close attention to the original version propounded by Paul Baran

(1957) "The political Economy of growth" in his examination of Latin America's development trajectories. Basically, dependency theory, in whatever variant, traces the underdevelopment in developing countries to the enthronement of world capitalists system which is predicated upon unequal exchange in international social and commodity relations.

Hence, within this theoretical orientation, the unequal incorporation of the developing nations to the global capitalist expansionist agenda is responsible for the current underdevelopment as manifested in widespread poverty. In terms of commodities relations, dependency theory posits that advanced economies benefit by obtaining cheaper raw materials, and extract surpluses expropriated by foreign capital from the developing nations. A metropolis-satellite, centre-periphery interactions are thus created and the interaction is facilitated by local classes and foreign elites (Kambhampati, 2004). As capital is expropriated, they are partly squandered on local elites (Comprador elites) who benefit from the public plundering for self aggrandizement.

The central arguments of dependency theory can be synthesized into six. Cheaper raw materials from the South to the North for Industrial development and continuous pauperization of the South; subsistence output and low wages for the South as they produce products that are undervalued in international market and consequently experience poverty; continuous dependence on imported products from the developed economies as they are made to develop taste for foreign products and further enrich the North through foreign exchange; increasing balance of payment deficit as they consume more than they earn and continuously be in debt; Foreign Investment as multinational corporations (MNC) invest in poor economies and repatriate funds to developed economics thereby perpetuating the circle of underdevelopment; the circle of underdevelopment can not be broken through regional integration except through overthrow and severance of unequal relationships that exist between the North and the South. As the interests of metropolitan North are linked together therefore, underdeveloped countries require mental and political struggle within the satellite to bring about arrangements that sustain common good in the South (Olutayo, Olutayo and Omobowale, 2008).

Major strength of dependency theory was its radical departure from hitherto existing orthodoxy. Also, dependency theory paid considerable attention to national dynamics that hold prospects for behaviours, consequences and development. Rather than look for panacea to development from without, dependency theory consi-

ders solutions from within. Dependency theory as deployed in this chapter therefore acknowledges that even though poverty has been created with wrong modernist mindset, solution should, again, not be sought with such mindset that depends on outside but inside mechanisms. Thus, while modernization theory led the way for socio-cultural and institutional colonization of Nigeria, dependency theory paved the way for economic and policy decolonization. Against this background, while NGO may be useful in some respects in contributing to national development, it is expedient to begin a rethink and re-tooling of their contemporary policy environments and operations in terms of poverty eradication in Nigeria if they are to be sustainable and objectively impactful.

The population of Nigeria is 140 million and it is the most populous country in Africa (Federal Government of Nigeria, 2007). The population pyramid of Nigeria is bottom heavy meaning more Nigerians are young and youthful (Federal Ministry of Women Affairs and Social Development, 2007). While the country is one of the richest in terms of Natural and human resources, it is paradoxically one of the poorest in the world. At least 70% of Nigerians currently live in poverty (Federal Ministry of Women Affairs and Social Development, 2007) and urban poverty particularly is rising (National Bureau of Statistics, 2005). Nigeria has spent 32 years of its 48 years of independence under repressive military regimes. The implication is that during the military dictatorship, corruption and unaccountable leadership was installed; human rights were violated with impunity while unemployment, corruption, poverty and civil rebellions became the norm. In general terms, social values, human dignity, respect for constituted authority, and national image were undermined.

Against this backdrop, progress and national developments were put in the reverse gear as national psychic was militarized and beclouded. With the return to democracy in 1999 till date, there is yet to be much positive effects as poverty level in the country stands at 70% *and is certain to be rising* (Federal Ministry of Women Affairs & Social Development, 2007 *emphasis added*). Unemployment rate is 11.9% (National Bureau of Statistics, 2006) and Gross National Income (GNI) *per capita* stands at \$560 as against UK \$37,600 (Department for International Development, 2006). According to Yumkella (2008), Nigeria is currently off-track on meeting the Millennium Development Goals (MDG), especially worse on health and poverty and “[t] here are very strong institutional challenges facing the country in meeting the MDG”.

## STRATEGIES AGAINST POVERTY

**Table 1**  
Trends in Poverty Levels (1980-2004)

Year	Poverty incidence	Estimated Total Population	Population Poverty
1980	28.1	65m	18.26m
1985	46.3	75m	34.73m
1992	42.7	91.5m	39.07m
1996	65.6	102.3m	67.11m
2004	54.4	126.3m	68.70m

Source: National Bureau of Statistics (2005).

As the heading suggests, Table 1 is basically to demonstrate the trends of poverty in Nigeria. This is to give clearer picture of the nation's poverty environment. Within the demonstration years, incidence of poverty increases between 1980 and 1985 and between 1992 and 1996. Between 1985-1992 and between 1996-2004, poverty decreases in rates. It is however important to note that the total population in poverty consistently maintain steady increase from 18.26 million in 1980 to 68.7million in 2004. It is also very crucial to note that when subjective and self-assessed level of poverty techniques were used, the survey gave a poverty figure of 75.5% in the nation (National Bureau of Statistics 2005). Although these methods are rarely used, we consider them the best approach since they are client centered even though *experts/researchers* claim people do not give their true poverty levels within this approach.

**Table 2**  
Relative poverty incidence by sector (1980-2004)

Year	Urban	Rural
1980	17.2	28.3
1985	37.8	51.4
1992	37.5	46.0
1996	58.2	69.0
2004	43.2	63.3

Source: National Bureau of Statistics (2005).

Urban-rural disaggregation has always been found useful in poverty discourse. Thus, we present such figure in the foregoing analysis. Table 2 depicts poverty by urban-rural socio-economic spaces. It is obvious from the table that poverty predominated in the rural areas across the years. There has been rise and fall of poverty incidence in both the two sectors in 1980-2004. While poverty decline in urban

areas between 1985-1992 was not appreciable (37.8% and 37.3%), poverty decline was quite significant for the rural areas (51.4% and 46% during the same periods due to investment in agriculture to combat negative outcomes of SAP. Poverty however picked substantially the following period due to lack of sustained efforts and corruption.

It is observable from Table 1 and Table 2 that poverty is a reality and a consistently high occurrence in Nigeria. When it is sometimes said that poverty declines in Nigeria, it is usually not substantial decline. Also, when such declines are reported, it is better to check the source of the claim and the measure against the general public quality of life, poverty atmosphere and the voice of the poor themselves. The fact therefore is that poverty is consistently high in Nigeria and neither the government, private sector nor the international community has been able to stem the tide. 1960-1980 was a critical period for Nigeria. Since independence in 1960 and becoming a republic in 1963, the attendant high hopes that development would be realized with independence and indigenous governance was compromised due to political instability and corruption. This began with high level of political instability that emerged with the first military coup in January 15, 1966. This was followed by counter coups that climaxed with the *Biafra*<sup>3</sup> civil war from 1967 to 1970. In the pre-independence era, Nigeria was predominantly agrarian. Agriculture accounted for over 60% of the Gross Domestic Product (GDP) and at independence, agriculture accounted for 65% of GDP and 70% of total exports (Federal Ministry of Education, 2005). Oil was discovered in Nigeria in 1956 and actual commercial export began in 1958. This affected the fortune of agriculture as all attentions were shifted to “easy” and “elaborate” fortunes of oil. It was a negative trade-off of agriculture regardless of its social and economic sustainability. Agriculture was neglected and was allowed to dwindle in fortune. Although agriculture engaged 80% of the Nigerian population hitherto for both subsistence and cash crops exports, continuous popularity of petroleum from the sixties till early seventies, destroyed agriculture and industrial productions in the country (Federal Ministry of Education, 2005).

An historical excursion might be in order, by 1982, agriculture contributed only 17% of GDP, while oil accounted for 40% of GDP, 75% of total government revenue and 95% of the foreign exchange earnings (Federal Ministry of Education, 2005). In the late seventies

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3 The *Biafra* civil was a secessionist revolt by the Igbo ethnic group in South Eastern part of the country against the Federal Government of Nigeria. The Igbos were led by Odumegwu Ojukwu.

however, the fortune of oil diminished due to global economic environment that affected demands and pricing of oil. This negative oil revenue era has come to be known as the *Oil glut era* in Nigerian contemporary economic history. This introduced hardship in the country and reduced quality of life as it affected foreign exchange earnings of government and led to austere measures for the country and its citizens that were just coming from the euphoria of *oil boom* of the early seventies. This period was however short-lived. Today, oil is the mainstay of Nigerian economy. Oil still contributes at least 76.5% of Nigeria's total revenue though without positive impacts on quality of live of Nigerians due to governance gaps, weak professional capacities and compromised infrastructures.

### **THE NIGERIAN POLITICAL ECONOMY: PRECURSORY CONSIDERATIONS**

This section locates the issues of NGO and poverty within important political economic environments that defined them. This is important for pragmatic and analytical reasons because it is within the political economy that every situation subsists. Whether a social reality is positive or negative in effects depends on the political economy base upon which the reality subsists. Thus, nothing exists that is not created by the interface of politics as authoritative allocation of value and economy superstructure.

### **THE PRE-COLONIAL AND COLONIAL ERA**

Colonialism marked the beginning of official incorporation of Nigeria into international political economy with its attendant consequences. Prior to colonial era, Nigerian communities operated as independent groups defining their existence and managing effects in a manner understood and accommodated within their environments. Norms, customs and values were constructed to deal and ensure the welfare of every member of the societies without sentiments like class, race, gender and disability. Economic and political rights were placed within the family institutions that ensured universal survival of all members by ensuring ultimate production for communal use (Olutayo and Omobowale, 2005). Societies made necessary remittances that ensured survival of the kin-group thereby making provisions for the sick, the elderly, the young, the handicapped and others who could not work on land for any acceptable reason (Olutayo and Omobowale, 2005). The political system sustained the communal survival mechanisms. Although monarchs and warlords enjoyed considerable powers, in reality African democracy was infused with checks and balances that prevented abuse of political powers. Kings did not control

the means of survival and popular participation was the hallmark of those societies. While rulers were allowed to maintain some expanse of land for production from the surplus, they were not allowed to be excessively economically wealthy.

In all, a theme that runs through the analysis of pre-colonial political economy is the centrality of kin groupings and communal arrangements as against individualism that reigns in contemporary societies. If viewed from contemporary pedestal, the kin group is to the African individual what the Western state is to the European individual (Ekeh, 1989: 6). Right from the economy to political, kin group considerations were manifest in their business exchanges, productions and adoption of new technologies. Individuals and groups did not monopolize economic activities to the detriment of the majority. Importantly too, quality of life was not only measured in income and financial terms. This is because productive activities were not essentially quantified monetarily for there were other exchange practices like reciprocity, barter system, subsistence productions and non-financial social cultural and psychological considerations that define constructions of existential qualities.

Productive activities, transactions and quality of life were woven around families, extended kinship and communal networks. Colonialism however forcefully regrouped the hitherto independent and sustainable communities by regulating and managing the state in terms of production, distribution and governance within rational choice and neoliberal constrains. Colonialism consequently created poly cultural entities in terms of ethnic and political groups and class tainted with suspicion, confusion, anxiety and capital accumulation induced by individualism and greed. Subsistence agriculture and catch/food cropping were substituted with cash cropping for export, in form of cocoa and cotton into Europe in the wake of Industrial Revolution. This changed the practices of agriculture and generalized productive activities. Indices of quality of life measurement became redefined as agriculture was no longer mainly for subsistence but amended for global economic needs and monetarised. Although since it is important for this paper to go colonial and use modernization approach, it is possible to think about “welfarist” programs introduced in the colonies by the British after the World War II and which particularly focused on women and under YWCA. The reality however, is that those “welfarist” programmes were mere palliatives and could not significantly redress the fundamental complications already created by colonialism. In sum, this historical excursion creates an avenue through which current happenings in Nigerian political economy become appreciable.

**THE POST COLONIAL ERA**

With independence in 1960, Nigeria did not sufficiently deviate from the given institutions and behaviour pattern. This was particularly the case because emergent rulers were themselves colonial trainees. Most of them schooled in western world and imbibed western worldviews even though they promised to be different and protect their people. Immediate post colonial era was not different from the colonial aside the nationality of the rulers. The same can be said of today's political economy. The only difference lies in some level of sincerity and dedication exhibited by the immediate post-colonial rulers while current ones lack any. Their points of convergence are however more than those of departure. One of the most important and relevant areas of convergence is the rhetoric of the need and desire to free Nigerians from ignorance, diseases and poverty. 48 year after independence, the rhetoric remains and the problems have not rescinded. If anything, the problems have increased irrespective of investments. Nigeria has only increased in "age" and population 30 million in 1952 to 140 million in 2007 (Federal Government of Nigeria, 2007) without corresponding increase in quality of livelihood.

Although popular explanation from demographers is that population increase is largely responsible for poverty and underdevelopment, experiences of China and India now call for rejection of such positions. Thus, four fold increases in Nigeria's population within a period of 50 years does not necessarily hold negative developmental implications for Nigeria. More deep seated problems like corruption, capitalism, globalization and poor governance are mainly responsible. By implications, out of the 48 years of Independence, Nigeria has experienced at least 32 years of socio economic retrogressions, flagrant abuse of rights, assassinations and infrastructural neglects. These were particularly the case during General Ibrahim Badamosi Babangida's and General Sani Abacha's regimes. The military governments built patrimonial states, deepened ethno-regional political cleavages and politicized the military (Vaughan, 2005). Local communities were ravaged by exploitation, poverty, social dislocation, prohibitive inflation, unemployment rates, infrastructure disrepair and crushing debt burden amounting to \$10 billion in the early nineties (Vaughan, 2005). While the track records of military regimes were less than enviable, civilian governments have not fared any better. Although right violations with impunity have reduced, other relevant socioeconomic indicators have not substantially improved. Democratic institutions are subverted and unpopular candidates imposed on the people through flawed primaries and general elections

rigging (Omobowale, 2008; Akanle, 2009). Public infrastructures like health care delivery system, roads and education are not really different from those of past regimes. Political assassinations, thuggery and corruption are on the prowl. At 10 years of redemocratization process, discouraging quality of life index in Nigeria have forced critical analysts to ask “what manner of democracy”. There is no gain-saying the fact that governance quality in Nigeria and its effects on peoples’ lives are largely negative, as at now, judging by the high and increasing level of poverty.

From government policy angle, since Nigeria’s wholesale adoption of SAP in 1986 by the General Babangida’s administration, the country has not departed from that policy course. Even though the policy has been abandoned since the scandalous world wide acceptance of its failure in developing countries; its variants are still being implemented under the free market economy system and reforms. In fact, Mabogunje (2008: 7) observed that “one of the most important strategies of the new civilian administration in dealing with the challenges posed by the socioeconomic conditions of the country was to begin the process of deepening the role of the free market in the economy of the country”. The free market economy in this context is a flip side of globalization as policy aspects of capitalism. It is privatization, rolling back the state and commercialization public utilities. It is therefore strange that nations believe that policies hinged on capitalism have the capacity to solve socioeconomic problems created by it. This is regardless of the fact that it popular knowledge in critical scholarship that capitalism is nothing but exploitation of man by man, individualism and selfish capital accumulation for personal benefits.

Globalization presupposes that nations while relating with other nations will take advantage of global relationships to develop their countries (Olutayo and Akanle, 2008). This however is not the case as globalization also presents powerful nations with opportunities to exploit others for parochial interests. This has been made possible in three unique ways. One, while globalization has tremendous wealth creation potentialities it is powered by Information Communications Technology (ICT). Nations that are not endowed with this level of technological sophistication will definitely not be able to take advantage of the wealth creation potentialities. Even when nations can afford the technology transfer when commoditized, like the case of Nigeria, maintenance and frequent changes pose a threat to optimizations. Hence, the influence of Transnational Corporations (TNC) headquartered in developed world poses peculiar challenge as they undermine national sovereignty and influence state policies to

their advantages. Some compromise their operating environments and perpetrate capital flight as is the case in the Nigerian telecommunications and oil sectors. Another major way is aiding and abetting corruption. Once government officials and other private individuals exploit the system through capital accumulation and corruption, forces of globalization like dual citizenship, interconnected financial systems and compression of time and space enable then to starch the ill gotten wealth in foreign banks (Akanle, 2009b). This created an avenue through which resources meant for public welfare are embezzled and successfully kept abroad.

The last major way globalization systematically plunders poor nations and further enriches rich ones is through international trade. Through globalization forces, countries trade with one another based on the principle of comparative advantage for mutual benefits. That is country can trade based on products not available at home (or not cost effective if produced) but mostly needed and available elsewhere at reasonable cost. A problem however is that commodity pricing and valuations are guided by deeper extra-economic trajectories than market forces or trade liberalization as made believe by the World Trade organization (WTO). Arguments are that since developing nations joined the WTO most has become poorer than before. This is because they actually lack the ability to maximally operate at global market based on primary commodity pricing dynamics and “under the table international politics”.

Nigeria like other developing nations concentrates on trade in primary products like crude oil and unprocessed agricultural products like cocoa and cassava. These are only useful as raw materials without much value until values are added in the contemporary sophisticated production processes. The raw materials are consequently under priced as if they are ultimately useless in the processes of productions. To legitimize and sustain globalization shenanigans, developing countries are made to sign Economic Partnership Agreements (EPA) with the developed ones through which trade activities become legally binding. Generally, experiences have shown that there are not many gains for developing countries in EPA as they only further create poverty and make them more vulnerable. Poverty and vulnerability were actually the results of Uruguay Round for Africa and the same trend is being observed in the current Doha Round (Olutayo and Akanle, 2008). It is in line with this that Tankeu, (2008) concluded that current negotiations under the Economic Partnership Agreement (EPA) of World Trade Organization (WTO) fall below expectation from an African Perspective.

## **POVERTY ERADICATION EFFORTS IN NIGERIA: THE GOVERNMENT FRONT**

Since poverty is not new in Nigeria and is only increasing, its eradication attempts are also not new. Various strategies have been adopted with little or no success. Common strategies already adopted with significant overlap and short life spans include the economic growth strategy; basic needs approach, rural development strategy, reliance on local self-governing institutions (Obadan and Odusola, 2004) and national orientation approach. To drive these strategies, specialized agencies and frameworks were established with huge financial, manpower and technical commitments. The agencies, some of which are defunct, include Agricultural Development Projects (ADP); Nigerian Agricultural Cooperative Bank (defunct); National Agricultural Insurance Scheme (defunct), National Directorate of Employment (NDE); Federal Agricultural Coordinating unit (now projects coordinating unit); National Primary Health Care Agency; Population Activities Fund Agency; People Bank of Nigeria (Defunct); Federal Urban Mass Transit; National Agricultural Land Development Agency; Directorate for Foods, Roads and Rural Infrastructure (defunct); National Boards of Commodity Banks (defunct); Better Life Programmes (defunct); Family Economic Advancement Programmes (defunct); Mass Mobilization for social and Economic Recovery (defunct), National Economic Reconstruction Fund, National Commission for Mass Literacy and Poverty Alleviation Programme (defunct) (Obadan and Odusola, 2004).

More recently, the immediate past President of Nigeria, Chief Olusegun Obasanjo demonstrated its own commitment to poverty eradication in the country by establishing the National Poverty Eradication Programme (NAPEP) in 2001 (Federal Ministry of Information and National Orientation). The programme is charged with the responsibility of coordinating and monitoring all poverty eradication efforts at all levels in the country. The programme is to also embark on intervention efforts that address the needs of the poor particularly at the grassroots. NEPEP is to be multi sectoral in approach by partnering ministries and private sector in resources generations, mobilization and intervention so as to make it more effective. By design, NAPEP is to target unemployed youths and women allocating 60% available funds for them to participate in projects (Federal Ministry of Information and National Orientation).

Hence, NAPEP empowerment programmes focus on three categories of people; women, youths and farmers (Federal Ministry of Information and National Orientation, w/d). Although NAPEP still exists as it is retained by the current president Umaru Yar'adua to drive his poverty eradication plan, like other previous poverty eradication

programmes, NAPEP has failed to achieve its objective. Major factors responsible for this failure are embezzlement, hijacking of programmes by the elites and non-poor, elitist programming, institutional duplications, improper coordination of beneficiary, executing ministries and agencies, non-involvement of beneficiaries, non-payment of loans by beneficiaries and poor funding. From personal and professional observations, the complex intermingling of these factors and outcomes suggest that NAPEP is already going the way of its predecessors especially as poverty is on the increase regardless of its existence. It is therefore obvious that Nigerian governments down the ages have not successfully stemmed the tide of poverty but have only created recreated and aggravated it. It is against this background that we now turn to considerations of The NGO Front in the war against poverty in Nigeria.

### **POVETY ERADICATION EFFORTS IN NIGERIA: THE NGO FRONT**

Since the government and the private sector have failed to solve the Nigerian poverty problem, this has given legitimacy to engagement NGO as “the third party”. This NGO ‘legitimacy’ however does not mean efficacy in tackling poverty but as officially acceptable partners in the fight against poverty in the country. NGO emerged in Nigeria with legal basis from Article 71 of chapter 10 of the United Nations (UN) charter which sought a consultative role for organisations which are neither governments nor member states (Mobogunje, 2008). Operations of NGO are basically prized as they are expected to be detached from governments and are able to fill the vacuum created by either government ineptitude or budget strain. They are legally constructed to be necessarily complementary. Since Nigeria is a member of the UN, operations of NGO are therefore acceptable within that limit once they are legally established, subjected to national regulations and with no participation or representation of government. NGO in Nigeria do have justifications to exist in the nation especially as the government have lose the pragmatic capacities to eradicate poverty and organized private sector continues to operate optimally regardless of poverty level.

