POVERTY, INEQUALITY, AND GROWTH IN LATIN AMERICA:
Searching for the High Road to Globalization*

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Abstract: This article revisits debates concerning poverty, inequality, and development in Latin America and explores a possible “high road” to globalization capable of achieving both more rapid economic growth and significant and lasting reductions in poverty and inequality. In reconnoitering the contours of this path, the authors probe a partial convergence in theory, concepts, and policies that may offer new opportunities for bridging the yawning chasms that heretofore have divided multilateral financial organizations, local governing elites, and academics as well as Center-Left political parties, organized labor, social movements, and NGOs. The article concludes with an assessment of the capacity of this emerging political agenda and attendant “polycentric development coalitions” to deepen and extend democracy effectively beyond the electoral arena to include basic issues of justice and equity.

The crystallization of the so-called Washington Consensus in the late 1980s sparked intense debates over the likely social impact of macroeconomic stabilization and structural adjustment. Academic critics and political opponents argued that Washingtonian reforms and neoclassical economics more broadly lacked a coherent theory of growth and were bound to result in long-term negative trends in popular welfare and social inequality. In contrast, advocates of neoliberal restructuring recognized that market-oriented reforms could lead initially to a decline in output and standards of living but were confident that these reforms eventually would lead to sustainable growth and consequent greater equality and enhanced social welfare. A decade later, we are revisiting this debate to evaluate recent trends in economic growth, poverty, and inequality and to assess accompanying shifts in theoretical, policy, and political terrains.

We will argue here that despite more robust growth in the 1990s,

*We would like to thank Gilbert Merkx and four anonymous LARR reviewers for helpful comments on an earlier version of this article. We would also like to thank Mariela Arenas, John Markoff, Vanessa Gray, Maria Eugenia Mujica, and Maria Pia Riggiorozi for their helpful suggestions.
Latin America continues to be characterized by the *empty-box syndrome*, a term employed by Fernando Fajnzylber (1990) to highlight the fact that from a comparative perspective, economic growth in the region has not been accompanied by significant or lasting reductions in poverty and inequality. Policy makers are currently showing renewed concern about this syndrome. Multilateral institutions and supranational development agencies are developing a new broad consensus that entrenched poverty and inequality constitute major obstacles to economic growth and more prosperous civil societies. We suggest that the restoration of poverty and inequality to prominence in debates about the future of Latin American development offers new opportunities for bridging the yawning conceptual and programmatic chasms that have divided policy makers in supranational organizations (SNOs), local governing elites, academic circles, Center-Left political parties, organized labor, social movements, and nongovernmental organizations (NGOs). We will explore these opportunities by discussing a convergence between NGOs and SNOs and by evaluating the relationship between this convergence and the rise of polycentric development coalitions (PDCs). Finally, we will assess the promise of this emerging political agenda to deepen and extend democracy effectively beyond the electoral arena to include basic issues related to constructing more just societies in the hemisphere.

**TRENDS IN POVERTY AND INCOME INEQUALITY**

Over the 1990s, although important issues remained deeply contested, several areas of consensus have emerged in the literature on poverty and inequality in Latin America. We detect three broad areas of agreement concerning trends in growth, poverty, and inequality in the 1980s and 1990s, each having its own zones of contention. These areas of consensus will be discussed before turning our attention to current policy debates.

*Trends in the 1980s*

Most analysts have observed that poverty and inequality