Interestingly, it observable that private sector even appears to benefit from ‘Nigerian poverty’ through innovative product developments for profit making. Cases abound but the common ones are observable in the Nigerian banking industry and manufacturing sector just as is the case in Tanzania, India, Azerbaijan, Mexico and Bangladesh (Petroski, *et al.*, 2008; Sharma, 2008; Barcelo, 2008; Defta Partners Group *et al.*, 2008).

The notion and practice of NGO are however not totally new worldwide. Such activities actually date back to when people realized the need to help their groups independent of political systems at various stages. Such organizations in the mid-nineteenth Century promoted anti-slavery movements before the struggle was taken over by British and European governments (Mabogunje, 2008). Such organizations were also responsible for agitations for women suffrage until women in many developed countries were given the rights to vote (Mabogunje, 2008). In traditional pre-colonial and colonial Nigeria, associations identical to NGO include community development associations, self help associations, age grades, farmers' labour rotation *Oya*, voluntary associations, home town associations and other non-state collectivities that attempt interventions and mutual assistance for common good. By modern considerations as provided for by Article 71 of chapter 10 of the United Nations Charter however, they are new in Nigeria and have foreign origins and operations. Although a few existed at independence, the then governments in search of legitimacy took over some of their activities through competitive party affiliations amongst members. Currently, there are proliferations of NGO in the country as they have emerged all over the nation depending on focus and problem areas. According to Mabogunje (2008) and Ouma (2007) NGO dot the Nigerian welfare scapes as they move and mobilize into areas of social welfare that the state could or would not go. Consequently, aside the home town voluntary associations and religious organizations, the numbers of NGO in the country have grown substantially in the last two decades (Mabogunje, 2008).

Factors responsible for the upsurge in the numbers and activities of NGO in Nigeria are traceable to high government ineptitude, rights violations and extreme poverty. The mid-eighties after the introduction of SAP and austerity measures created and exacerbated unique forms of acute poverty in the nation. Inflation and unemployment rates and resultant poverty were abysmal. This was the era of public neglect and elaborates corruption. Extending to the Abacha regime, government policy was best described as impossible as the government developed paranoia for public demands but continue to aggravate poverty. While poverty was 28.1% in 1980, it grew to 46.3% in mid-eighties and 65.6% in 1996 (National Bureau of Statistics, 2005). These figures although high should be higher providing for doctored official recording and reporting as are usually the case. It is against this background that, although there were only seven NGO in Nigeria in 1940, the numbers has increased to at least 5000 with at least 60 NGO working in Cross River State alone for instance (Angha, et al; 2008; Mabogunje, 2008;

Ngeri-Nwagha, 1995). The peak of the above elements in the eighties and nineties coincided with the upsurge in NGO activities. This has continued to be the case since the return to democracy in 1999. According to Ford Foundation (2008), "since the return of democracy to Nigeria in 1999 there has been growing interest in non-governmental organizations (NGO) and their role as development partners". This is because democratic governments appreciate the magnitude of poverty and the need to tackle it for political legitimization. Hence, democratic institutions are less critical of "development partners" and ideas especially when they are from the west and "advanced democracies".

In performing their roles, NGO basically adopt two different but overlapping approaches. These are advocacy and programmes' implementation (intervention and operations). Advocacy is government policies interfacing. It is primarily to influence policy towards achieving a course. It may be in changing laws, establishing agencies and other institutional manipulations. This is often achieved through campaigns, awareness creation, lobbying and activism to defend or promote specific course. According to Mabogunje (2008), operational NGO design and implement projects as a form of direct intervention in government incapacities. This could be cases of building public toilets, construction of schools or micro credit financing.

Operational NGO can also be further subdivided into "relief oriented" or development-oriented organizations, community-based, national or international depending on scope of work (Mabogunje, 2008). It is important however to note that the above classifications are not hard and fast and only useful for analytical purpose because nearly all NGO in Nigeria undertake both advocacy and operations and the two classifications are mostly not separated in practice. In other words, nearly all NGO participate in both advocacy and project implementation only the level of involvements may vary. This point is particularly important as NGO are dynamic in focus and techniques. They evolve into postures depending on problems at hand and adopt strategies accordingly. For instance, during the military regimes due to flagrant human rights abuses, the most prominent activities were centered on human rights defense and international pressure mounting to safe detained journalists and activists. Since the return democracy however, focus has shifted mostly to programming and intervention. The Niger Delta environmental degradation and conflicts have led to the emergence of environmental NGO and those focused on peace and conflict. Also, urbanization and associated waste generation and pollution have further increased ascendancy of environmental NGO. The same could be said of the era of HIV/AIDS combating in the nation. Thus, in achieving their goals, NGO dovetail in focus and approach. No classi-

fication is therefore rigid. Focus, strategies and dynamism only largely depend on organizational contacts, financial sources and availability and manpower capacities.

It is in order at this juncture to re-emphasise that to a large extent, contemporary NGO are heirs and direct offshoots of 'old' charitable organisations rooted in western philanthropic tradition revolving around the notion of the "deserving poor" (Nieuwenhuys, 2001). They have deep seated preconceived notion and beliefs about the causes and nature of poverty and how it should be addressed (Nieuwenhuys, 2001) in the order of sameness in development processes of nations. In other words, today's NGO (premised on western philanthropy constructs) approach poverty in ways identical to those used in Britain's response to labour conditions created by late Victorian industrializations that virulently rejected almsgiving and advocated the need for reformation of morals and customs, to provide sufficient labourers for the labour market at minimum public expenditure (Mabogunje, 2008; Nieuwenhuys, 2001).

This reveals important historical and cultural elements that are bound to hold strategic implications for operations and efficiency. From the foregoing and based on our experiences, origin, principles, operations and financing of NGO in Nigeria are largely western. Their evolution, sustenance and development are from the North. In analyzing poverty eradication attempts in Nigeria with a focus on NGO, one thus discovers unsatisfactory efficacy. This is particularly the case considered in relation with the disjuncture between globalizing narratives and local problems when problematisation, financing and solutions are given from without. NGO are expected to curtail suffering and let people enjoy their existence to the full through advocacy and programming that fill government-created vacuum. They are to lead efforts in building inclusive communities, curb government waste and corruption in programming and create intervention models that public institutions can model. Persistent and increasing poverty in the nation however justify the need for NGO framework scrutiny and call reconsideration in Nigeria.

### **NGO AND POVERTY ERADICATION IN NIGERIA: THE CHALLENGE**

Obviously, NGO are forces to reckon with in Nigeria. They are many, established and their structures are visible in the urban areas especially at the capitals. Operations and interventions are designed and financed from abroad through international donor agencies. Although poverty is accepted to be endemic in Nigeria, philanthropic orientation is still very underdeveloped among wealthy citizens who keep their wealth to them-

selves and families. Ford, Rockefeller and Bill and Melinda Gates public support spirits are obviously absent from Nigerian rich class. NGO are therefore forced by operational funding and survival to rely on foreign granting agencies who decide which areas they are determined to fund even though with little understanding of the local problems. This is part of the reason why NGO channelize their activities to suit international funding environments. A foremost academic and NGO practitioner in Nigeria puts the challenge thus: "Most NGO in Nigeria have tended to depend for their funding on international NGO foreign foundations and to a lesser extent, bilateral and multilateral donor agencies. To the extent that these funding organizations have their own agenda which may not always fall on all fours with our national priorities, there is a weakness in the role of NGO as strategic partners for national development" (Mabogunje, 2008: 15).

The fact is that every funding agency has core funding areas interested in no matter the national priorities. And some of those core funding priorities may not necessarily reflect national needs. This is a major risk factor in NGO environment that depends on foreign institutions. Regrettably, international funding is actually on the decrease due to global economic crunch and as more NGO now get "tie offs" and donors concentrate on less stable nations. The decrease has been compounded by the current global economic melt down. As international funding reduces and local donors are seriously undeveloped, the few available funding at public and private domains are disquiet about NGO relevance, professionalism, ethics and development impact in Nigeria (Ford Foundation, 2008). In fact, the most widely held view is that most NGO are dubious and poised to defraud the donors of their funds (Ford Foundation 2008). This perception gap has largely affected the efficiency of NGO operations and the available resources. Existing international donor agencies demand stringent measures that make operations very cumbersome in the name of international best practices. On the private angle, while there has been an increase of interest in Corporate Social Responsibility (CSR), private companies establish in-house foundations to perform NGO roles thereby reducing operating resources and spaces of NGO. This multiplicity of organizations further pluralized the already uncoordinated operations, fragment resources and reduces impact.

Poverty eradication needs serious coordination, capacities and monitoring and evaluation. Lots of NGO are only conduit pipes to siphon fund as already observed by Ford foundation above. Most either employ unqualified staff or employ qualified ones and underpay them thereby leading to high labour turnover of qualified staff with implications for programmes. Some use their directors' contacts at donor

agencies to get funds which they lack ethics and capacity to utilise. Some international donors are aware of this capacity and ethical gaps but decided to turn blind eyes once records show their sponsorship and Northern political commitments to assisting the third world. NGO have consequently become political machineries through which donors agencies and develop countries maintain orthodoxy. Hence, there is high level connivance to enrich selves through project funds. NGO from this position become business enterprises moving into a sector where financial success is guaranteed by illicit enrichment which is the rule (Abe, 2005). This trend has been observed across Africa in Burkina Faso, Cote d'Ivoire, Ghana, Senegal, Angola and Cameroon where operators of NGO have become gang of white-collar bandits posing as intermediaries in order to collect funds that never reach the people (Abe, 2005). The interaction of these snags is responsible for the poor efficiency and relevance of NGO in Nigerian poverty eradication schemes. NGO terrain in Nigeria is therefore not enviable considering the interlock of their political economy, corruption, perception and capacity gaps.

### **TOWARDS A SUSTAINABLE ALTERNATIVE: CONCLUDING REMARKS**

The best pedestal to begin this section is to acknowledge the fact poverty is undesirable to the individual, nation and the globe. This is due to its debilitating effects on all. Not only the sufferer(s). It is surprising however that popular poverty construction and eradication strategies are from the North and never homegrown. In part, this is due to the belief that best problem diagnosis and solution options are from the North. Indigenous scholars are often considered incapable. Hence, Northern designs that have proved useful, or otherwise, in solving problems in Northern communities are transfused into Southern environments with very little or no modifications. Such strategies also appeal to donors and international communities given their origins and "track records". This, particularly, is the case with NGO as poverty eradication strategy in Nigeria.

As war is being waged against poverty in the country it is strategic to consider local alternatives which have been underestimated and disregarded thus far. Sustainable alternatives must consider historical peculiarities of local environments, greed of capitalism and external politicking. External politicking must be well focused and checkmated as it has overarching influence on all would be policy alternatives. In the age of globalization and international power play, powerful nations have the capacity to reject local policy options they have not originated thereby making efforts meaningless. This was the

case for The African Alternative to Structural Adjustment Program for Socio-Economic Recovery (AAF/SAP, 1989), African Charter for Popular Participation in Development and Transformation, and Lagos Plan of Action, of 1980 (Olutayo *et al.*, 2008). As important as those blueprints were, they were never implemented or seriously considered due to international dishonor for them. International governmental and non-governmental influences must therefore be appreciated and tackled *ab initio*.

Solution to poverty in Nigeria can never be from abroad. It is also not in sentimental funding for building facilities or imperialistic law changing. They only eventually create corruption, classes within class, avarice and greed among the local people. For instance, based on experience, it is beginning to be difficult to intervene through policy and research in Nigeria. Local people have come to conceive NGO and researches as money making ventures with plenty of dollars from the *Oyinbos* (local parlance for Europeans and foreign donors). It is common to see people demand money before they participate in researches as respondents since they believe NGO have already used their problems to receive plenty of money from foreign donors.

This is an emerging and familiar occurrence in Nigeria. Cases abound but Niger Delta is an example of such settings. Researches as well as project interventions that do not factor this into designs and strategies may run into problem. It is then necessary to allow local scholars who know the intricacies of their environments conduct necessary studies and develop blue prints that are not teleguided from without. It is about time recognition and values are given local contents. Hence, the principles of popular participation, family and community levels involvement and bottom-top approaches are called for. To know the poor, the poor must say so but not defined for them. While poverty is rife in Nigeria, not all the poor people wish to be seen and addressed as poor because it has socio-cultural implications. This is particularly important in rural areas where most of the poor people are believed to be domicile. Also, because of financial and material benefits that come with interventions, non-poor share or completely hijack benefits of projects with the poor thereby compromising project impacts.

Most of what is necessary is responsible leadership that is not neck deep in corruption. That is, accountable leadership that can provide the necessary infrastructures to make life easy and potentials annexable. With a little independence, self definitions, sense of worth and communal values reinforcements, most of the problems would be addressed. A good fit between indigenous survival techniques and modern capacities acquisition and utilization should be the focus.

Government should include the Ministry of Information and National Orientation's Programmes for broadcast on the media but mostly on radio. For the young populations and the owners of tomorrow, this message should be included in their curriculum so that they can imbibe the principles of self definition, self worth, hard work and local appreciation and exploitation while annexing the outside early in life.

For external partners who may wish to contribute objectively to the poverty eradication war, best practices must be their major concern. They should focus more on mobilization of local stakeholders and facilitation of participatory processes that can successfully win the war against poverty. Efforts should be made to coordinate and encourage organized private sectors, philanthropic individuals, well meaning NGO, labour unions, hometown and community development associations (CDA) and the poor themselves. There are cultural practices that sustain the poor in Nigeria, to some extent. Aside the CDA, there are *esusu* (rotational collective indigenous banking or contributions) among the Yorubas. Through this process, a group of people may come together to assist members to meet needs after which another batch is contributed to help another. There is also *Oya* (rotational labour). In this case, people rotationally help with labour in productive activities, mostly on the farm. This process cancels expenses on labour. Important sociocultural capital is however needed to sustain these processes. A sense of unity, oneness and belongingness in societies are needed to productively annex these processes. Important considerations here however is that there are many of indigenous practices that could be investigated and annexed for sustainable poverty eradication rather than those reified and imposed by contemporary global intricacies. These have not worked because they were not developed and have been relegated to the background as a thing of the past and the villages.

The above background dynamics demonstrate the need for sufficient prioritization of the structure and agency interface in poverty constructions and eradication attempts. Research, policy and programming questions could then be: how do the society and the poor construct their existences? How do they live? Are there lived experiences in their sociocultural environments that could be explored, annexed and built upon to eradicate poverty? These would then mean attempts from below as distinct from top-bottom dimensions to poverty constructions, programming and interventions. Alternative solutions to poverty would ultimately not necessarily be to construct another global binary of history between the Global North and Global South but, to look at manufacture and existence of poverty

with structure-agency binoculars that are critically pragmatic with particular historical and sociocultural specificities. This is strategic because poverty, affluence and overall development are not on a continuum but states of mind that must be galvanized in the poor themselves. Hence, there must be sustained and increased partnerships amongst countries of the Global South who are socioeconomically and historically identical on poverty and development to cross-breed in intellectual poverty policy designs and implementations. This is important if war against poverty is to be won.

Interested Global North partners should humbly ensure sufficient understanding of local circumstances and structural intricacies in order to liberate the traditionally marginalized group (the poor people) in national economic and political systems. Emphasis should therefore be reduced on exporting frameworks and generalized aids. Prominence should be given to increased technical partnerships with local systems in terms of research and capacity building to appropriate local and global resource advantages. Also important are monitoring and evaluation to galvanize sustainable activities that get people thinking about how to assess and take advantage of their near and far environments within indigenous worldview that has the capacity to sustainably improve approach to life and quality of life. This could be literally translated as “thinking globally and acting locally” or “acting locally and thinking globally”. The “thinking globally and acting locally” or “acting locally and thinking globally” components are important but are yet to be valued. The approach still being adopted is thinking globally and acting globally largely. For instance, the best the government is doing to make NGO responsible at the moment is to make sure they are registered with the corporate affairs commission as incorporated with Board Members. This is nothing but acting the global templates of International Best Practices in NGO operations. International f recommended this and good Book, Audited Accounting Systems and general operational transparency. These are operation issues. What this chapter advocates is the value attachment to local problem solving templates. This is NGO activities that would research local ways of wealth creations and orientations. This local orientations and wealth creations and maintenance could then be formalized in ways acceptable to the people by the NGO in a partner-in-progress process.

Generally however, one can never end this chapter without mentioning the fact that NGO as a group is a major force in Nigerian poverty eradication terrain. They can therefore not be wished away. What we have done mainly is to show that relying on a framework that excessively esteem NGO ahead of other local imperatives and life pattern is fault-

ty. A multisectoral approach is therefore to be prioritized. Although the governments, individuals and private sectors now have interventionist agendas, these agendas are largely piece meal and uncoordinated. The National poverty Eradication Programme (NAPEP) is still on, NGO still have momentum, private companies now have foundations for poverty eradication; Presidents and governors' wives have pet projects, while individuals have philanthropic programmes. A gulf however still exists in their orientations and operations while poverty is still on the rise.

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### **3.4. RETHINKING WORLD BANK DRIVEN LAND TENURE REFORMS IN KENYA**

#### **ABSTRACT**

This paper examines the Kenyan experience with World Bank driven land tenure reforms and how the government has attempted to ameliorate its impacts on the vulnerable groups such as women and orphans. The paper also examines the current thinking about land tenure reforms as illustrated in the draft land policy 2008. The main arguments in this paper are that World Bank driven land tenure reforms have had several negative consequences among the vulnerable groups in Kenya, and these vulnerable groups have been at the forefront in resisting these reforms and have forced the government to bring in not only alternative land administrative mechanisms but also the develop draft land policy whose originality and effectiveness are at the moment being debated by the public.

The paper relies on rigorous corroboration of available secondary data together with primary data which were collected between 2004 and 2006 in Kombewa division of Western Kenya involving about 156 informants. The informants were identified using purposive and

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snowballing sampling techniques. The findings show that World Bank assisted land tenure reforms has been responsible for landlessness, land disputes, and increased poverty among vulnerable groups. The findings also show that the poor have resisted these reforms and have forced the government to initiate land boards and land tribunals whose primary purpose are to assist the poor access land rights. These resistances have climaxed with the development of the currently debated draft land policy, which is not a radical departure from the past.

The paper is divided into three parts. The first part looks at the history and theoretical underpinning of land tenure reforms in Kenya. The second part analyses the consequences of land tenure reforms. The third part looks at the resistance and the new players in land tenure reforms and how these have been incorporated in alternative draft land policy. The conclusion looks at the challenges facing land tenure reforms in Kenya.

### **GENESIS OF LAND TENURE REFORMS**

Generally, a stable, flexible and negotiable structure of land access and control existed in Kenya until the establishment of the protectorate in the early 1890 and the colonial state at the beginning of the century (Okoth-Ogendo, 1981, 1991). The period of the British colonialism in Kenya was characterized by three main events i.e., alienation of land, imposition of English Property Law and transformation of customary land law and tenure (Wanjala, 2000: 27). The first step, from which others followed, was alienation and acquisition of land by the protectorate as a prelude to the establishment of a colonial state. The sequel to this was imposition of English Property Law and acclamation of titles and private property rights. This, together with other legislations, provided a juridical context for the appropriation of land that had already taken place and the land tenure reform that was to follow.

Although the British protectorate did not carry with it any title to land, the colonial administration imported a series of legislative regulations to guide future appropriations and to give previous ones the necessary judicial support. The introduction of these measures were based on an assumption that the relations of local communities to the land did not carry the notion of individual title, and that their rights were constricted only to occupation, cultivation and grazing. Thus, unoccupied land reverted back to the territorial sovereign. As a result, several regulations were issued to facilitate land appropriation and making of land grants to settlers (Sorrenson, 1965).

Such legislative regulations included, Land Regulation of 1897 that authorized the protectorate to issue certificates for a short-term occupancy of 21 years renewable for similar period. There was also

the Council of 1901 later incorporated into the East African (Land) Order which empowered the administration to dispose of or lease unoccupied land in the protectorate. The Crown Lands Ordinance of 1902 permitted the sale of land by settlers, but did not confer titles to land (Okuro, 2008: 52)

However, one of the most important early measures was the introduction of Crown Lands Ordinance of 1915 (Wanjala, 2000: 28). This Ordinance declared all “waste and unoccupied” land in the protectorate “crown land” and subject to the governors’ powers of alienation. It created the reserves for “natives” and located them away from areas scheduled for European settlement. These developments witnessed the creation of what Mamdani refers to as “citizen” (settlers) and “subject” (Africans) –and dual system of land tenure and land administration to consolidate the colonial rule (Mamdani, 1996). However, customary land tenure continued to govern Africans’ relationship to land and was enforced by chiefs who were appointed by the colonial state to help in colonial administration. By contrast, an individualized tenure regime, which was attached comparatively high level of rights, obtained for settlers. The Ordinance took away all the Africans land rights and rested them in the crown. The result was, as Okoth-Ogendo puts it, that African occupants became ‘tenants of the crown’ (Okoth-Ogendo, 1991).

Despite all these legislative advantages, the settlers further clamored for a security of tenure obtaining in England with regard to land ownership. They also advocated for a system of property law, with regard to transfers, mortgages, covenants, leases etc., the content of which was English. These settler claims resulted in the official institutionalization of the transfer of property Act of India as the applicable law to land held by the settlers under the Crown Lands Ordinance. Besides, to cater for the security of tenure, there was enacted the Registration of Titles Ordinance whose effect was to declare the title of the registered proprietor of land as conclusive and indefeasible (Okuro, 2008: 53).

The creation of the reserves in areas deemed unsuitable for European settlement had far-reaching implications both for the natives and the colonial administration. Underlying them was a policy of exploitations and oppression against the colonized people accentuated by land alienation, forced male labour mobilization, overcrowding, insecurity, stagnation in African agricultural production, massive landlessness and rapid land deterioration due to fragmentation, overstocking and soil erosion.

In the long term, the problems in the reserves led to unrest and eventually to a political uprising –the Mau Mau resistance movement that organized around the issue of land (Harbeson, 1971: 232). The

colonial state's answer to the unrest was to initiate an ambitious project of land tenure reform in the reserves that would serve as a bulwark against rural radicalism. The colonial agronomists argued that the basic problem was neither over-population nor the need for better farming methods but the indigenous tenure arrangement, which they saw as a major constraint to agricultural development. This argument was to lead to a grandiose tenure reform program relentlessly pursued by the colonial government throughout the period of colonization.

The colonial agronomist's thought about the individualization of land tenure was first contained in the less well-known J. H Ingham Report published in 1950 (Okuro, 2008). However, the blueprint that was to destroy the indigenous/communal access to land was formulated by R. J. M. Swynnerton in what was to be known as the Swynnerton Plan (Swynnerton, 1954). The architect of this plan argued persuasively in support of individualization of tenure in Kenya as a pre-condition for enhanced agricultural production.

The process of tenure reforms took three main phases: adjudication, consolidation and registration. The first phase entailed the ascertainment of rights or interest in land amounting to "ownership" in support of individual claimants, while the second was a process whereby individual holding were to be aggregated into what was considered "Economic Units". The final phase was the entry of the rights shown in the Adjudication Register into a Land Register and issue of title deeds. Registration of an individual as a proprietor of land conferred upon him absolute and indefeasible title to the land (Wanjala, 2000: 30).

The publication of the Swynnerton Plan and the activities that followed marked the beginning of an evolution in Kenya's land tenure reform system with shift from communal/traditional to individual ownership (Place & Migot-Adholla, 1998: 360). In the whole of Western Kenya, areas of the present day Kombewa division became a pilot scheme for land consolidation, which began on May 8, 1956 (Okuro 2002, 2005). In the words of the then the District Commissioner Central Nyanza E.H. Risley "Kombewa was chosen as a pilot scheme since it contained examples of almost every type of soil formation as well as having considerable element of progressive minded people" (Okuro, 2005: 181). The individualization of land tenure has expanded rapidly since independence from high agricultural potential zones to semi-arid agro-pastoral areas.

### **WORLD BANK AND LAND TENURE REFORMS**

The World Bank has produced a series of influential reports on land matters since the seventies and has been a key actor in setting the policy agenda on issues of land tenure. This has been pointed out by a number

of key commentators. Toulmin & Quan, for example have argued that much of Africa remains heavily dependent on development assistance. As a consequence, African governments have been particularly subject to the ebb and flow of donor thinking about the importance of the land question and how it should be addressed (Toulmin & Quan, 2000). Williams has also pointed out that for more than a decade and a half, the World Bank's land policy greatly influenced the kind of development activity that was financed and supported throughout the world by donor and international financial institutions (Williams, 2002).

As to be expected, the World Bank continues to take a lead in setting the land policy agenda not only in Kenya but also in other African countries (Toulmin & Quan, 2000: 1-29). The changes in the World Bank's thinking between 1975 to date about land reform are well documented by their own land and agricultural specialists (Whitehead & Tsikata, 2003: 67-112). This paper will borrow from two World Bank policy documents on land and agricultural production. These are the Land Reform Policy Paper (1975) and World Bank Report on Sub-Saharan Africa: From Crisis to Sustainable Growth (1989). These two reports captured the Bank's thinking on a range of issues such as land reforms, land administration, land rights, customary tenure, land markets among others particularly in developing countries.

In The Land Reform Policy Paper of 1975, the World bank underscored the importance of land issues in fostering economic growth and reducing poverty and recommended that "formal land titling as a precondition of modern development; the abandonment of communal tenure systems in favour of freehold title and sub-division of the commons; widespread promotion of land markets to bring about efficiency-enhancing land transfer; and that support for land redistribution on both efficiency and equity grounds" (Quan 2000: 38). Tenure reform was seen as central to promoting agricultural growth, with private freehold tenure as an essential step to a modernised agriculture, promoting investment and providing incentives to adopt new technologies (Whitehead & Tsikata, 2003:11). These assumptions were seen as primarily relevant to Latin America and Asia on the widespread understanding that the Sub-Saharan Africa was land abundant continent characterised by extensive agriculture (Platteau, 1992: 5-6). However, by the eighties, all these assumptions changed. The change was attributed to the experiences that were gathered from the countries that had experimented with privatisation of tenure. For example it was becoming evident that some communal tenure arrangements were able to increase tenure security and provide a (limited) basis for land transactions in ways that are more cost effective than the freehold titles (Deininger & Binswanger, 1999:248).

In Africa, the widespread food crises and famines in the eighties led to the renewed focus on agricultural productivity and the conditions for agricultural growth. As early as 1982, a highly authoritative report on agricultural development in Sub-Saharan Africa pointed to land as a growing constraint and recommended greater attention to land use and land tenure issues (Eicher & Baker, 1982). An equally influential account emphasised the growth of land sales and the impediments affordable to a free market in land by the post-colonial states. These developments created a shift in the World Bank thinking on land reform particularly in Africa.

This shift became apparent in the 1989 document *Sub-Saharan Africa: From Crisis to Sustainable Growth*. In this document, World Bank followed a widely rehearsed logic concerning the inability of “traditional” systems of land tenure to adapt to changing conditions (William, 1994). The document emphasised that increased agricultural productivity required new technologies and the incentives to adopt them, to be provided by tenure security through land titling. It further posited that land rights secured by titles would also help rural markets in credit and land to develop. Customary systems were seen to be responsible for the lack of incentives, did not stimulate land and credit markets and prevented the distribution of land to most efficient users.

In the early nineties, the World Bank funded a series of studies on the link between the security of the freehold tenure and agricultural productivity (Bruce & Migot-Adholla, 1994). Kenya was among the countries studied, and the findings confirmed earlier research. No difference in the productivity and investment of land held in freehold title compared with those held in customary tenure were found (Migot-Adholla, et al. 1994). The conclusion that emerged was that the customary tenure systems appeared to offer sufficient security of tenure for farmers to invest in land, although the lack of the title meant they had no automatic rights of disposal. And that there was no compelling economic justification for replacing customary land law with state guaranteed titles.

By the year 2000, the World Bank adopted a more cautionary measure to land tenure reforms in Africa. At one moment, the bank seem to have followed a incremental approach to land policy, i.e., adapting and not replacing existing land management practices, with the role of the state to provide the legal and administrative environment that will support and promote evolutionary change. At another moment, the bank became keen towards promoting land reforms that will eliminate conflicts between parallel sets of rights and is setting up pilot programs to register and adjudicate customary rights, to provide titles

on a community basis and to redistribute land through negotiation and the market (Quan, 2000).

However, the recent policy declarations emanating from the World Bank, shows its commitments towards formalisation of land relations as a necessary precondition to modernisation and economic development. That the bank continues to hold to the idea that formalisation and titling of land rights is the most desirable goal and continues to offer substantial support to governments establishing land tenure reforms with individual registered titles (Quan, 2000:38). In its latest policy research report entitled Policy Research Report: Land Policies for Growth and Poverty Reduction, the bank persuasively argued that policies that make it possible to use land as a means to access credit turn it from a dead asset into an economically viable resource with major equity benefits (Manji, 2006: 58).

As a consequence of this history, since independence, land titling programs have been implemented with great vigour, particularly in the areas of settled agriculture (Coldham, 1979: 616). In addition, land titling has remained the official policy of the ministry of land within the department of land adjudication and settlement. The department is governed by three Acts of parliament namely: Land Consolidation Act (Cap. 283), Land Adjudication Act (Cap. 284), Group Representatives Act (Cap. 287), with an express mandate of ascertaining rights and interests on land in trust land areas and transforming of ownership from customary tenure to individual ownership through demarcation, survey and registration. Despite the purposeful penetration by non-customary tenure ideology and legal provision, unregistered, customary tenure not only persists but also is still by far the major form of tenure in most regions in Kenya. In contemporary Kombewa division customary and statutory systems co-exist and operate within somewhat distinct domains (Adams & Turner, 2006; Okuro, 2005).

### **THE CONSEQUENCES OF LAND TENURE REFORMS**

Since the Swynnerton Plan, numerous empirical studies have emerged which specifically examine the impact of land tenure reforms in Kenya (Okoth-Ogendo, 1986; Green, 1987; Shipton, 1988; Haugerud, 1989; Bruce *et al.*, 1994; Place & Migot-Adholla, 1998; Okuro, 2005). Evidence from these and many other studies, has shown that land titling has not delivered on the key envisaged areas namely: that titling has failed to achieve the expected increase in agricultural investment and productivity even among small holders, did not facilitate the use of land as collateral for small holder farmers, and encouraged land speculation by outsiders. The titling programs were also responsible for the increased land conflicts as it ignored the overlapping and mul-

multiple rights and uses of land at the local levels hence reinforcing unequal access to land based on gender, age, ethnicity, and class.

The empirical weakness of these studies, however, emanates from their regional bias. These studies were mostly done in agriculturally rich regions of Rift Valley, Central and Eastern regions of Kenya. We are yet to ascertain the impact of land titling on farmers practicing subsistence agriculture particularly in sections of western and even the Coastal regions of Kenya. This exists despite the fact that the government and even the World Bank have continued to support land registration as official policy when it comes to dealing with land reforms. Extensive land registration and titling has been going on in Kombewa division of western Kenya for a long time. The evidence we have today concerning the extent of land registration in this area confirm that it is almost complete (Okuro, 2008). What is however astonishing is that the villagers have continued to petition the local administration for support to enable them to obtain titles.

The integration of Kombewa into colonial capitalist economy and later into emerging regional political economy in post-colonial Kenya significantly restructured and modified the way the people of Kombewa thought of themselves and the properties they owned. For example, the colonial requirement that households pay taxes in cash and renewed cash demands by and large necessitated rampant sale of livestock and remarkable demand for wage labour. In the end, even bridewealth exchange, which was accomplished using livestock, assumed monetary terms. Prospective husbands who found rates of bridewealth exchange unreasonable either exchanged less or migrated to look for wage labour. Some even eloped with girls without exchanging anything (Okuro, 2006). Thus in Kombewa, the three decades after 1920 were marked by increased demand for cash to pay taxes, to acquire bridewealth, to buy clothes and to meet other necessary domestic requirements. Indeed, the adoption of Western forms of clothing, quarrels over quality and amount of clothing provided to co-wives, had become one of the principal items of conflict within the homesteads in Kombewa (Hay, 1989).

Therefore, the three decades after 1920 stand out as decades of fluidity and experimentation with a number of economic possibilities, including the growing of cotton and other cash crops, long distance trade and a regular occupation, and wage labour outside Kombewa to look for cash. The leaders of this process were often the first Christians in the area, the sons of lineage leaders who dominated the Kombewa politics around the turn of the century and their wives and mothers together with migrant laborers (Hay, 1989). These fluidities and experimentation indeed became the guiding principles upon which

the people of Kombewa came to terms with the land tenure reforms. It was and continues to be a reflection of their overarching demand to come to terms with the difficult economic options they have faced since the establishment of colonialism and after (Okuro, 2008).

When land tenure reforms reached Kombewa as from May 8, 1956, it did not by and large realise the theoretical expectations, instead it created greater uncertainty and conflicts. Those on whose names land was registered as principal landholders-men, assumed exclusive individual rights in given pieces of land at the expense of women, widows and juniors whose rights to land remained either secondary or usufruct. Eventually, and as it did happen in Kombewa, principal land holders imagined and indeed started to use land as any other property they had once held and used during the colonial period.

Thus immediately after independence, it was land acquisition and not the number of livestock or women that became a significant measure of wealth. The attention was from livestock to access to land. Those who benefited most after land registration were the ones who had access to cash. These included government civil servants, wage labourers and those who secured limited or no land during the process of registration. They used their status and cash to purchase land from willing sellers who desperately needed cash to meet day-to-day household demand. As such, land tenure reform in Kombewa has so far resulted into land sales, land disputes, and the denial of land rights particularly for vulnerable groups. These have been significantly exacerbated by the high prevalence of HIV/AIDS resulting into the relative increased in numbers of orphans and young widows with limited knowledge about land rights (Okuro, 2007; 2008).

In Kombewa disposing of land as a gift became the precursor for land sales. Usually, the person receiving land as a gift held some informal or formal relationship with the principal landholder. For example, such a person was either given birth to as a result of leviratic marriage or offered some financial assistance to the principal landholder. It was these gifts that eventually initiated the land sales witnessed in Kombewa division today and particularly in the era of HIV/AIDS. As from seventies evidence continued to accumulate in which individual male, usually, principal landholders sold their land to either kin members or migrant labourers at relatively lower prices. Similarly, others who had not accumulated enough livestock used land to increase their herds. Here, the principal landholder offered for sale a section of his land in exchanged for livestock.

Today the people who live in Kombewa espouse various and at times conflicting explanations for selling land. A survey of these reasons include: to rescue a relative fined in a court of law; to buy a

coffin or just to meet funeral expenses; to pay school fees for children; to exchange bridewealth; to pay hospital bills; to buy food; to build iron roofed house; to cultivate land; to avoid land dispute; to establish a home, to pay debt, and others- including buying a bicycle or to repair a boat, or just inability to give birth to male children, among others. While the rampant land sales in Kombewa may be attributed to the intensifying rural poverty, nuance analyses reveal the extent to which some of these sales are directly or indirectly related to the ravages of HIV/AIDS at individual, community and household level (Okuro, 2007).

While land tenure reforms were premised on increased agricultural activity particularly for smallholder farmers, out of all interviewed in Kombewa, a limited number preferred to sell their land to increase their acreage under food cultivation. The land sell seem to have been motivated by prestige and speculative purposes rather than increased economic benefits from land cultivation. These land sales were geared towards acquiring household needs, however, with long-term detrimental effects on those whose livelihoods depended directly on land and on intergenerational land inheritance. It needs to be emphasised that this rather vibrant land market thrives albeit secretly or informally and not with a view of raising land use efficiency.

In the unfolding scenario, those with cash have continued to accumulate more land at the expense of the poor. For example, in Kombewa, land sales pitted “wealthy individuals” including urban elites, teachers, and other government civil servants living and working within Kombewa division against poor households who ordinarily should be deriving their livelihood from land. Usually, these “wealthy individuals” are the first to be consulted should there be a person willing to dispose off his or her land, and given their monopoly over land purchase, they often quoted lower prices so as to pay less and buy more.

In Kombewa, these “wealthy individuals” are the ones who have processed their land title deeds, while a majority of the people particularly those from poor household (and mostly the ones selling their land parcels) do not even know their parcels numbers and have not bothered to process their title deeds. This process has led to impoverishment, disempowerment and curtailment of livelihoods for the poor rural households in Kombewa. Indeed, the skewed distribution of land during adjudication in Kombewa enhanced and reinforced class and wealth differentiation, especially when looked at in terms of the inability of the poor to defend their claims to land.

It is not only land sales that has characterised the last two decades in Kombewa. These land sales have been characterised by inces-

sant land disputes. The reasons for these are multiple, and essentially linked to the increased scarcity of land caused by demographic pressures and to a higher extent by rights conferred to landholders under land registration and titling. For instance, where land has traditionally been the object of multiple rights and uses, the weakening of the customary institutions that were able in the past to balance these different interests as well as the attempt to renegotiate the arrangements established in the past have not only fostered tensions but also land disputes. Furthermore, many people are today seeking land to settle and farm. This has been compounded by frustrations with off-farm economic opportunities.

The characterisation of land disputes in Kombewa varies and includes; disputes related to the issue of land transfer; disputes involving absent landowner; disputes concerning land sharing and loaning; disputes of land purchases and payment by instalment; disputes arising from land exchanges *i.e.*, when two or more registered land owners exchange land among themselves to ease cultivation or to hold continuous plots; disputes involving land tenants; disputes regarding succession or inheritance of land rights; land boundary disputes; and lastly are land disputes involving "contents" in purchased parcels.

In the intervening years, two competing interpretations have emerged to explain the impact of land tenure reforms on women and other minors. On the one hand is the admission that land titling has disadvantaged women and children. These interpretations have played out and have led to the conclusion that land registration has effected hardening on men's land rights into absolute legal ownership, to the exclusion of women and children, meaning not only that it introduced the bias in favour of men's rights, but that it also reinforced the bias that existed already and, arguably made it more resistant to forces of change that might otherwise have addressed the imbalance. On the other hand, some studies have posited that land registration indeed strengthened some women's land rights. As a consequence, some women gained from registration while others lost. For example, widows sometimes registered land in their names instead of returning it to the dead husband's family under customary law (Shipton, 1988: 119). Other women and widows have been able to purchase land-but this must be understood from a background of affordability and risk of harassment.

These two competing arguments are tenable in Kombewa. As already discussed, land in Kombewa was registered in the name of males, thereby, in effect, alienating women's access rights to land. Prior, to this, such access rights depended upon the fact that individual males were not able to alienate land, even though as members of the land

holding patrilineage they had the right to allocate land. Moreover, anticipated cash needs –taxes, school fees, sickness, among others, forced those with land to lose it all together. In effect, land titling that came with colonial land tenure reform and continued in the intervening years gave individual males the theoretical and, in practice, legal right to dispose of the land through sale or any other means without necessary recourse to the elders of the patrilineage, who would ordinarily have the power of veto in matters of alienation of land by individuals. These have been experienced despite the fact that all transfers of adjudicated land should be approved by the District Land Board, taking into account the needs of the transferor's dependents. This requirement has no enforceable sanctions to ensure that transfers via sale are reported to the board. The reform transferred to an almost exclusively male, individualized –tenure system, which left no provision concerning not only women but also widows and orphans. In Kombewa, those who lost out included widows, particularly those with no male children, and divorced and separated women who were widely regarded at the time of adjudication as having no entitlement to land allocation.

In addition, land privatization significantly interfered with the social embeddedness that characterized the numerous ways into which secondary holders of land rights accessed land. Beneath it existed flexible, negotiable, overlapping, and location specific rights to land. The customary systems provided a wide array of arrangements by which people could gain access to land and other resources, even though they were not landowners. These included, sharecropping, borrowing of land, tenancy, pledges, and access for a particular purpose, such as grazing on crop residues. All these provided access to land for use without undermining the flow of land through inheritance. These arrangements were important because they provided flexibility within rural Kombewa economies and enabled land to be made available to those with surplus labour on negotiable terms (cf. Whitehead & Tsikata, 2003), particularly for those groups who received little or no land at adjudication. It also provided a means by which poor groups without land of their own could nevertheless gain access to land resources. Thus in a village one could claim grazing rights over a parcel of land that was subject to hunting rights of another, transit rights of a third and cultivation rights of a fourth group. Each of these categories carried with it varying degrees of control exercised at different levels of social organization. These arrangements ensured an equitable distribution of land rights among all community members (Okoth-Ogendo, 1976; 1991).

As land registration progressed, these different or bundle of land rights became avenues of contestations. For example, grazing rights

tended to polarize younger and older generations of men. Elders felt their lineage interests, as well as their “category interests” as elders, were threatened by the eminent restriction of grazing grounds and the likelihood of having to reduce their herds. For example, before the advent of land tenure reforms there was an area referred to as Alara in Kombewa division. Alara was a big unoccupied parcel of land (unoccupied as far as the establishment of homesteads is concerned). The area was used by the villagers for a variety of purposes including: grazing animals, cutting grass, collecting medicinal plants, and even the children played in the area as they grazed animals. It was only in Alara that animals could access drinking water and lick the naturally available salts. However, access to Alara was curtailed as individual exclusive rights provided under the new tenure arrangement overrode these overlapping land rights. Things even got worse with population pressure as people either rushed to establish home to the vicinity of Alara or started to cultivate their individual parcels. Grass for thatching houses that people could acquire for free assumed monetary terms. Today, accesses to Alara resources are only limited to Alara individual landholders. Those who used to graze their herds within Alara have really found it difficult. In fact they are faced with only one option to reduce their herd to manageable number. Therefore, what seems to be emerging from the above debate is that the predicted outcomes of land privatization have not occurred and where they have occurred, this has not always been for the predicted reasons. Nonetheless, it remains. In the following pages, I debate the extent to which the government and other players have been enjoined to remedy the unfortunate impacts of land tenure reforms particularly with examples from Kombewa division in western Kenya.

### **ADDRESSING THE DISASTROUS EFFECTS OF LAND TITLING**

Almost five years after independence, the government seems to have realised some of the disastrous impact of land tenure reforms (Okuro, 2008: 235). This is what witnessed the enactment of Land Control Act (Cap. 302) and Land Control Boards (LCB) in 1967, for the purpose of restricting and controlling the right to freely alienate land in agricultural areas by creating a local committee to vet all transfers. It stemmed from the desire to protect citizens from the potential threats of the system of formal land registration introduced by the colonial government (Okoth-Ogendo, 1976; Coldham, 1978). It was also felt that formal legal rules should not be the only determinant of how the land market should operate. The LCB was expected to continue to uphold customary norms and regulations relating to land ownership (Ngugi, 2004). The customary land law and the received land law were

thus juxtaposed (Adams and Turner, 2005). The LCB exercised their discretion to deny approval for land transaction in, (a) where family members have not approved the sale or subdivision; and (b) where the vendor cannot adequately demonstrate that the family has adequate alternative means of subsistence in the event of the transaction (Okuro, 2008: 236).

Similarly, as from 1981, the government introduced a series of administrative measures designed to take the resolution of land disputes, in the rural areas, out of formal courts into the hands of panel of elders and administration members. This also witnessed the enactment of the Magistrates Jurisdiction Amendment Act (MJAA) of 1981, which established the elders' courts or the panel of elders and vested in them the power to hear and decide on certain land disputes. These included beneficial ownership of land, the sub-division and determination of land boundaries claims to occupy and work on land and other land related disputes (Okuro, 2005: 185). The overriding argument was that the elders panel could unlock the potential for the quick and cheap resolution to land disputes since the membership were more conversant with the problems on the ground and because they were near the people. Moreover, the Act made it easy for people to present cases, by writing to the District Officer (DO), using the special knowledge of elders in matters that were considered awkward for the formal courts to process in an appropriate manner. The decisions were to be formally recorded in a magistrate's court, if the court did not issue instructions to investigate the matter further. However, the ability to appeal such decisions was unclear (Africa Right, 1996).

The panel of elders as dictated to by the Act comprised the District Commissioner (DC), as the chairman, or any other person appointed by him, and two to four elders agreed upon by the parties involved in the dispute. The judgement of the panel was then passed on to the resident magistrates' court entrusted with making the final decision. Appeals could be made, in which case, a fresh panel was to be constituted. The Act defined elders as persons in the country or communities to which the parties in dispute belong, and who are recognised by the customs in the community or communities as being, by virtue of age, experience, or otherwise, competent to resolve issues between parties. Where there was no such elder, the law defined an elder as meaning such a person as the DC appoints (Wanjala, 1990).

The Act as it was established experience several limitations in its application. The Act contemplated an elder in the old style, who is presumed to be incorruptible, impartial and respected by the society. Such an elder is fast disappearing as the society changes. In deed, the elders found in these panels tended to be those persons appointed by

the DC as allowed for in the second part of the definition. The DO was presumed the chief elder tended to be a relatively young person. While the process was intended to be simple, cheap fair and democratic, in reality it faced several limitations including: limited jurisdiction of the elders' panel, corruption among panel members, unclear legal provisions, and peoples' lack of knowledge regarding the working of the panel (Okuro, 2008).

Rather than solving the huge number of existing land cases, the Act ended up increasing the backlog of land cases in courts (Africa Rights, 1996; Okuro, 2005). This was because people could challenge the decision of the elders in courts under existing laws, but the judges would put them aside. According to Smokin Wanjala, an expert on land law "many of the cases were being referred to court, and kept on going back to courts, even though the president was saying that the elders rather than the law courts should be handling land cases. The courts were in dilemma. So when land case file came up, the judge would deliberately adjourn it-indefinitely. Land became completely tied up in disputes [...] at that stage we might have thought it was for genuine reasons, to give the poor more access to justice. But I am now more inclined to think that it was politically motivated, because of the way it developed. It seems that it pitted the disadvantaged against increasingly emerging propertied elite. The government preferred to take the battle out of sight, and so out of the courts [...]" (Quoted in Africa Rights, 1996: 75).

As it became apparent that the panel of elders was creating more chaos in land dispute resolution, the Act was amended in 1987 to bar the elder from arbitrating cases involving registered land. But still things did not improve. No one was satisfied; even those who had managed to obtain private land saw the elders as ultimately resisting the pre-eminence of individual title deeds. Moreover, the individual titles did not recognise the bundle land rights that people held on registered land. The new amendment attempted to relegate the traditional authorities to the periphery in land matters. For an Act which goes to great length to integrate customary with statutory tenure, shoots itself down when it fails not only to utilise existing traditional institutions, but also the taboos and customs that continue to apply even after land has been registered.

In response to the further crisis, in 1990, the government was forced to re-examine the issue of the rising land disputes (Okuro 2005: 188). The "solution" was found in the creation of the Land Dispute Tribunal Act N° 18, 1991. The Act gained presidential assent on January 14, 1991. This Act heralded the creation of land tribunals in every province in Kenya. However, the Act did not mark a significant departure

from the previous ones. It maintained the definition of an elder. As with other Acts creating the previous elders panels, this act limited the jurisdiction of magistrates' courts in certain cases, particularly those related to land in rural areas. It required that such land cases be sent back to land tribunals for arbitration.

Unlike the previous Acts, the new Act made provisions for appeals by creating the Land Dispute Appeal Committee, appointed by the Provincial Commissioner (PC) and consisting of a chairman appointed by the PC and no fewer than five people appointed by the minister. The Act stated that the minister may make rules prescribing the procedure of the tribunal in particular; the form in which any decision, order or determination of the tribunal shall be given; the evidence that may be admitted in the proceeding before a tribunal and the taking of such evidence (Okuro, 2005: 189). As it was created, the Act considerably gave powers to the minister and the provincial administration in determining the operations of land tribunals. The appointment and the membership of the tribunals became amenable to political manipulation by anyone with local power or vested interest (Shipton, 1988: 115). This is the environment that characterised the creation of Kombewa Division Land Tribunal (KDLT) in 1999.

The operation of KDLT respected the prevailing traditional hierarchy and/or "invented" power structures in Kombewa before and after colonialism. It developed an elaborate structure of reporting land cases to the land tribunal. For example, in instituting a land case in KDLT, the elders expected the litigant to exhaust the procedure of first reporting the land dispute to the family, the village elders, the sub-location elders and lastly to the location elders for arbitration or mediation. It is only in the event that the one disputant is dissatisfied should the case be forwarded to the tribunal. The dissatisfied party moreover had to be issued with a letter to the land tribunal indicating the full resume of the land dispute. Upon receipt of the introductory letter, the dissatisfied party must pay equivalent of \$4 as sitting allowance for the elders.

Provision exists in which a person with land dispute can directly approach the DO with the dispute. The DO will issue such a party with a letter to the tribunal. The tribunal will then write to the chief whose jurisdiction falls within the area with the land dispute. In the letter, the members of the tribunal normally ask the chief to provide them with a complete resume of the land dispute before it is put for arbitration. Three quarters of the membership constituted a quorum. The land tribunal is required to discuss the dispute in presence of all the aggrieved parties and may physically visit the land under arbitration to make certain observations before resolving the dispute. The

tribunal's verdict must always be typed by the DO's secretary and handed over to all the parties. In the case of a boundary dispute, the tribunal members must implement their verdict by visiting the disputed land to redraw the boundary under the watchful eye of the sub-chief and the village elders. If the parties are not satisfied with the verdict of the tribunal, the dissatisfied person is given a letter (upon payment of equivalent of \$25) to refer the case to the appeals committee at a date and time agreed upon. The appeals committee comprised at least three elders from different areas. Its judgement is final. In its full working capacity, the tribunal hears (and rarely arrived at verdict), a maximum of two cases *per* day and sits twice a month. As such the tribunal has several cases pending (Okuro, 2005: 190).

Almost decade after their formation, the land dispute tribunal has not lived to the intended purpose. Land disputes and appeals continued to accumulate at the divisional level. The demand for elders allowances kept justice system away from the poor and the elders themselves continued to be referred to as *jodong' aich* [old belly men] by those they were to serve. Since, the then ruling party Kenya African National Union (KANU) had used land for purposes of maintaining political patronage and securing party loyalty (Kanyinga, 1998), it was not surprising that the tribunals became centres for not only isolating party dissent but also to aid the establishment in mobilising support. It was KANU sycophants and retired members of the provincial administration who dominated membership to the land tribunals. As it were, the tribunals became avenues for corruption, nepotism and all forms of favouritism. The membership lacked adequate knowledge of basic law and were constantly under pressure from the legal fraternity to justify its existence (Okuro, 2008).

It was not surprising when Civil Society Organisations joined hands in challenging the moral and the legal value of the land tribunals. Several gender activists, particularly argued, that customary rules and obligation, which formed the hallmark of the tribunal's jurisdiction, had notable weaknesses particularly in the exclusion of women, the young and the vulnerable not only from land rights but also from decision making. They further lamented the extent to which the tribunals were dominated by old men with very little participation of women-despite the fact that women constituted over 80% of subsistence farmers (Bosworth, 2002: 10), and also significant players managing resources such as water, grasslands, forest, livestock and even wildlife (Verma, 2001).

The gender view was even clearly captured by one practising lawyer who argued "polygamy is very common here. With land disputes, it is normal for the in-laws to claim that the woman is 'not

really married' under customary law [...] they call in witnesses from the community to disinherit her [...] there are also big problems over custody of children. You will typically have a common law wife-which is recognised under statutory law-who has children and whose set up has all the ingredients of a marriage, but whose in-laws will abuse and manipulate everything in court in order to get the land. Courts are often very biased over these issues, and rely heavily on the word of community elders. It flies in the face of women's rights, under statutory law". (Africa Rights, 1996: 77).

Taking power on a platform of "zero tolerance to corruption", the National Rainbow Coalition (NARC) dissolved all land boards and tribunals in June 29, 2003 in what was described as a continuation of the war on corruption (Imathiu, 2003). The dissolution was meant to pave way for the minister to put in place mechanisms to regulate their operations with a view to making them more transparent and efficient (Wachira, 2004). While this dissolution was announced by the lands minister at a public rally in Mweru chief's camp in Imenti, it nonetheless marked a deliberate attempt by the new government to address the confusion, corruption and inefficiency that characterised land transactions particularly in rural areas. It also responded to the gender question hitherto lacking.

In reconstituting the new tribunals, the minister directed that three members will have to be women (Imathiu, 2003). In January 5, 2004, the new land tribunals and land boards were reconstituted under the December 11, 2003 *Kenya Gazette Notice*. The qualifications for appointment included honesty, integrity and form for education. Those with leadership experience in the civil service, churches or private organisations were also considered (Wachira, 2004). While the new requirements and the appointments were welcomed, there was however no significant break from the old ways of doing things. For instance, the reduction of the role and powers of the provincial administration was not visible enough since all the appointments were done with their recommendations and at times approval. Welcomed, however, was the enthusiasm of development partners in providing support to newly created LCB/LDT, through training, capacity building, monitoring and evaluation.

### **THE CIVIL SOCIETY AND LAND TENURE REFORMS**

In the recent years, the role of the civil society organisations (voluntary organisations and non-governmental organisations) in promoting social and economic development is increasingly acknowledged particularly on land issues. This is partly because of the role of subsistence agriculture in providing food security and improved living standards

for the rural poor and also given the fact that land tenure reforms is essentially a political process as it involves interventions in local power relations to the benefit of the poor.

As in other agrarian settings, two forces in civil society have crystallised in the debates around land tenure reforms in Kenya. On the one hand, we have large land owners association, rich merchants, traders, and agro-industrial groups, which constitute immensely powerful group able to influence the state and donor agencies on crucial agrarian policies. These groups are usually against rural poor land aspirations as well as other broader livelihoods interests and political representation with direct relevance to the poor. On the other hand, we have the poor groups associations, co-operatives, rural trade unions, civil rights groups, rural and agricultural NGO, environmental groups and professional associations such as lawyers, women's associations attempting to promote the poor land rights and other wider social mobilisations. In the next pages, I examine the place of Kenya Land Alliance (KLA), a civil society organisation conscious of the social origins of rural poverty and inequality and which conducts activities to improve the agrarian relations in Kenya.

The KLA was formed in 1999 as a net work of non-governmental organisations and individuals advocating for a fair land distribution and policy reforms in Kenya. This network has been particularly opposed to the World Banks' promotion of market led land reforms arguing that it seeks to make land "just another commodity" to be subjected to the whims of market forces, at the expense of millions of landless peasants. For this reason, the KLA has been advising the bank to appreciate the results of the assessments of the impact of their approach to land reforms and to seek consultations with the rural poor most affected by its policies.

While opposing the World Bank driven land tenure reforms, the co-ordinator of KLA particularly argued "what we are discovering is that the World Bank is sponsoring land reforms but they are actually releasing land to the market place, making it even more inaccessible for poor landless people [...] We can't reduce poverty if the majority of the landless can't afford to buy land [...] such an arrangement is impossible with the diminishing labour market in developing countries, and could only work if the countries already have industries large enough to absorb landless people. If we don't even have jobs people have to subsist on land, which the World Bank is now taking away from them. Even those employed are already being retrenched (Inter Press, 2000).

In the Kenyan context, the KLA has been at the forefront in advocating for formulation and implementation of National Land Policy

and review of land laws as applicable in Kenya. This it has done considering that the policy, legal and institutional frameworks created in the fifties was inappropriate because of the many changes in social, political, economic and cultural fronts in Kenya. In mobilising the poor to agitate for new land law and policy, the KLA has been decoding outdated land legislations into simplified terms and in local languages using radios, television stations, theatre, newspapers, seminars, conferences, theatre and in the many memorandums to the national land and constitutional conferences. Through these and many others, the KLA has not only brought to fore the land law issues of concern to the poor but has also created land literacy campaigns on land rights.

As a consequence, in 2007, the government completed the development of Draft National Land Policy for debate by the members of the public (Okuro, 2007). The draft policy sought to address critical issues of land administration, access to land, land use planning, restitution of historical injustices, environmental degradation, conflict, unplanned proliferation of informal urban settlement, outdated legal framework, institutional framework and information management. However, the major arguments advanced in the draft policy did not have any real departure from the past. In fact, the draft land policy still over relies on the unfounded belief that land administration problems can best be solved through land adjudication procedures, land registration and land allocation systems, land market and the establishment of independent, accountable and democratic systems and mechanisms including alternative dispute management system (Okuro, 2007).

For example, the draft land policy seeks to modify incidents of freehold tenure to; permit family ownership of customary land, encourage co-ownership of land acquired during marriage, prohibit subdivision of land held in the family ownership, remove the principle of absolute sanctity of the first registration and to regulate the power of the primary rights holders to alienate land in order to ensure that such alienation take into account all the other legitimate rights or interests held or claimed by other persons over the affected land. However, sections of land adjudication procedures and processes seem to support and encourage land registration. The section affirms that the process and the procedure of land adjudication, consolidation and registration have been slow. To hasten it, the draft land policy has persuasively argued for the merger and amendment of Land Adjudication Act (Cap. 284) and Land Consolidation Act (Cap. 283) to increase the pace of implementation of the land adjudication and registration process in the remaining parts of the country.

The draft policy has however delivered on certain pro-poor issues that were critical to the civil society organisations as espoused

in the report of the National Civil Society Conference on land reforms. On the land tenure issues and particularly on the land tenure principles, the draft land policy recognised the overlapping land rights, gender equity, HIV/AIDS and poverty. To address these, the draft land policy sought to take into account multiple interests of all land users, co-registration, co-ownership of matrimonial property, equal access to land, and promotion of items and principles relating to international conventions on women's human rights relevant to women's property rights.

On gender equity principle, the draft land policy recognised that culture and traditions continue to support male inheritance of family land. Moreover, women are not adequately represented in the institutions that deal with land. Their rights under communal ownership and group ranches are not defined and these allow men to dispose of family land without consulting the women. To address the situation, the draft policy adhered to the principle of non-discrimination and particularly sought to repeal existing laws and outdated regulations, customs and practices constituting discrimination against women in relation to land.

On children, the draft land policy sought to enforce Children's Act (Cap. 586) and to review, harmonise and consolidate all the laws relating to children's inheritance of family property in order to protect and promote rights of orphans. On matrimonial property, the draft land policy promised to among other things, review succession, matrimonial property and other related laws to ensure that they conform to the principle of equality between men and women and ensure proportionate representation of women in institutions dealing with land at all levels.

Considering land administration issues, the draft land policy recognised the need to ensure access to timely, efficient and affordable land dispute resolution mechanism for the purposes of promoting land market, tenure security, and investment in land. To address this, the draft land policy sought to integrate all possible land conflict resolution options including negotiations, mediation, arbitration and even other traditionally acceptable methods of land dispute resolutions to reduce the number of cases that end up in the courts.

While accepting previous research findings (Okuro, 2007, 2008), the draft land policy underscored the implications of HIV/AIDS on land rights and agricultural productivity arguing "the HIV/AIDS pandemic has had significant impact on total economic productivity, specifically on utilisation and production from land based resources. It has tended to affect the most productive age bracket. The pandemic thus calls for the reorganisation of rural settlement with a view to

rationalising agricultural production system. Further, this pandemic has adversely impacted on the property rights of widows and orphans, who are invariably disinherited of their family land whenever male household heads succumb to illnesses occasioned by the pandemic. The HIV/AIDS pandemic thus underscores the urgent need to reform cultural and legal practices that discriminate against women and children with respect to access and ownership of property” (GoK, 2007: 43). To address this, the draft policy sought to review, harmonise and consolidate all the laws relating to children’s inheritance of family land in order to recognise and protect the rights of orphaned children.

## **CONCLUSION**

As a way of conclusion I discuss the challenges facing land tenure reforms in Kenya. Land reform is a political process. It involves the redefinition of property rights. The redefinition of property rights produces both losers and winners. As is expected the title owners and landowners will definitely frustrate the process of land reforms. In Kenya, the land owners constitute a wealthy class with the power and ability to influence the process of land reform to their advantage. This is not only unique of Kenya. Even in countries committed to improving access and security of tenure, implementation is often slow, delayed or manipulated by the power of vested interests and landed classes. This group comprises politicians, legislatures, and top civil servants. Therefore, for the poor and the landless to succeed they will need the support and solidarity of the various forms along with the moral authority of credible partners both domestically and internationally.

Currently, there is a window of opportunity. The vast numbers of landless or near landless which are being joined by those displaced due to processes of land privatisation of common property, the expansion of commercial agriculture and ethnic land conflicts have forced resource rights into national agenda. In fact this has seen the recognition that an agrarian sector reform is a pre-requisite to economic, social and political stability. Moreover, enlightened decision-makers are beginning to understand the interaction between poverty, land rights, and economic development.

The second threat to land reform in Kenya is the institutions that are supposed to foster the poor to acquire land. These institutions including the state are being controlled by the powerful and the non poor. Can the poor and weak use, transform and benefit from those institutions, which were initially controlled by the rich and powerful and run mainly in their interest? What alternative or countervailing institutions need to be established or strengthened to advance and protect the access needs of the poor to productive resources and rela-

ted upstream and downward services? For example, experience from Kenya has demonstrated that even if the representation of the weak and vulnerable is increased in land related institutions they still have to endure the pressure from the powerful and the male colleagues. At the rural level, there will be need to change the village political structure to support the voice of the poor and their participation in local resource distribution institutions.

The paradox between law and practice also continue as a major challenge to land reform in Kenya. Governments, policy makers and legislators have all clearly acknowledged the importance of customary land tenure in practice and the need to somehow incorporate it into statutory law in order to avoid the continuing persistence of tenure dualism. While this tenure dualism is a challenge, of significance is the process of crating formal system of land tenure that is more reflective of the actual practice on the ground and also sensitive to the inconsistencies and contradictions inherent in customary land tenure particularly its gender biases. While gender activists seem hostile to customary tenure, it is becoming apparent that as long as the customary tenure remain the most dominant tenure in the rural areas, customary institutions will still have to play a role particularly in enforcing certain statutory provisions.

It also needs to be acknowledged that policies and laws are not the only ingredients required to bring in pro-poor land tenure reforms. In the Kenyan scenario, the research finding on the impacts of land privatisation needs to be shared at the rural level before its implementation. The Kombewa case demonstrates that despite the remarkable evidence concerning the disastrous consequences of land registration, more villagers continue to ask the government to speed up the process to enable them own titles. Perhaps the civil society particularly, the Kenya Land Alliance will have to play more roles in providing information and sensitising the poor towards making informed decisions during land registration. However, important to note is that civil society must work with and through government institutions and civil society organisations must seek to engage with and even participate in those same institutions. As the case of Kenya illustrates, the government, legislators and the land owners still conceive the civil society actors as trouble makers when they campaign for pro-poor land reforms.

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**MARIANO FÉLIZ\***

### **3.5. THE MACROECONOMIC LIMITS OF INCOME'S POLICY IN A DEPENDENT COUNTRY**

#### **THE NEED AND POSSIBILITIES FOR RADICAL REFORMS IN SOCIAL POLICIES IN ARGENTINA AFTER THE CRISIS (2001-2008)**

##### **INTRODUCTION**

This article analyzes incomes policies in Argentina. In particular, we study the role of social and wages policies during the years 2001-2008. In this regard we'll comment on the effectiveness of policies towards the reduction of poverty and show how they are strongly conditioned by macroeconomic policy objectives and by Argentina's mode of capitalist participation in the world's economy.

Our argument is that the peripheral position of Argentina's economy and the correlative policy of undervalued real exchange rate and public sector's fiscal surplus, limit the government's ability to allow for a clearly pro-poor income's policy (including social and wages policies). The need for "competitiveness" and foreign debt payments puts immediate pressure on wages, incomes and labour conditions for the working people.

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From this framework we propose that Argentina's government faces two radically different alternatives. On the one hand, accepting long-term poverty while it attempts to structurally improve the economy's competitive stand on a low wages, low labour rights, low productivity development path. This implies accepting not only the current unequal distributive structure but also systemic and general social unrest linked to the unjust distribution of income and the correlative pervasiveness of income poverty. As an alternative, the government could transform its social security system in a generalized income distributive program of the Basic Income type. Such a system may not only put an end to long-term income poverty, also increasing economic democracy and political participation, but may also reduce social conflict to allow for sufficient levels of investment and socio-technical innovation.

First we present an analysis of social and wages policies in Argentina since the crisis of 2001/2002. Then we discuss how the international insertion of Argentina's economy limits the ability these policies to reach their objectives. Afterwards we present an alternative to today's social and wages policies: the basic income. We discuss its main characteristics in relationship with Argentina's current situation. Finally we present some conclusions and the bibliographical references.

### **SOCIAL AND WAGES POLICIES IN ARGENTINA SINCE THE CRISIS OF 2001-2002<sup>1</sup>**

After the crisis of the Convertibility Program in 2001/2 social and wages policies have changed greatly in Argentina. In the nineties, policy interventions regarding extreme poverty were reduced to few and limited programs. In particular, the so-called "*plan Trabajar*" in its different versions was a program of subsidies for unemployed workers in exchange for community work. This program included about 300,000 beneficiaries by the end of the decade and was accompanied by several other marginal social programs. Regarding the policies for employed workers most of the government's intervention pointed towards the flexibilisation of modalities of work and work-contracts. Wage policy was restricted to establishing a rule that affectively fixed real wages for the members of the manufacturing industries. In other branches, nominal (and real) wages actually fell during the latter part of the decade in particular since the crisis began in 1998.

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1 In this article we refer to social policies as public programs and actions that operate a redistribution of income to the poorest sectors of the labour class. In principle, their financing through taxes indirectly affects the mass of profits. Wage policies attempt to affect the incomes of the different sections of the working class through a direct redistribution of income at the point of production. In this case the negative impact on profits is transparent.

As a general rule in Argentina during the Convertibility social policy followed the residual and individualized pattern favoured by the World Bank while labour policies provided an efficient and effective limit to wage increases and promoted the precarisation of work (Féliz, 2005)<sup>2</sup>.

The hecatomb caused by the end of the Convertibility plan produced the preconditions for a different type of policy intervention. On the one hand, the explosion of social conflict during the crisis created a real menace to political stability (Bonnet, 2002). Mobilizations by unemployed workers and protests of small bank-deposit holders were generalized. The final days of the Convertibility were accompanied by the resignation and appointment of three different presidents in a matter of days. Within this context the national government took several measures that would change altogether the development strategy. The abandonment of the Convertibility plan implied the devaluation of the currency, the conversion of all dollar-denominated credits and deposits to the national currency (*peso argentino*) and the establishment of a tax on exports, amongst other changes.

The government to promote political and social stability created the program “*Jefes y Jefas de Hogar Desocupados*” (JJHD) for unemployed heads of households. This program extended the benefits of the previous *Trabajar* programs to several hundred thousands beneficiaries within few months. While the program included the obligation of community work in exchange for the subsidy this duty was merely nominal. Since the main objective was to calm down the political unrest (Golbert, 2004) the government did little to control the actual performance of the counterpart activities formally required (Neffa *et al.*, 2008).

The magnitude of the program put on the agenda the possibility of its extension and transformation into a wider income-support program. Pérez *et al.* (2006) have analyzed this possibility and proposed to picture it as the embryo of a Basic Income Program. This was certainly a possibility since the decree that created it (presidential Decree 565/2002) stated “all unemployed men and women heads of households will benefit from the Family Right to Social Inclusion”. However, the government elected in 2003 (president Nestor Kirchner) decided to progressively discontinue the program turning it into several

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2 The Convertibility plan was an all encompassing neoliberal program (based on the Washington Consensus but even more radical) that instated a currency board fixing the domestic currency (peso) to the United States’ dollar at a 1 to 1 parity, forbidding price and wage indexation, completing a reduction on trade tariffs and pushing through a generalized process of privatizations and labour market flexibilization.

programs oriented towards family support (program “*plan Familias por la Inclusión Social*”; Families for Social Inclusion or *plan Familias* –for short–) and professional education for the unemployed (program “*Seguro de Capacitación y Empleo*”, SCE; Insurance for Professional Training and Employment), amongst other minor programs.

The main social program would be the *plan Familias* that was meant to replace the program JJHD as an income-support scheme. While the recipients of the program JJHD would remain receiving \$150 a month (about US\$50 in 2003) in exchange for community work, the *plan Familias* was oriented towards mothers with many children and would receive up to \$305 a month (US\$101 in 2003) for sending them to school and guaranteeing their vaccination. All other beneficiaries of the JJHD should either find work (salaried or in self-employment) or opt for one of the other programs all of which actually required them to participate in a work-project or actively search for employment. Between May 2003 and June 2008 the JJHD lost 1.36 million beneficiaries (Secretaría de Empleo, 2008) 599,802 of which found employment. In 2008 the government expected to have 700,000 beneficiaries in the *plan Familias* two-thirds of which would be ex-beneficiaries of the program JJHD (Subsecretaría de Presupuesto, 2008).

The principal limitations of the new programs were two. First, the combination of the *plan Familias* and the Program SCE resulted in the reinstatement of a conditioned World Bank-type income support policy. While the program JJHD was an universalistic program (in theory, and somewhat in practice) that gave unconditioned income support (cash transfers) to families in need, the *plan Familias* and the Program SCE –together– put families in the obligation of meeting a participation criterion that forces women back into their homes to take care of their children and men to look for work of any kind (precarious at best) to remain beneficiaries. Second, in contrast with the pervasiveness of poverty and unemployment, the new social programs were still greatly insufficient. While the JJHD paid \$150 to beneficiaries (equivalent to 73% of the individual –not the family’s– poverty line in 2002 and only 47% in 2008), the *plan Familias* gave families just 97% of the individual poverty line. The Program SCE paid \$225 a month to each beneficiary (US\$71 in 2008), equivalent to about 71% of the individual poverty line<sup>3</sup>.

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3 In these estimations we consider the poverty line for an “adult-equivalent” (adult, male, between 35 and 55 years of age), while in most cases the actual beneficiaries of social program are extended families with many children. This line represented about US\$100 in 2008.

It is true that public expenditure has grown significantly in the last five years. Public outlays on social assistance expenditures, employment programs and unemployment benefits have grown 50% in real terms between 2002 and 2006. In relationship with the incidence of poverty the increase has been somewhat larger: real expenditures (on such items) *per* poor person have grown 155%. However, they remain completely insufficient since social assistance expenditure represents just about \$103 (US\$32) a month *per* person in poverty and employment programs plus unemployment benefits equal \$259 (US\$82) a month for each unemployed worker. In any case, total expenditure in these programs topped just 1% of GDP.

Parallel to these social policies the government has implemented –since 2002– a new wages and employment policy. After the great shock of the Convertibility's bust that greatly reduced real wages and levels of employment, government's policy in this regard allowed for a persistent recuperation. The improvement on labour's working conditions was allowed by the rapid increase in production, investment and consumption that begun during the second quarter of 2002. This process of accelerated valorisation of capital –that lasted until 2008– created the objective conditions for the change in the dynamics of wages.

The new policy regarding labour included the increase in the minimum wage, the renegotiation of collective agreements and, in the beginning, an active State intervention by decreeing nominal wage increases. The minimum wage was increased from \$200 in early 2003, accumulating a 158% rise by 2007<sup>4</sup>. According to the Ministry of Labour the number of collective agreements negotiated jumped from an average of 200 a year before 2002 to more than 1,000 in 2007. During the years 2002-2005 the government decided several wage increases for salaried workers of the private sector with formal (registered) employment. These unilateral wage increases pushed up real wages significantly for these employees. However, for State employees and for private sector workers with precarious (un-registered) employment the government policy was much less benevolent. The disparity in wage distribution widened significantly. In 2007 real wages for the formal workers were 6.7% over its level of 2001 while for precarious workers real wages were still 22.4% lower and State employees were 28.4% below its 2001 level.

This type of intervention was not simply the result of the new political ideology of the government or the improvement in economic conditions but also the response to growing uneasiness within the la-

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4 Significantly, while the private sector's minimum wage increased by 1.5 times in real terms in the period, the benefit of the program JJHD remained fixed at \$150.

bour movement (Féliz and Pérez, 2007). Within the working class there was rising turmoil due to mounting grassroots organization. The reduction in unemployment and economic expansion was giving place for stronger workers' organization within the working places outside the direct control of union directions (Prensa de Frente, 2005). The government interpreted the situation as troublesome since worker's demands for more rapid increases in incomes were, according to business representatives, putting pressure on economic competitiveness (e.g., profitability). This conflict manifested in an increasing inflation: capital's attempt to maintain its profit rate and keep wages down resulted in the political need for anti-inflationary policy and control over wages and labour conflict (Féliz, 2007b: 73-74).

In this context the somewhat pro-labour policy lasted only a couple of years, since by mid-2005 the government had taken the decision to reduce its pro-labour interventions. The response by the government in 2006 was to establish tight wage limits. This limits where to be guaranteed in the agreements between the two labour's national unions (*Confederación General del Trabajo*, CGT, and *Central de los Trabajadores Argentinos*, CTA) and employers (private and public).<sup>5</sup> The government proposed a limit to wage increases equal to 19% for that year and 16.5% for 2007. While the official inflation rate was 9.8% in 2006 (down from the 12.3% of 2005) many observers (including workers within the official institute of statistics INDEC) claimed actual inflation to be at least twice as much (ATE/INDEC, 2008). In 2007, the rapid improvement in labour's incomes reached its limit (Féliz, 2008b). The combination of successful repression of non-institutionalized conflicts, tight control (at times violent) by union leaders of grass-root movements and the difficulties for the creating political alternatives constricted the ability of workers to claim a larger share of value added. In 2008 labour's participation in value added stagnated. While it had increased steadily since 2003, it still remained below its 2001 level (Lozano, 2009).

### **ARGENTINA AFTER 2002: DEPENDENT CAPITALISM AND MACROECONOMIC LIMITATIONS TO PRO-LABOUR SOCIAL AND INCOME POLICIES**

As we stated in the introduction we understand that the effectiveness of poverty reduction policies is strongly conditioned by macroecono-

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5 The CGT is the main labour organization representing most workers, particularly within the private sector. Its leadership lies today in the Trucker's Union (*Camioneros*), lead by Hugo Moyano. The CTA, born in the early nineties, is composed mainly by state employees, professors and teachers. Its current leader, Hugo Yasky, comes from CTERA (the main Teacher's Union).

mic policy objectives and by Argentina's participation in the world's economy. In fact, the aforementioned restrictions and limitations posed by Argentina's government on social and income policies since 2002 are closely tied to the characteristics of Argentina's economy after neoliberal restructuring and its effects on economic policy.

Within the peripheral position of Argentina's economy the particular strategy adopted by governments to confront those limits –and the economic policy associated to them– can alter its ability to allow for a pro-poor, pro-labour income's policy. Governments are never total constrained by structural restrictions since they may take policy choices that solve some of the immediate social and economic problems while they help create the conditions to progressively displace those restrictions.

An orthodox (neoliberal) strategy –that adapts to structural limitations instead of trying to change them– may restrict the government's ability to move towards growing equality in the distribution of life chances, income and wealth. On the contrary, a policy choice that confronts existing structural restrictions might be able to move those limits, making room for more progressive income distribution and inclusive policies. Since 2002, the macroeconomic policy choice of Argentina's government (devalued currency, public sector's fiscal surplus, the decision to obtain competitiveness by reducing labour costs and the strategy of payment of the foreign debt) has put immediate pressure on wages and incomes for the working people also limiting the policy alternatives and their efficacy.

Argentinean economy is deeply integrated in the cycle of capital on a global scale. The biggest capitalist firms are strongly transnationalized in every branch of production (Féliz, 2007b). This is manifested, in part, in the fact that 80% of exports and a third of all imports are generated directly by these firms<sup>6</sup>. Besides, the strong insertion of the local cycle of capital in the world's cycle of capital is expressed in that real exports of goods and services represented 12.8% of GDP in 2008 (in comparison with only 6.9% in 1993); real imports grew from 9.3% of GDP to 10.5% in the same time span. The jump in international prices allowed for a greater increase in international trade's participation on GDP: exports represented 23.3% and imports 20.7% of nominal GDP in 2008 (6.9% and 9.3%, respectively, in 1993).

This intense integration is profoundly asymmetric. In spite of the strong advance in labour productivity during the nineties –the period of deep regressive restructuring– Argentina's economy is well behind

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6 The 500 largest firms by sales. Source: Encuesta Nacional a Grandes Empresas (ENGE) of the Instituto Nacional de Estadísticas y Censos (INDEC).

the technological frontier in most branches of production. The international trade of the country shows this. On the one hand, exports are concentrated in primary products and its manufactures: they represented 56.8% of total exports in 2007, without great changes from the 58.1% in 1998. On the other hand, imports are mostly concentrated in inputs and capital goods (76.2% of total imports in 2007 in comparison with 76.5% in 1998).

Secondly, from the point of view of the circulation of value, the distributive structure presents a division of final demand with notable changes in comparison with the nineties (Table 1). These changes are the result of the structural transformations that Argentina has gone through. They have consolidated a pattern of valorisation of capital based on the super-exploitation of labour and an extroverted accumulation (or export-led growth) centred in the exploitation of natural goods<sup>7</sup>.

**Table 1**  
Structure of final demand. Percentage of nominal GDP. Argentina (1993-2007)

Year	Workers consumption (a)	Capitalist consumption (b)	Investment (c)	Net exports (d)	Public sector's deficit (e)
1993	27.7	41.5	19.1	-2.4	-2.4
1998	22.7	46.4	19.9	-2.5	-0.9
2002	19.3	42.6	12.0	15.0	-0.7
2003	18.8	44.4	15.1	11.2	-2.3
2005	22.5	38.8	21.5	5.9	-3.7
2007	22.9	35.7	24.2	4.3	-3.2

*Source:* Estimation based on data from the INDEC. (a) We take as workers' consumption the participation of wages on income, deducing the part accrued to the richest 10%. (b) Non-workers consumption is calculated as the difference between total consumption and workers consumption. This "non-workers" include those whose income is –as an approximation due to the lack of more precise data– strongly derived from surplusvalue (c) Gross fixed investment. (d) Trade of goods and services. (e) Total result of the non-financial national public sector (NFNPS).

First, we should highlight the fact that the other face of the super-exploitation of labour is the reduced weight of popular consumption (workers) in total consumption and thus in total demand. As we can see, less than a quarter of total final demand is sustained by the value needed for the reproduction of the labour force. After 10 years from the previous production peak (in 1998) workers have not recovered

<sup>7</sup> We prefer to use the concept of natural goods instead of natural resources. In fact, natural resources are natural goods (use-values) turned into capital (values) and thus subject to the rules of capitalist valorization.

the level of consumption expenses (in proportion to total value-added) of the year 1993<sup>8</sup>.

The super-exploitation of labour represents the reduction of the price of the labour force (wages) under its value (cost of reproduction). Marini explains that this is a typical mechanism in peripheral capitalist nations (Marini, 1973). International competition in a situation of wide inequalities in the access and use of technology compels capitals in peripheral countries to look for alternative means to warrant its own valorisation. In this situation the economy creates a permanent downward pressure on wages while at the same time it tends to increase the value of the labour-power in the peripheral country. This occurs because to compete, these capitals increase the speed-up of labour (raising the intensity of use). In consequence, the cost of reproduction of labour increases, while wages tend to not.

The low level of global expenditure in the reproduction of the labour force is explained mainly by the advancement in the super-exploitation of labour. Growing internationalisation of Argentina's capital increases the pressures for improving competitiveness. Since technological innovation takes time, effort (high investment) and socio-political stability (something strange to Argentina's recent history) local capitals opt for the path of lowest resistance: widespread precarisation of labour and super-exploitation. This alternative manifests in levels of incomes that, for most of the working families, do not cover the standard family consumption basket (SFCB) or even the basic consumption basket<sup>9</sup>. Nowadays (early 2009) with –official– open unemployment rates under 8% of total economically active population, over a third of all families remain under the poverty line, and about 80% have incomes below the SFCB (about \$3,500 a month in 2008)<sup>10</sup>. To complete the picture, take into account that the average wages amounted to \$1,617 in 2008 (about half the SFCB) and the official minimum wage (that applies only to formal workers) reached \$1,350.

The historical change in the pattern of appropriation of income between classes (from workers to non-workers) has also translated –in

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8 Besides, we must highlight that not only does the working class as a whole appropriate a smaller part of value-added for its own reproduction. This reduced appropriation is produced in a context where families turn a growing part of their potential labour-power into active labor force for capitalists. The sustained and systematic increase in the rate of participation in the labour market –especially by young people and women– is a clear manifestation of this.

9 In 2008, the poverty line equalled to about \$1,400 (US\$ 440) a month for a representative family (2 adults and 2 children).

10 Representing about US\$1,100. Source: Our own estimations based on official data.

recent years— into a modification in the way of utilization of surplus value. In the nineties, the biggest part of the surplus value was destined to unproductive expenses: the consumption of dominant classes represented almost half of the value-added and approximately 2/3 of total surplus value (Table 1). That is, the realization of surplus value was oriented towards branches that produced sumptuary means of consumption. By contrast, in the present stage we've witnessed a re-orientation in the use of surplus value towards productive accumulation. While the consumption of dominant classes continues to represent the most part of non-necessary value, this proportion has been reduced in favour of productive investment.

Increased accumulation rate is mainly the result of the greater profitability of capital created through devaluation of the currency<sup>11</sup>. The rate of profit for concentrated capital (500 largest firms by sales) was 10% on average between 1993 and 1998. In the period 1999-2001 it dropped to 7%, jumping to 13% (on average in 2002-2004) after the crisis of the Convertibility (Table 2)<sup>12</sup>. On the other hand, the relationship between profits and wages (or rate of exploitation) jumped from an average 54% (1999-2001) to 166% (2002-2004); during the previous peak (1996-1998) it had reached 80%<sup>13</sup>.

In terms of the realization of profits, following the kaleckian equation, these equal the sum of capitalist (luxury) consumption, investment, net exports, and public sector's deficit (Kalecki, 1977). As we can see in Table 1 in this new stage investment has gained weight as a motor of profit realization (increasing from 33% to 41% of total surplus). Another expansive factor has been net exports that turned into surplus, representing (in 2007) 7.3% of the mass of profits. On the contrary, luxury consumption lost participation (from 73% to 57%).

In conclusion, the present stage of capitalist development in Argentina reproduces low levels of wages (super-exploitation of labour) within a process of valorisation of capital based on an export-led strategy built on extraordinary profits (and rents) from the intensive exploitation of natural-goods<sup>14</sup>.

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11 Increasing international prices for Argentina's main export commodities also helps explain recent growth. However, this affects only a small part of the economy while devaluation has "helped" capital across all productive branches.

12 Capital has been estimated as the value of brute production minus net profits. This represents a fair approximation of circulating capital. The profit rate has been estimated as the ratio between net profits and circulating capital. Source: ENGE/INDEC.

13 This is the ratio between net profits of the biggest 500 firms to the mass of wages in those firms. Source: ENGE/INDEC.

14 Wages in Argentina are especially low in relationship to the historical standards of reproduction of the labour force (standard family consumption basket) in the

This type of non-central participation in the cycle of international capital requires that the valorisation of capital in Argentina to be sustained by a pattern of international competitiveness based on a high real exchange rate (rer). This is the economic policy side of the tendency for the super-exploitation of labour.

**Table 2**  
Rate of exploitation and profit rate. Percentage. Big firms. Argentina (1993-2004)

Year	Rate of exploitation	Profit rate
1993	55	8.6
1994	72	10.7
1995	69	9.9
1996	80	10.7
1997	87	11.2
1998	74	9.5
1999	51	6.8
2000	63	7.9
2001	46	5.9
2002	172	14.0
2003	141	10.4
2004	185	13.6

Source: Encuesta Nacional a Grandes Empresas (ENGE/INDEC).

The real exchange rate depends on the contradictory interaction of the ratio of labour productivity and real wages between different national spaces of value production (Félicz, 2008a; Shaikh, 1991). If productivity does not increase fast enough in a country, the competitiveness of its capitals will tend to fall in relation to other countries unless its real wages suffer from relative stagnation. In other terms, if workers do not pay for greater competitiveness though higher labour intensity and/or exploitation, capital demands that they “finance” it by giving up a share of their incomes (Félicz and Chena, 2006).

Labour’s super-exploitation manifests in the political need to keep private sector’s wages growing at no more than productivity’s growth while simultaneously keeping an important share of working families with incomes under the basic consumption basket. In Argentina, after 5 years (2003-2008) of a GDP that has grown more than 50% in real

country, not in absolute US dollar terms or in relationship to other countries in the region.

terms more than a quarter of the population (29.8%) was still poor in 2008 (Lozano, 2009)<sup>15</sup>.

Real unit labour costs should fall relatively to the rest of the world if the government's high exchange rate policy is to succeed. If real wages in the private sector increase more than labour productivity, the profits of capital will fall. And with it the competitiveness of tradable sectors will fall, especially in manufacturing. If the ratio of wages to productivity increases more in Argentina than in the rest of the world, competitiveness tends to fall.

Argentina's recent experience shows that after the jump in competitiveness due to the nominal devaluation –that successfully turned into a real devaluation and reduced real wages– the real exchange rate has tended to appreciate (Figure 1). This has been the result of growing relative unit real labour costs since 2003. While real wages in Argentina are far lower than in 2001, the increase in industrial productivity has been well below the productivity growth in the reference country (United States).

The fall in competitiveness –due the revaluation of the domestic currency– has impacted in net exports. In spite of higher prices for local exports the current account surplus has systematically fallen since 2003. This has been partially compensated by the increase in internal relative prices of goods over services, in particular public services with high incidence in industrial costs (Féliz, 2008a; Shaikh, 1991). The index of implicit prices between goods and services increased until 2007 by 48.8% in comparison with the year 2001; however, this index has fallen 13.5% since its maximum level in 2003.

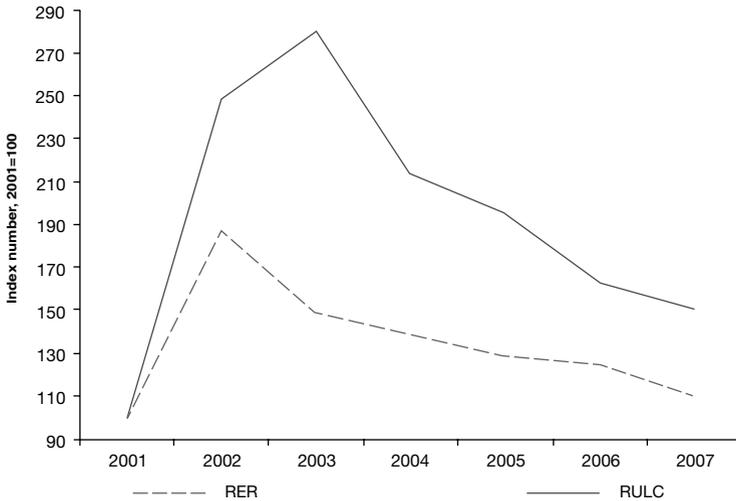
This tendency towards the appreciation of the real exchange rate brings forward another limitation. Dominant fractions of capital will try to displace and contain the sustained increase in the different components of aggregate demand that might conspire against the realization of an external surplus. On the one hand, they will try to limit growing wages that increase domestic demand for foods and fuels, something that may reduce net exports substantially. On the other hand, and more importantly quantitatively and qualitatively, the internationalization of local capital turns it into a strong source of demand for imported inputs and capital goods. The relative deterioration of net exports is consistent with this evaluation. Thus, accumulation Argentina's economy confronts another structural limit to the sustained growth on real wages and improvement in labour conditions. Income policies (in particular, regarding wages) soon face the structural

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15 In 1998 –with lower real GDP and lower productivity in manufacturing production– poverty incidence was only 18% on average.

restrictions posed by exchange rate (competitiveness) policy within the periphery.

**Figure 1**  
Tendencial (rulc) and measured (rer) real exchange rate. Argentina (2001-2008)



*Source:* Féliz (2008b). Note: the rer is estimated as the actual nominal exchange rate divided by the producer price index for industry. The tendencial rer (rulc) expresses the evolution of relative real unit labour costs between Argentina's manufacturing industry and the United State's manufacturing industry both corrected by the evolution of the relative prices of goods and services in both countries.

A further restriction of the dependent capitalist reproduction on social and incomes policies comes from the need to obtain a public sector surplus big enough to make room for public debt obligations and the Central Bank's strategy of accumulation of international reserves. This signals the continuity between the new so-called neo-developmental model (2002-2009) and the old neoliberal one (1991-2001). The primary fiscal surplus is the reflection of the remaining weight of financial capital, which still acts as the general representation of capital's interests (Féliz, 2007b).

Far from "lip service" by the government to the growing autonomy of the economy *vis-à-vis* its creditors, the payment in advance to the IMF and the Paris Club (in 2005) have only created the illusion of autonomy. In fact, together with restructuring most of the foreign debt (in 2005) the reconfiguration of the relationship with foreign creditors just created the necessary conditions for a different division of surplus-value between productive and financial capital.

After the crisis of the Convertibility the continuity of capital's valorisation required the devaluation of all capital, including fictitious capital (*e.g.* financial debt) created during the nineties and the transition period (2002-2003). Before the 2005, public debt (mostly foreign, in international currency) reached 137% of GDP on average (between 2002 and 2004). From 2005 onwards, it fell steadily to reach 55% of GDP in 2007, a level equivalent to that of 2001. The devaluation of fictitious capital of about 33% is approximately the same suffered in the international value (in US dollars) of domestically produced commodities (nominal GDP) in the period immediate after to the fall of the Convertibility (Félic, 2008a, 2007a)<sup>16</sup>. The appropriation by international financial capital of more than 10% of GDP in concept of interest payments was clearly socially non-viable –in capitalist terms– since it represented close to half the surplus-value available for accumulation in 2001-2002.

If the capital flight in the late nineties was no more than the response of capital to growing difficulties for continual valorisation, the positive inflow that begun in 2005 ascertained that the restructuration of debt was necessary for financial capital to contribute again to re-create the fundamentals of its own valorisation. This does not mean, however, that this form of capital has lost against other forms of (productive) capital. In fact, the policy of fiscal surplus registers adequately the actuality of the power of financial capital.

The origin of such surplus, destined to the accumulation of international reserves and interest payments, shows its class-fundament. It is usually stated that taxes on exports are a key element in today's public sector's surplus. In fact, in 2007 these rights on exports accounted for 79.5% of the Non-financial National Public Sector's primary surplus. However, this surplus is mostly the result of the absolute and relative reduction real wages of State's employees. They have fallen, in comparison with 2001, in absolute terms (at least 15%) and relative terms (in relationship to real GDP growth).

In the short run the existence of a boom in international prices, coupled to the real devaluation of the currency, allowed the government to partially contain the contradiction between surplus (financial capital's interests) and public employee's wages. High commodity prices let the government obtain extraordinary finance that comes from abroad. The existence of extraordinary rents in the branches of intensive exploitation of natural goods has reduced the pressure

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16 The dollar price of nominal GDP fell by 41% between 2001 and 2004 (Félic, 2008a).

that the growing employee's demands put on the primary surplus.<sup>17</sup> When these rents fall because of falling international prices (and it's already happening) and demand and/or growing domestic costs, the possibility of a renewed adjustment in the public sector will increase considerably.

This section shows that Argentina's mode of participation on the cycle of global capital affects the level of wages and the conditions of labour's reproduction while at the same time severely restricting the room for social and income policies. The main conclusions so far are:

1. Argentina's current economic regime creates a pattern of circulation of value that globally limits the participation of workers in total income. Within this restriction, the current high-profits/rents export led model favours investment over sumptuary consumption.
2. Surrounded by this global restriction, in Argentina peripheral capitalist competition pushes the reproduction of labour to the edge of the precarisation of living conditions. This appears under the form of super-exploitation of labour: wages do not keep up with the social cost of reproduction of labour, thus the increasing relative poverty and stagnating absolute poverty levels.
3. Argentina's peripheral insertion on the cycle of global capital tends to enhance the contradiction between increasing wage standards and preserving capital's competitiveness. This creates inflationary pressures and a tendency for the appreciation of the real exchange rate.
4. Dependence on global financial capital creates a pressure on Argentina's government to maintain a significant primary public budget surplus. This contradicts the demands of public employees for higher wages and the increasing claims for social expenditures (in particular, in the form of income-support or cash-transfer programs).

### **ALTERNATIVES IN SOCIAL POLICIES: FROM THE NEO-LIBERAL AGENDA TO A PRO-LABOUR RADICAL PROPOSAL**

Within this context we propose that Argentina's government faces two main alternatives. On the one hand, the current situation of accepting long-term relative (and absolute) poverty while it attempts to structu-

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<sup>17</sup> It is important to highlight that rents from natural resources are not caused by external forces such as high international prices. These generate additional pressures to redistribute the already existing rents, which are caused by the monopoly power over certain resources.

rally improve its competitive stand on a low wages, poor labour rights, low productivity development path. This implies accepting not only the current structure of income distribution but also a systemic and general social unrest. The short-run alternative is to transform its social security system into a generalized income redistribution program of the type of a Basic Income. Such a system may not only put an end to long-term income poverty but may also –as we will discuss– reduce social conflict to allow for greater levels of investment and socio-technical innovation. Moreover, in our opinion the latter choice could create the basic conditions for the further, deeper transformation in socio-economic and political structures that bind Argentina to the aforementioned peripheral, dependent capitalist development path.

This alternative proposal is not just a theoretical option but also the demand of many social and political organizations in Argentina. Since the mid-nineties social movements born from the agitation and opposition to neoliberal policies have favoured and fought for changes in income policies. Their opposition to the World Bank's choice (focalized income support or cash transfers for the deserving poor) has led them progressively to engage in a political battle to impose on the State the alternative of non-conditional, universal income grants (cash transfers). Amongst these organizations and their proposals we may refer to the Frente Nacional Contra la Pobreza (FRENAPO, National Front against Poverty), the Central de los Trabajadores Argentinos (CTA, Argentina's second largest national trade union confederation) and the Frente Popular Darío Santillán (FPDS, Popular Front Darío Santillán)<sup>18</sup>. In early December 2001 –a few days before the so-called “Battle of Buenos Aires” (Dinerstein, 2002) that ousted president De la Rúa and ended Convertibility– the FRENAPO carried out a Popular Consult to promote a universal income benefit (cash transfer) for each children under 18 years of age; about 2 million people voted in favour of this proposal in the consult (Página/12, 2001). The CTA –a founding member of the FRENAPO– has carried on with the proposal onto the present (CTA, 2005). Finally, the FPDS has been proposing for several years now the implementation a basic income (unconditional cash transfer) for all families –including those in unemployment– and more recently a universal income equal to the basic consumption basket (FPDS, 2009). In 2009 there are several parliamentary proposals to implement a particular form of these programs, which have recei-

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18 The FPDS is a social organization of new type comprising movements of unemployed workers, university students, salaried-workers, peasants and social, cultural and political activist and collectives. Born in 2005, the FPDS has more than 2,500 members in several provinces of Argentina.

ved support –or at least lip service– by most candidates in Argentina’s most recent national elections.

Argentina’s Social Security (SS) has been since its origin tied to the dynamics of the labour market. The financing of Social Security came mainly from the contributions from labour, paid by workers and capitalists in different proportions. By the mid-eighties this contributions amounted to more than 35% of the payroll. However, by that time it became clear that the system was impossible to finance on its original bases. The growing pauperization (first relative, then absolute) of the working class since the late fifties threw the system into financial collapse. The first impulse had been to patch the system with additional funding from other sources (income taxes, import duties) without altering its essence. In the nineties the domination of the neo-liberal agenda proposed a twist: to privatize the system altogether as a way to salvage it. However, the results were horrendous and gave place to its re-estatisation in 2008 (CENDA, 2008). The new reforms have not backed off –however– from the main structural transformations of the old system: increased years of working life and postponement of retirement age.

In general, the debate regarding recent changes did not include the criticism to the theoretical background of social security reform. Privatization as well as re-estatisation had both been justified on a particular way of understanding the production and circulation of value in a capitalist economy. The basic idea is that value is something that can be accumulated and transferred in time. For that reason, it is understood that social security is some sort of indirect-wage payment, and labour and capital’s taxes for social security simply set aside funds to finance future SS payments. According to the standard vision, social security contributions have a certain value that –transferred in time (as if on a time machine)– will finance future benefits for today’s contributors.

The standard view is inspired in a pre-marxian comprehension of value that sees it as a thing or material substance (Friot, 1999). On the contrary Marx proposed –and we concur–value is not something that can be stored and transferred in time (Félic, 2008c). Value is produced and reproduced by today’s labour applied to capitalist production for it is, above all, a social relation. This means that *all* taxes destined to finance social security are merely a deduction from current surplus value (for current consumption) and not a means for transferring value to the future. This understanding is the basis for the proposal of basic income (BI) as an alternative to current social and income policies.

The creation of an unconditional income allowance (cash transfer) or BI has been widely analyzed (for example, Lo Vuolo, 1996; Raventós, 1999; Pérez *et al.*, 2006; Elgarte, 2008). The idea is to guaran-

tee a minimum income to every member of the population regardless of their condition of employment, age or gender.

The BI is not just an income support program for the poor. The idea is not to locate a particular group of people in need (“the poor”) above of the poverty line. The BI implies a radical program of redistribution of income to guarantee a minimum level of access to goods and services through unconditional income or cash transfers for each and every person in the country.

To us its most important justification is the growing socialization of labour and production. Since social production is –increasingly– the result of socialized labour, it is evident the need to disengage income (and thus survival) from direct participation in production processes (abstract –value producing– labour) and concrete working activities. As society has become really subsumed in capital, even unemployment and reproduction activities are really part of social labour (Negri, 2001). For that reason, today all labour is part of the production of value<sup>19</sup>. Thus maintaining the direct tie of wages and salaried labour (as if this were the only necessary labour) contradicts the real process of abstraction of labour in modern capitalism<sup>20</sup>. Greater socialization of production with the private appropriation of income and use-values entails a growing irrationality (since it lacks arguments to support it) and contradiction (since it accentuates the opposition between the possibilities and the reality of capitalist society)<sup>21</sup>.

A BI program implies and requires a massive deduction of resources from current surplus value. In general, the concrete alternatives propose to begin with a BI for every child under 18 years of age and the elderly over 70 years of age. Our own estimations for Argentina put the gross redistribution at roughly 9.8% of GDP –in 2004– for an unrestricted, population-wide BI (Pérez *et al.*, 2006). In this case, the income for consumption of the wealthiest would have to be reduced in about 23%<sup>22</sup>. The poorest 20% of the population would see its availa-

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19 Of course, not all labour directly produces surplus value. However, all social labour is necessary for its direct or indirect production and circulation.

20 This process of real abstraction implies that all labour tends to become necessary labour. In fact, not only “manufacturing labour” creates value but all labour actually becomes really subordinated under capital and thus needed for capital’s reproduction. For that reason wages can no longer be the only means of paying for surplus-value producing labour, which now pervades society as a whole.

21 As pointed out by Álvarez Leguizamón (2005), Hayek also proposes a similar system but on a very different argument. Hayek’s idea has more in common with Friedman’s negative income tax proposal than with the BI proposal.

22 The estimation is a gross estimation of the amount needed to provide for a BI equal to the indigence line for all Argentinean inhabitants. It does not take into ac-

ble income increase 3.4 times<sup>23</sup>. In the case of Argentina such redistribution would not imply –in principle– the reduction in the rate of accumulation. As we’ve seen, dominant classes use a substantial portion of surplus value for their luxury, non-necessary consumption. In fact this is the other side of sustained income inequality in the country: the income of the upper 10% of the population is 28.7 times greater than that of the bottom 10% in 2008 (increasing from 22.8 times in 1998) (Lozano, 2009). This program could be financed completely from redirecting luxury consumption without directly affecting the profit rate.

The BI proposal would significantly reduce inequality by increasing the bottom half of the distributional pyramid. Since unequal distribution of income is one of the main sources of socio-political conflict (Figueroa, 1998; Rodrik, 1998), socio-political instability would be reduced, favouring investment, innovation and thus accumulation. Of course, the BI will not eliminate capitalism’s inherent social class conflict but improved general living conditions will facilitate social changes and innovations that could then be discussed in a framework not restricted by the fear of hunger or income poverty. In a way, social freedom will be enhanced (Van der Veen and Van Parijs, 1986; Offe, 1995).

Furthermore, the reduced compulsion to work for a living will makes room for lower direct demands for higher wages. Since BI would displace immediate needs from debate, workers would be able to put on the bargaining table of collective negotiations –with better leverage– the duration of labour time and working conditions. Direct wage costs would then be contained –in the short run– thus allowing for greater competitiveness, paid for not by work precariousness but by redistribution of socialized production<sup>24</sup>.

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count the fact that a significant number of them would return this amount in paying higher personal income taxes. On the other hand, if the BI were equal to the poverty line our estimate put the gross redistribution at roughly 21.5% of GDP in 2004 (Pérez *et al.*, 2006). This estimation does not take into account the higher personal income taxes paid and the fact that it would cancel itself out with some currently existing benefits for employed, salaried people (such as the benefit for child support).

23 Argentina’s government has recently (late 2010) extended the benefit for child support to the children of the unemployed and a portion of the self-employed. While this has provided income support for more than 3 million children under 18 years of age, the implementation of the program implied the elimination of several other benefits for poor families (such as the *plan Familias*), it is not generalized to the whole population and it is not unconditional. See Barrera (2009).

24 The implementation of a BI proposal may require some reforms in Argentina’s health and educational system. Since after neoliberal reforms both systems have been heavily privatised, the proposed redistribution may put pressure on prices in both services. The government would have to push forward reforms to decommodify their

The BI proposal will produce other important, although contradictory, effect. By greatly increasing income security the BI will reduce compulsion to work. In capitalism the cost of unemployment is the main reason of the employers' power, the BI will enter in conflict with the main means of coercion of the system. Reduced fear of unemployment (actually, of its costs to workers) will improve labour's bargaining conditions and thus radically change the dynamics of capitalist enterprises, reducing the ability of capital to create and appropriate surplus-labour (value). Thus, even though it might create the conditions for greater economic democracy (by enhancing labour's ability to achieve its political organization) the BI will face the generalized resistance of the dominant classes. This is a very important point in the discussion. The BI will create objective conditions for more economic democracy meaning that it will give workers (the majority of the people) greater possibilities to decide –with less compulsion– on matters of the social organization of production, working conditions, etc. Society will be able to move a step forward from the “autocracy of capital” in the work place and in society, letting people have more freedom to participate on the political organization of social production. However, since vertical –non democratic– organization of the production process –at the level of the individual enterprise as well as at the level of society as a whole– is the basis of capitalist political organization, even the faintest possibility of a BI will face significant opposition from dominant classes.

In any case, this proposal implies a very different conception of social security and will not pass without political dispute. The social and political organizations that have proposed it will have to struggle against common sense and the ideological and material hegemony of the capitalist class.

## CONCLUSIONS

We analyzed the structural restrictions that social and income policies in Argentina face due to its peripheral position in global capital. These restrictions pose serious limitations to the possibilities of traditional wage and income policies for they contradict the imperative of capital's need for valorisation. While this necessity applies to every capitalist economy, in the case of peripheral nations –such as Argentina– it creates an insurmountable obstacle unless profound, progressive and pro-labour changes in economic policies are put forth.

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provision. This would imply further contradictory political pressure on the upper (dominant) classes. I wish to thank an anonymous referee for stressing the need to acknowledge this fact.

However, even within the peripheral international insertion a different kind of social policy intervention can be used with greater success: a basic income policy. Even though such a policy does not lack restrictions and it is not unproblematic –particularly in political terms– it could not only attack (and even put an end to) income poverty, it would also provide with improved conditions for democratic social transformations. Since the BI proposal could be financed at no direct or immediate cost to accumulation, it could clearly provide with a road allowing for higher accumulation, lower political instability, greater economic democracy and no income-based social exclusion. This –of course– will enter in direct contradiction with the current organization of society and create a different sort of political commotion.

By actually eliminating income poverty, this allowance will allow working families to dispose of more time for free self-development by demanding lower working time. The expansion of disposable time would open the path to more ample radical/revolutionary (“pro-poor”, “pro-labour”) social changes, as organized active political participation will also have greater room for action. This alone –in our humble opinion– is sufficient motive to struggle for it.

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### **3.6. STATE FAILURE, POVERTY AND PRODUCTIVE STRUCTURE**

While there is growing literature addressing state failure, in this paper we intend to show that there is a strong link between states failing, poverty and the productive structure of an economy that has not been previously addressed in state-collapse literature. We show that realizing this connection has been an important feature of both nation-building and development since the Renaissance. And last, we argue that in order to address both state failure and poverty, academic as well as policy discourse should re-focus its attention on industrial policy. We argue that without establishing increasing returns activities in failing or failed states, poverty-alleviation programs from foreign aid to Millennium Development Goals are bound to remain palliative in their effect.

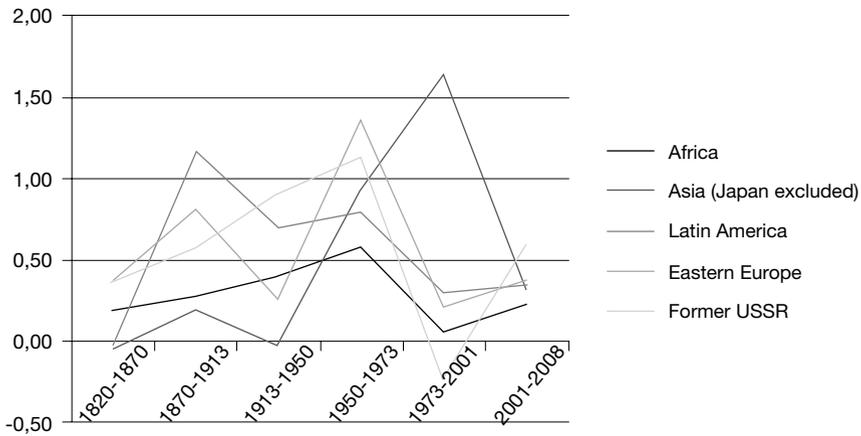
#### **INTRODUCTION**

When German economist Johann Jacob Meyen stated in 1770 that “it is known that a primitive people does not improve their customs and institutions later to find useful industries, but the other way around”, he expressed something which could be considered common sense at the time. We find the same idea –that civilization is created by industrialization or, to put it more specifically, by the presence of increasing returns activities– prevailing in the development thinking from

Renaissance economic writings to the nineteenth Century in thinkers across the whole political spectrum from Abraham Lincoln to Karl Marx. Industrialization “draws all, even the most barbarian nations, into civilization” as Marx puts it. What might be called the historical development consensus saw, in other words, the aim of development in the creation of middle-income economies –with all the accompanying values and culture– that in turn were perceived as highly conducive to further sustained development. However, as Figure 1 shows, the creation of middle-income economies has become a true rarity in the last three decades.

**Figure 1**

Growth rate of GDP per capita of selected world regions; regional average in selected periods between 1820 and 2008, in 1990 international dollars

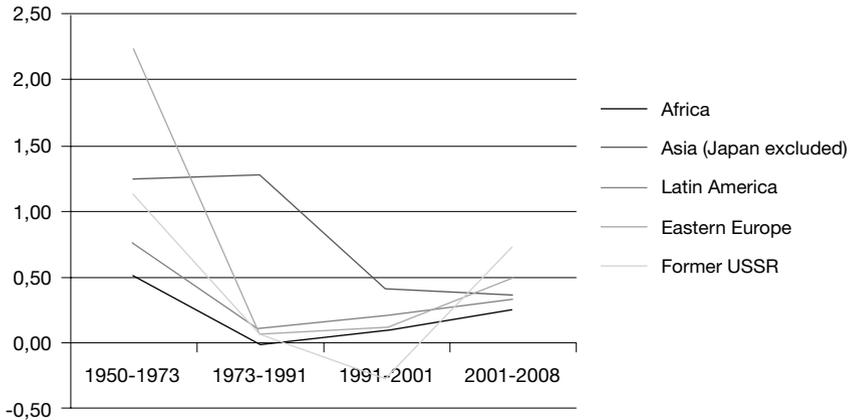


Source: data for 1820-2001 is extracted from Maddison, 2003; and data for 2002-2008 is extracted from The Conference Board and Groningen Growth and Development Centre, Total Economy Database, June 2009, <<http://www.conference-board.org/economics>>.

A closer look at the post World War II development dynamics in developing countries shows an almost L-shaped growth path (Figure 2). While the decades immediately following the war up to the mid-seventies can be seen as relatively successful, the subsequent era brought significantly lower and flattening-out growth rates. In the two thousands, another positive growth trend seems to have started but the jury is still out on how much of this was caused by speculative bubbles fueled by financial globalization and how much is sustainable growth. It seems, however, relatively safe to assume that at least the

positive trends in Eastern Europe were caused by massive and unsustainable debt-led growth strategies (Kattel, 2010).

**Figure 2**  
Growth rate of GDP per capita of selected world regions; regional average in selected periods between 1950 and 2008; in 1990 international dollars



Source: The Conference Board and Groningen Growth and Development Centre, Total Economy Database, June 2009, <<http://www.conference-board.org/economics/>>.

However, while poverty and states collapsing are not phenomena peculiar to the last decades, it can hardly be a coincidence that the poorest billion on earth live in persistently non-performing states. *Foreign Policy's* failed states index currently lists up to 60 states as failed or in danger of failing<sup>1</sup>. While there is growing literature addressing state failure<sup>2</sup>, in what follows, we intend to show that *there is a strong link between states failing, poverty and the productive structure of an economy that has not been previously addressed in state-collapse literature*. We show that realizing this connection has been an important feature of both nation-building and development since the Renaissance. And last, we argue that in order to address both state failure and pover-

1 For 2009 and previous rankings of the failed states, see : <[http://www.foreignpolicy.com/articles/2009/06/22/the\\_2009\\_failed\\_states\\_index](http://www.foreignpolicy.com/articles/2009/06/22/the_2009_failed_states_index)>.

2 For instance, Di John (2008) offers an excellent overview and discussion of state-failure literature, also of the problems defining state collapse and non-performance; see also Hesselbein *et al.* (2006). Walle (2001) offers an interesting and useful discussion of the role of foreign aid in state failure.

ty, academic as well as policy discourse should re-focus its attention on how to “find useful industries” for development. We argue that without establishing increasing returns activities in failing or failed states, poverty-alleviation programs from foreign aid to Millennium Development Goals are bound to remain palliative in their effect. (See Easterly, 2008 for an opposing view).

In what follows, we do not attempt to define precisely what is state failure or collapse; instead, we utilize di John’s continuum of fragile, crisis and failed states: “a ‘fragile state’ is a state significantly susceptible to crisis in one or more of its sub-systems. [...] A crisis state is a state under acute stress, where reigning institutions face serious contestation and are potentially unable to manage conflict and shocks. [...] We define a ‘failed state’ as a condition of ‘state collapse’, e.g. a state that can no longer perform its basic security, and development functions and that has no effective control over its territory and borders” (2008). We use the abbreviation FFF (failing, fragile and failed) states to denote this continuum. We argue that along this continuum, the existing literature on state failure and fragility has missed perhaps the key element in the equation: the link between governance, poverty and productive structure.

### **LOST THEORETICAL INSIGHTS FROM US SECRETARY OF STATE GEORGE MARSHALL**

More than sixty years ago, on June 5, 1947, US Secretary of State George Marshall gave a speech at Harvard University announcing what was to be called the Marshall Plan<sup>3</sup>. The Marshall Plan was probably the most successful development plan in human history, re-industrializing and industrializing countries from Norway and Sweden in the North to Greece and Turkey in the South-East. At about the same time, a similar process based on the same principles re-industrialized and industrialized East Asia, spreading from Japan in the North-East towards the South-West. In this way, a *cordon sanitaire* of wealthy countries was created around the communist world, stemming the communist tide that was rising at the time of Marshall’s speech. One country to benefit from the Marshall-type ideology was South Korea, a country that in 1950 was poorer (GDP *per capita* estimated at US\$770) than Somalia (GDP *per capita* estimated at US\$1,057 according to Maddisson, 2003), which today is an example of a failed state (see Figure 3 below).

Although sometimes it is misunderstood as a scheme for giving away huge sums of money rather than a re-industrialization scheme,

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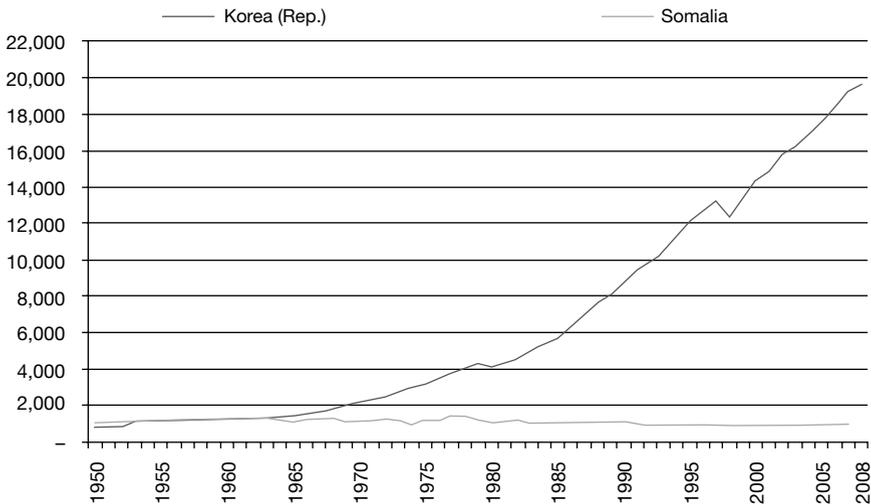
3 A transcript of the speech is available on OECD website: <[http://www.oecd.org/document/10/0,3343,en\\_2649\\_201185\\_1876938\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/10/0,3343,en_2649_201185_1876938_1_1_1_1,00.html)> .

the Marshall Plan is well-known. What is less known is that the relatively short speech contained three key theoretical insights, with strong relevance in today's situation.

The *first* insight is the link between *a certain type of productive structure* and what George Marshall calls “modern civilization”, what in a more politically correct and neutral language today could be called “development and democracy” (emphasis added):

“There is a phase of this matter which is both interesting and serious. The farmer has always produced the foodstuffs to exchange with the city dweller for the other necessities of life. *This division of labor is the basis of modern civilization.* At the present time it is threatened with breakdown. The town and city industries are not producing adequate goods to exchange with the food-producing farmer”.

**Figure 3**  
Korea-Somalia, GDP per capita, 1950-2008, in 1990 international dollars



Source: The Conference Board and Groningen Growth and Development Centre, Total Economy Database, June 2009, <<http://www.conference-board.org/economics>>.

During the formation of the European nation-states, it was common knowledge that democracies and “civilization” were both products of certain economic structures associated with “city activities” (Reinert, 2009a). It was not lost on Enlightenment Europe that the first demo-

cracies –Venice and the Dutch Republic– were also the states where artisans and manufacturing were the dominant professions. Agricultural states meant feudalism and lack of political freedom. Already in 1613, Italian economist Antonio Serra identified the “glue” that creates the common weal of cities and nations as being *a large division of labor in activities that are all subject to increasing returns* (i.e. falling costs as volume of production goes up, which excludes agriculture) (Serra, 1613; Reinert and Reinert, 2003). This phenomenon could be observed as city-states grew first into dynamic urban agglomerations, then into nation-states.

Marshall’s *second* insight regards the vicious circles that are created in societies without manufacturing activities (emphasis added):

“The remedy lies in breaking the vicious circle and restoring the confidence of the European people in the economic future of their own countries and of Europe as a whole. The manufacturer and the farmer throughout wide areas must be able and willing to exchange their product for currencies, the continuing value of which is not open to question”.

It is notable that Marshall used the term “vicious circle”, which became fashionable only later – in the fifties and sixties – with development economists like Gunnar Myrdal.

Marshall’s *third* insight is that *development assistance must provide a cure rather than a mere palliative*:

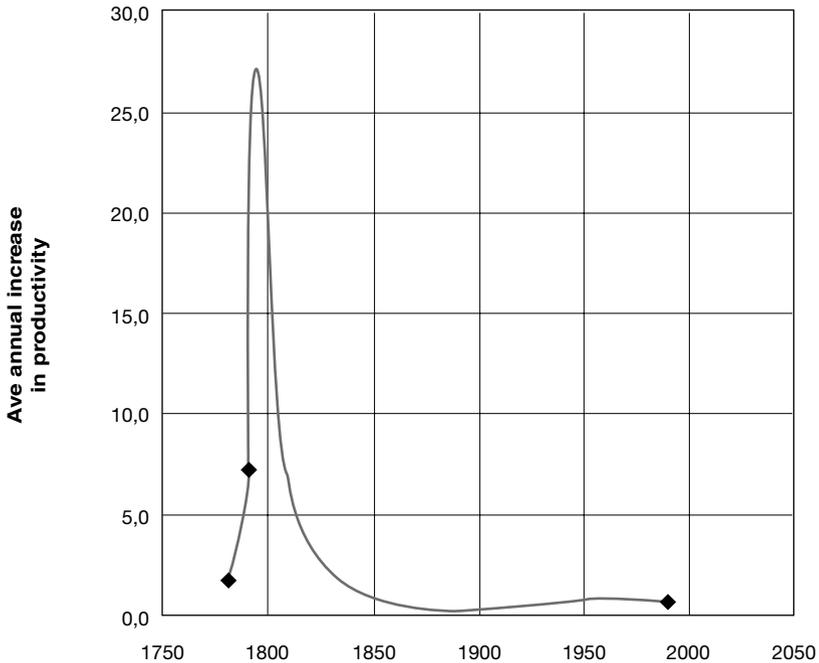
“Such assistance, I am convinced, must not be on a piecemeal basis as various crises develop. Any assistance that this Government may render in the future should provide a cure rather than a mere palliative. Any government that is willing to assist in the task of recovery will find full cooperation”.

Marshall’s speech points to the fundamental feature of capitalism: change. This change is only poorly reflected in standard economics. Financial crises are just one of the many things that happen in real life, but cannot happen in standard textbook economics. From the standpoint of Joseph Alois Schumpeter (1883-1950) –Austrian economist and Harvard economics professor who spent much time at Harvard Business School–, “*equilibrium*” is the opposite of economic development. Equilibrium theory therefore fails to reflect many of the mechanisms of industrial and economic dynamics that create economic welfare.

What from a long-term perspective may look as relatively smooth curves of economic development are in reality the result of explosive productivity changes in a small number of industries. Figure 4 shows an early example of such a “productivity explosion” from a breakthrough innovation: that of cotton-spinning in the late Eighte-

enth Century when annual labor productivity rose by more than 25% annually for a brief period.

**Figure 4**  
An early productivity explosion: the mechanization of cotton spinning



Source: Reinert (2009c).

At the time, the common sense of economics was for nations to attempt to get industries behaving like this inside their borders. Productivity explosions create a system of triple rents: profits are high, wages rise, and the government tax-base grows. In its essence, colonialism was a system that prohibited such production activities –industry in general– from being carried out in the colonies. At the time of this early productivity explosion, this prohibition of manufacturing was a main motive for the United States' Independence in 1776.

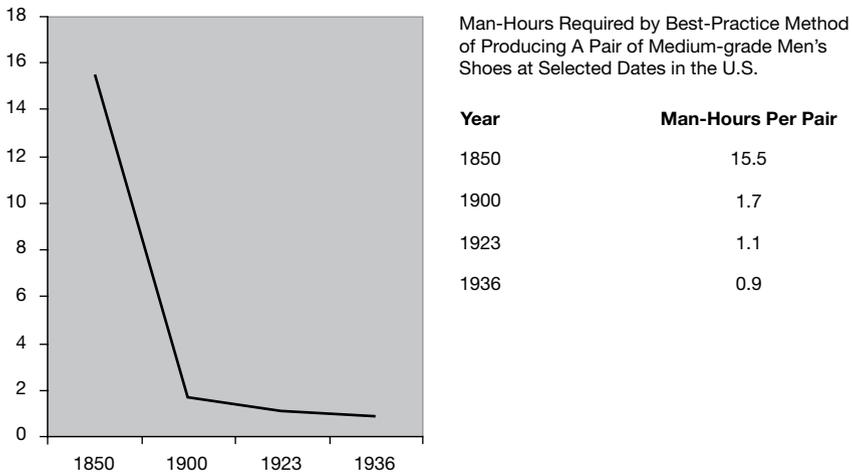
Today we experience a similar productivity explosion in the computer industry. Moore's Law tells us that, since the late seventies, the

capacity of the computer chips doubles roughly every 18 months, creating an upward curve like the one of the cotton industry in the Eighteenth Century.

Also the activities –even technologically pedestrian ones– that are near the productivity explosion may achieve triple rents. The task of cutting and preparing cables to the computer industry grew up geographically close to the computer industry itself when the volume was low and prices not a big issue. Based on the growing demand, however, even low-tech industries may achieve economies of scale and run down the learning curve (see Figure 5).

**Figure 5**

Learning curve of best-practice productivity in medium-grade men's shoes, United States (1850-1936)



Source: Reinert (1980).

Figure 5 attempts to make a fluid classification system for economic activities sorted according to their abilities to create triple rents (high profits, high wages, large tax base). Black, at the top, marks a situation of temporary monopoly from a new innovation. White, at the bottom, marks a situation of “perfect competition” which is the “ideal” situation in neo-classical economics with “normal” or no profit. The problem is that economic theory only defines pure black (monopoly) and pure white (perfect competition) well, while very

few activities stay long in any of these positions. Industrial dynamics take place in the various shades of gray areas where theory has little precise to say.

The gravity in the system (from black to white) is produced by imitators of the original idea and general productivity developments, and under some circumstances –as when a patent expires– the fall can be very fast (the price of a medicine may suddenly drop by 90%). Some innovations, like the container, are born towards the white end, but the container was important to other industries because transportation costs were reduced.

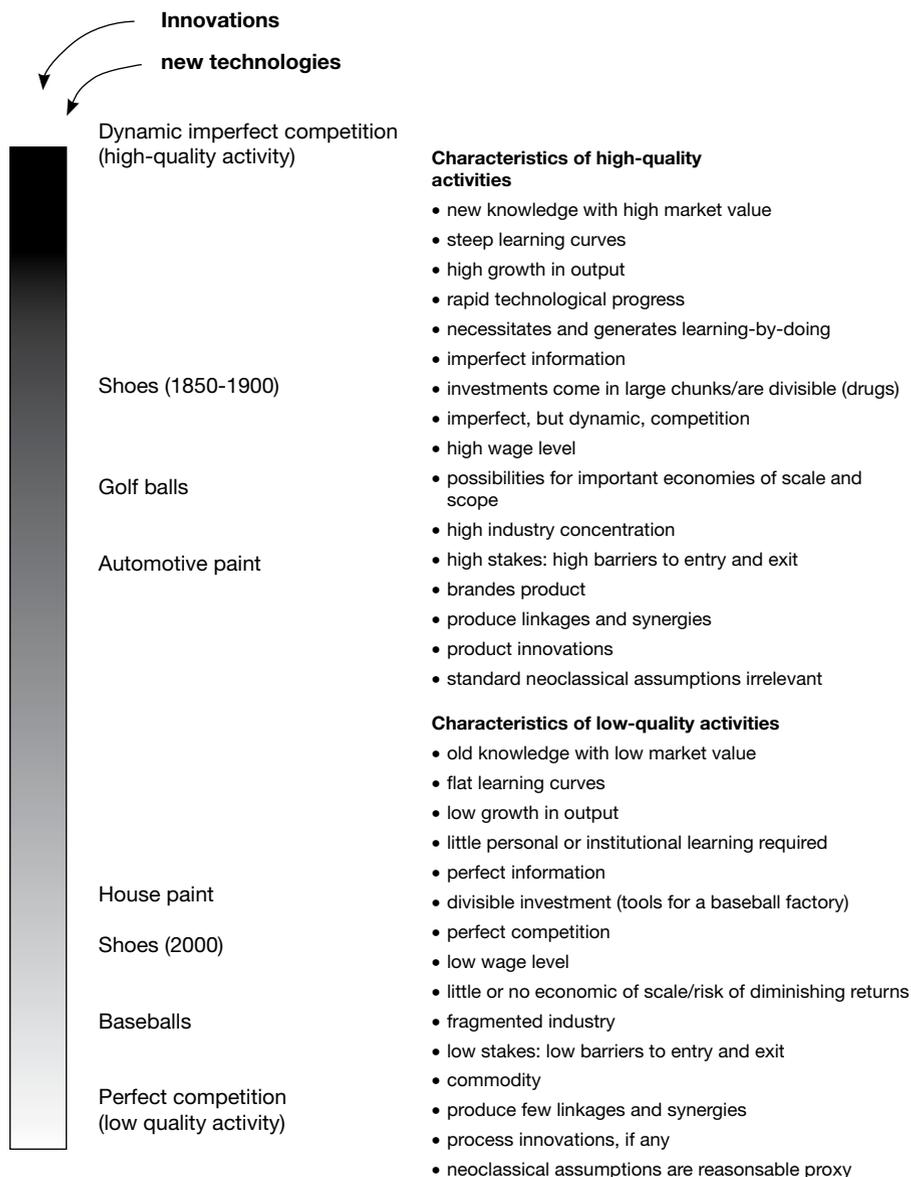
The various factors that create gravity and gravity resistance are listed in Figure 6. The position of a nation's export activities –at what level (at what shade of gray)– in Figure 6 will be highly determinant for the real wages of that nation. Baseballs for the US national sport have not experienced innovation in the final assembly operations for a century.

This is still 100% manual work. The world's most efficient baseball producers are in Haiti and Honduras, where their wages are between US\$0.50 and US\$1 an hour. The wages in the national service sector, the librarians or the firemen of Haiti, will have wages in line with the producers in the export sector. The world's most efficient producers of golf balls, on the other hand, are in New Bedford, Massachusetts, where the average industrial wage is US\$14 *per* hour. Baseballs are a high-tech product that needs to be located near the engineers.

When Haiti exports baseballs to the United States and imports golf balls, the country exchanges 28 hours of labor (at 50 cents an hour) for one hour of labour in the United States (at US\$14 an hour). These mechanisms are not captured in international trade theory, since this theory operates on the basis of bartering labor hours –all of the same quality– alone.

If we wish to explain the difference in GDP *per capita* between Somalia and Korea – where Somalia was a richer country than Korea until the fifties (Figure 2 above)–, the main explanatory variables are found in these same forces. In this paper, we argue that the root causes of poverty lie in a certain type of economic structure which fails to produce the virtuous circles of economic growth that need increasing returns and sufficient diversity and diffusion of economic activities in order to become self-sustainable. Increasing returns produce barriers to entry into an economic activity, which again allow a degree of imperfect competition that produces capital accumulation. We argue that economic development requires dynamic imperfect competition under increasing returns, rather than the standard assumptions of perfect competition and diminishing returns.

**Figure 6**  
The quality index of economic activities



Source: Reinert, 2007.

During the decades following World War II, world development followed the strategic outline of the 1947 Marshall Plan, the principles of which also were at the core of the 1948 Havana Charter, signed by all members of the United Nations at the time. These principles were abandoned in the eighties, however, and at the end of a sequence of unsuccessful “Development Decades” the Millennium Development Goals were launched. These are –in the view of the authors– heavily biased towards palliative economics, treating the symptoms of poverty rather than addressing its root causes.

### **IBN-KHALDUN: PRE-INDUSTRIAL RENT-SEEKING AS A ZERO-SUM-GAME**

Muslim historian and philosopher Ibn-Khaldun (1332-1406) described society’s development from the nomadic tribes of the desert, organized in clans originating in blood relationships, to agriculturalists and ultimately into town dwellers. The town dwellers decay into luxury; as their wants increase, the city must resort to constantly increasing taxation. Resenting the claims of their clansmen to equality, they rely for aid on foreign supporters, who become necessary because of the decline of clansmen as warriors. Thus the state grows decrepit and over time becomes the prey of a fresh group of nomads, who undergo the same experience. In Ibn-Khaldun’s pre-industrial setting, history logically becomes a cyclical sequence of tribal wars –with foreign supporters– fighting over the static and non-productive rents that accrue to the nation’s or region’s capital.

Pre-increasing returns and pre-common-weal productive systems specialized in raw materials create a type of feudal political structure. But even where there is no real feudalism involved, as in some African agriculture today, the state seems to continue the extraction of economic surplus characteristic of colonialism, giving very little back. Sharing economic growth becomes a fundamental issue in the identification of responses to poverty alleviation. Under such conditions pre-capitalist production structures and political structures are very durable, and probably for some good reasons (See also North *et al.*, 2008). The absence of an increasing returns sector creates zero-sum-game societies of static rent-seeking<sup>4</sup>. These

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4 It is, however, important to note that increasing returns can today easily characterize knowledge-intensive services as well. In manufacturing industry today outsourced low-end activities are often subject to constant or negative returns to scale and have a very limited scope for learning. What used to be a simple system where manufacturing activities are always “good” has developed into something more complex, but the key characteristics of “good” activities remain the same: increasing returns, imperfect competition and a large scope for learning and technical change (Reinert, 2007).

nations are prime candidates for developing into failing, failed and fragile (FFF) states.

Indeed, as Gregory Clark argues in his *A Farewell to Alms* (2007), the world before the industrial revolution and that of today's failed states is characterized by what he calls a Malthusian trap: higher standards of living bring increasing population growth that without significant productivity increases lowers the standards of living back to subsistence level. In many ways, today's poorest countries are worse off than ever before in history. As Clark argues, "the subsistence wage, at which population growth would cease, is many times lower in the modern world than in the preindustrial period. [...] Given the continued heavy dependence of many sub-Saharan African countries on farming, and a fixed supply of agricultural land, health care improvements are not an unmitigated blessing, but exact a cost in terms of lower material incomes" (2007: 45). There are essentially two options to escape the Malthusian trap: decreasing population or significant and continuous productivity increases (through diversification into increasing returns activities). We have argued that the genocide in Rwanda cannot be understood except from this perspective (Reinert, 2007).

It is increasingly clear that there is a strong connection between economic growth and states failing or not failing. As Paul Collier argues, "civil war is much more likely to break out in low-income countries: halve the starting income of the country and you double the risk of civil war" (2007: 19). However, in the same book, Collier goes on to argue that "globally, we now know what produces productivity growth in manufacturing: it is competition" (2007: 160). This represents a startlingly simplistic view from someone who repeatedly has admired East Asian economies, those that have escaped the bottom billion of poorest people on earth in the last century. Clearly, productivity increases alone do not solve the problem of poverty; the fruits of productivity increases may easily disappear as lowered prices to foreign customers (Singer, 1950; Reinert, 2007). In order to remain in the producing country, productivity increases must take place inside the synergies of a finely woven web of diversified economic activities, all subject to increasing returns (a "National Innovation System"). A lack of competition and growth does not explain state failure. It is rather, as we argue, the lack of the specific composition of the economic structure that characterizes all rich and middle-class nations. Failed, failing and fragile states exhibit decidedly different economic structures compared to developed countries<sup>5</sup>. The FFF states have common

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5 Another important aspect in state failure and fragility is the fast pace of urbanization in many poor regions of the world (Davis, 2006; UNHSP, 2003). These are

economic factors that distinguish them from *e.g.* Canada, Finland, Norway, Germany or Singapore.

We have argued that economic retrogression – a development process in reverse – is a common phenomenon that requires much more attention than it actually gets (Reinert, 2007). The former Soviet republics in Central Asia, as well as Moldova and Mongolia offer examples of how ill-guided liberalization (premature exposure to global free trade) can reverse the long-term processes of building productive forces in few years. With the breakdown of the Soviet Union and following rapid liberalization of trade and economy in general, most Central Asian countries transformed within few years from relatively developed countries to fragile and poor states that by now often exhibit feudal patterns of political and socio-economic behavior (See Reinert *et al.*, 2009 for further discussion and data).

It is also exceedingly important to understand the qualitative difference between developed states and FFF states when it comes to absorbing “wealth shocks” from oil, mining and other natural resources into the economy. Developed countries normally manage to integrate these activities into their innovation systems, while the same type of activities in FFF states tends to create economic enclaves that are isolated from the rest of the economy.

Historically the forces that broke the Ibn-Khaldunian circle of rent-seeking tribal violence were the simultaneous development of a large division of labor and the growth of increasing returns industries. With these activities, the national capital became an asset to the countryside and *viceversa*: the nation-state was no longer a zero-sum-game. Nations displaying these types of characteristics became the first democracies (Italian and Dutch City States).

Three main periods could be identified for increasing divergence between FFF states and industrialized countries:

- The divergence among regions was marginal during the first period, *i.e.* from 1000 to 1870, ending with the geographical seg-

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urban agglomerations where increasing returns are few and limited in scale and scope. The rise of such slums in poor countries indicates an interesting phenomenon: state failure and fragility are often preceded, or at least accompanied, by failure and fragility of cities. In fact, such failed cities often survive on resource-based activities from the country-side (large-scale agriculture, natural resources such as minerals, mining, etc.) and petty commerce (often selling imported goods). State and city failures reverse the development logic (the city does not support surrounding areas but vice versa) and thus create huge dependencies and vicious circles. In these human settlements, many survive in illegal activities and lodgings that enforce the vicious circles.

mentation of the colonial world among former colonial powers (see also Clark, 2007: 303-370).

- During the second period, between 1870 and 1950, developing regions such as Africa, Latin America and Asia (excluding Japan) were unable to boost their GDP *per capita* on a sustainable basis. An important explanation for this is colonialism, which at its very core has been a technology policy prohibiting manufacturing in the colonies (Reinert, 2007). Asymmetry among those regions is mainly due to the fact that the developing regions which managed to become economically independent or directly integrated in the productive structure of the regional economic locomotive (such as Japan for Asia) could gradually re-appropriate their economic wealth using Friedrich List's theory of "productive powers" (List, 1856: 394). Whenever visionary leaders succeeded in promoting industrialization and public goods for their respective populations, the country or the region experienced a convergence with industrialized countries in terms of GDP *per capita*, share of manufacturing value added (MVA) in GDP and growth of MVA *per capita* (see Reinert *et al.*, 2009). Bad governance –a phenomenon accompanying de-industrialization or lack of industrialization– usually leads to a convergence among FFF states that represents a race to the bottom (see also Collier, 2007: 53-63).
- Between 1950 and 2001, economies with the optimal productive structures in place benefit from the gradual acceleration of the globalization process. The globalization shock that started in the eighties accelerated the divergence between poor FFF economies and rich industrialized countries: nations that had achieved a dynamic increasing returns economy above a certain threshold prospered (*forging ahead*), while those below that threshold were made poorer by globalization (*falling behind*). In parallel, middle-income economies, even though sometimes considered fragile –are gradually experiencing a convergence with the world average.

In sum, the gap between the poorest and the richest countries in the world has grown from a 4:1 ratio in 1800 to more than 50:1 today. (Clark, 2007: 319-320).

### **THE NEED FOR A HOLISTIC VIEW OF ECONOMIC AND POLITICAL STRUCTURES**

Six main differences distinguish today's approach to economic development –as represented by the Washington Institutions– from previous

theories of development process (Renaissance to Marshall Plan). Today's theories fail:

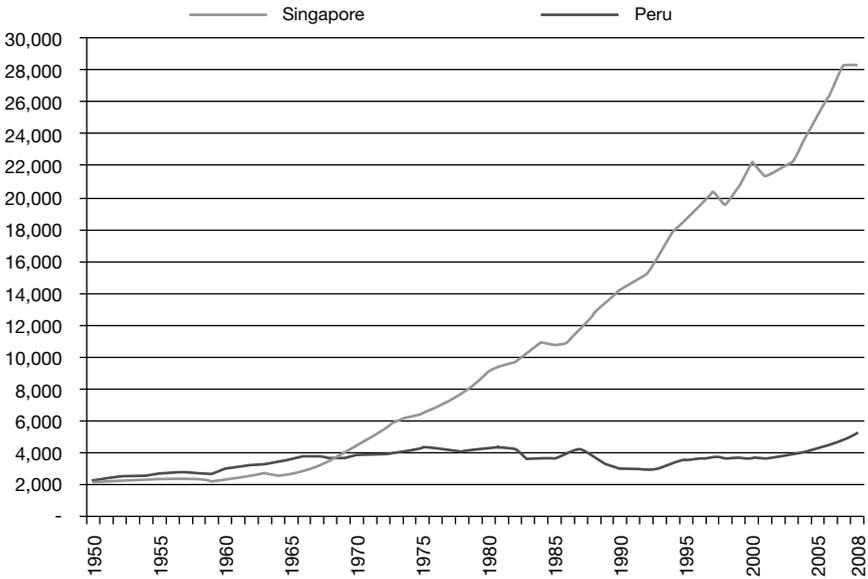
1. To approach economic development from a multidisciplinary standpoint, as was done in the German tradition of *Staatswissenschaft*;
2. To study and tailor-make policy-recommendations to the specific *context* in which a nation finds itself (insisting that “one size fits all”);
3. To observe and classify qualitative differences between economic activities (e.g. increasing or diminishing returns, perfect or imperfect competition, etc.);
4. To investigate differences between the productive structures of nations;
5. To conceive of development as a dynamic synergetic phenomenon propelled by self-reinforcing mechanisms (e.g. Collier's static development “traps” compared to the dynamic virtuous and vicious circles of classical development economics);
6. To understand the role of the state in economic growth from any standpoint other than “market failure”.

These weaknesses are all reflected in the standard methodology of economics today (see also Clark, 2007: 145-147). In particular the last assumption leads to a highly simplistic juxtaposition of free market vs. government intervention. Such a dichotomy fails completely in its understanding of how real markets work: markets are often bundles of rules, institutions, regulations, enforcements (or lack thereof), and thus represent highly intricate webs of transaction costs and externalities that create context-specific motivators for particular economic behavior. The failure to understand this, in turn, leads to an overly simplistic understanding of the role of state and particularly of public administration in development (see further below). This leads to policy solutions and advice (“get the institutions right”) that are often completely alien to the country they are meant to help (Doornbos, 2002; Fukuyama, 2004; Rodrik, 2007).

The important trend of divergence between FFF states and industrialized countries today appears to be a major source of global concern, and this should not simply be reduced to security-related issues. In 1950, Singapore was poorer (GDP *per capita* estimated at \$2,219) than Peru (GDP *per capita* estimated at \$2,263, see Figure 7 below). A clear indication of a non-failed state is its ability to perform productive activities within a system rewarding institutions supporting growing value-added achieved through industrial diversification

under increasing returns. Our contention is that any policy aiming at preventing nation-states from failing should –in order to avoid treating mere symptoms rather than causes– include an analysis of how to make the productive structure of such states resemble the structure of developed ones. The overall approach of the Millennium Development Goals should be revised to include productive structure as the core variable (Reinert, 2007: 239-270). Poor countries ought to emulate the productive structure of rich countries, not their economic policies.

**Figure 7**  
Peru-Singapore, GDP per capita, 1950-2008, in 1990 international dollars



Source: The Conference Board and Groningen Growth and Development Centre, Total Economy Database, June 2009, <<http://www.conference-board.org/economics/>>.

Common economic characteristics of failing states are, among others, very few if any urban increasing returns industries, very little division of labor (*i.e.* monoculture), no urban middle class bringing political stability, no important artisan class that is economically independent engaged in commodity competition (perfect competition) in their export activities, a comparative advantage in supplying cheap labor to the world markets, and a low demand for educated labor combined

with a very low level of education. This complex of symptoms cannot be cured by attacking isolated symptoms: a focus on education will tend to increase the brain drain rather than improving the economic structure, as the local demand for jobs requiring education is so low. All symptoms must be attacked simultaneously through the only solution that has proved historically viable: that of changing the underlying economic structure.

It can be observed that a productive system specialized in raw materials sometimes creates a type of feudal political structure. But even where there is no real feudalism involved, as in some African agriculture, the state seems to continue the extraction of economic surplus, characteristic of colonialism and post-colonialism (Walle, 2001). These states based on static rent-seeking can only give very little back to the community at large: instead of being the hub of increasing returns and value creation, the capital city becomes a parasite on the rest of the nation. Under such conditions, pre-capitalist production structures are very durable, and probably for good reasons (Collier, 2007: 34). Such neo-feudal structures easily produce FFF states because of their inability to upgrade the production structure: the industrial policy tools of the Marshall Plan and the Havana Charter have in effect become outlawed, and the artisan/industrial class is too weak to induce a change in this direction. Enlightenment economics of the Eighteenth Century clearly distinguished between “parasitic” administrative capital cities, surrounded by inefficient agriculture, and “synergy-creating” industrial capitals surrounded by efficient agriculture. Spain’s Madrid was the classical example of the former kind of capital and Lombardy’s Milan of the latter. As George Marshall stated “the synergy between city and countryside forms the core of economic development”. And we must not forget that in order for this system to work, the countryside’s city customers must be part of the same labor market as the farmers themselves. Farmers’ customers in faraway countries cannot trigger these mechanisms.

The positive-sum game between city and countryside referred to by George Marshall can only be created through a large division of labor and increasing returns. Only then the “common weal” that was the goal of Italian Renaissance City States can be observed, and only then the state ceases to be a parasite that takes away in taxes more than it brings back. This synergy-based understanding of successful states is found already in Florentine state theory, with Brunetto Latini, in the Thirteenth Century. In order to escape pre-capitalist zero-sum-games –negative-sum-games from the point of view of the subsistence sector–, the Nation-state must operate under synergic increasing returns. The argument of increasing returns was, according to Schum-

peter, also a key argument in Eighteenth Century national economic policy promoting industrialization.

We suggest going back to the literature at the time when early viable states with some kind of democracy were created. In Giovanni Botero (1588), and in the tradition of “*Ragion di Stato*” (*Staatsraison* or *Reason of State*) created by him, there are clear links between economic structure and the viability of states. Botero’s *Ragion di Stato* and *Sulle grandezze delle Città* (“On the Greatness of Cities”) are, after all, parts of the same work. This tradition was continued by Eighteenth Century social scientists, including Montesquieu. As one German author said at the time “it is not so that a primitive people becomes civilized, and then founds industries, it is the other way around!” Friedrich List brings this Eighteenth Century argument into the Nineteenth Century, linking manufacturing and “civilization” directly. Already in early German social science, Veit Ludwig von Seckendorff (1626-1692) found that Germany did not have the economic basis to create a society like the one observed and so admired in the Dutch Republic. Seckendorff’s approach to making the state function better was intimately tied to changing the economic basis of the state itself, its mix of professions and industries and their geographical relocation within the realm. In the tradition started by Seckendorff, the *Fürsten* (Princes) were turned into modernizers by arguing that their *Recht* (right) to govern was accompanied by a *Pflicht* (duty) to modernize and, in effect, in the long term create the conditions where the *Fürsten* in the end would be obsolete and the conditions needed for a functioning democracy would have been created. A successful Principality carried with it the seeds of its own destruction and the birth of democracy.

The first wealthy states with some kind of republican rule were often islands, like Venice and the Dutch Republic. The absence of arable land both led to an absence of a feudal structure and contributed to the creation of a diversified economic structure including activities subject to increasing returns. This makes Florence, with power also by landowners, so interesting. There the *corporazioni* (guilds) and the burghers fought for power among themselves, but very early (Twelfth-Thirteenth Century), they had banned the families that owned the land around the city from participating in politics (these continued to trouble Florence for centuries through alliances with other cities).

There is, then, a long history of trying to move the vested interests of the ruling class from land into manufacturing. The rulers, who had a manufacturing strategy, also tend to have a policy against the landed nobility, starting with Henry VII in England in 1485. The goal of converting the “useless” landed nobility into a useful one was an important reason for Johann Heinrich Gottlob von Justi’s appointment

in Vienna in 1752, and for the establishment of the *Theresianum* there. Sometimes, however, the urban non-feudal modernizers lost, as in the *War of the Comuneros* in Spain in 1520-1521. This kind of strife between landed upper classes –with their economic interests vested in diminishing return activities and the generally urban classes promoting artisans and manufacturing– has been very common over the last 500 years. The politics of economic development evolve around these crises. The US Civil War was one such conflict of interests when the manufacturing North defeated the raw-material producing South. In many ways, the history of Latin America is the history of nations where the “South” has won the civil wars, and where the military, at times, have sided with a weak industrial bourgeoisie and contributed to creating development.

### **PALLIATIVE INDUSTRIALIZATION: FROM PRIMITIVIZATION TO “DE-INDUSTRIALIZATION”**

De-industrialization as an accident, or alternatively as a planned process of colonialism, should always be considered to be an integral part of our understanding of FFF states. The international community’s focus on palliative economics –on “development aid”– rather than on wealth creation may push economically fragile states towards the failed-states group. Particularly in Africa, top-down policies aimed at “fixing” developing countries’ problems, have produced poor results and many failures. (See *e.g.* Easterly, 2001; Collier, 2007; Moyo, 2009). At the core of the problem of these Washington-Institution policies is the failure to perceive the activity-specific nature of economic development: it does not take off in the absence of increasing returns and the synergies created around them. There is an urgent need to reverse the counterproductive policies that the Washington Consensus established in many weakly industrialized countries.

Based on a continuous policy of industrialization starting in the late forties, China and India have stubbornly improved their industrial structure and productive capacities and capabilities, based on an economic policy diverging from the one advised by the so-called Washington Consensus. The present relative success of these nations cannot be understood without taking into account more 50 years of industrial policy in both India and China. Without a re-definition that puts industrial policy at its core, the Millennium Development Goals will fail, being overly palliative rather than constructive. When the G8 group of countries calls for “an improvement of global investment climate as well as taking the social dimension of globalization into account”, they must go one step further and re-introduce the building of productive structure in FFF states as a means both to create profitable investment oppor-

tunities AND to improve the social conditions in these states. Only a changed economic structure will start a process leading them to become middle-income countries. After all, it is the fragile countries that are suffering the most from the globalization process (see *e.g.* Collier, 2007: 79-96). Approaching the problem exclusively by attempting to alleviate the collateral effects of poverty implies failing to address the root of the problem. Attacking the symptoms of poverty and conflict rather than its causes prevents security- and peace-building processes and increases the cost of building trust in FFF states. This “palliative economics” in effect produces a new type of colonialism, which we have dubbed “welfare colonialism” (Reinert, 2006). While the World-Bank models normally assume full employment, employment is what Africa needs most of all. In order to create employment, the vicious circle of “no purchasing power” and “no productive power” must be broken. Studying 500 years of the history of economic thought, we argue that the only way to escape this type of vicious circle has been through heavy doses of industrial policy (Reinert, 2009b).

Just as in Eighteenth Century Latin America, Africa achieved decolonization but not real independence. Keeping Africa deindustrialized also carries a huge price tag, both in terms of human suffering and in monetary terms. According to the International Crisis Group, “civil war in a low-income country costs that country and its neighbours on average 42 Billion Euro in direct and indirect costs. That is for a single conflict. To put that in perspective, the worldwide aid budget in 2004 was 60 Billion Euro”.

## CONCLUSION

The policies of the Washington Consensus precipitated a process of de-industrialization in many poor countries, from Mongolia *via* Africa to Latin America (Reinert, 2004; 2007). This process, strengthened by the many “conditionalities” imposed on these countries, weakened their productive agglomerations, making them more fragile. Contemporaneously with an effort to build peace and security in FFF states, the process of deindustrialization produced exactly the opposite effect to the one desired: the creation of a system of vicious circles of reducing wealth, employment and the middle class. The centuries-old understanding of the relationship between the “urban sector” and “democracy”, so well explained by George Marshall, was lost: The division of labor between the farmer and the city dweller (agriculture and manufacturing) “is the basis of modern civilization”.

In post World War II Europe, the Marshall Plan followed the Morgenthau Plan, a plan to de-industrialize Germany. Reinert (2004) argues that the free trade shocks promoted by the Washington Insti-

tutions in practice created a Morgenthau Plan, a de-industrialization plan, for the world periphery, starting in the late seventies. Now is the time to start a real Marshall Plan for the de-industrialized Third World, but recognizing that probably the most important element of the Marshall Plan –without which the transfer of funds would have been much less efficient– was that the Plan was accompanied by tariff autonomy. Heavy industrial policy interventions, including prohibitive tariffs and import prohibitions, were key elements in the reconstruction of Europe after World War II. Africa, starting from a much weaker base than Europe did, will probably need an even stronger tonic of policies. Pan-African economic integration must be incorporated into any such long-term policy.

The virtual absence of a manufacturing sector seems to explain the lack of convergence between the FFF least industrialized countries and industrialized countries. Improving industrialization and knowledge creation needs an enabling governance system with a strong policy capacity. Trade in diminishing returns activities without knowledge production is not sustainable, and the economics of failed, failing and fragile states must be re-engineered with a performing productive structure.

At the core of fragile, failing and failed states (FFF) is a productive system where the glue that creates national unity in a positive-sum game is missing: a large increasing returns sector with a large division of labor (*i.e.* many different professions and manufacturing activities). The relation between economic structure and political stability and peace –or instability and armed strife– was well understood during the Enlightenment (Reinert, 2007, 2009a). As long as this key relationship is not recognized, long-term peace building and poverty alleviation will fail. 500 years of historical record is crystal clear.

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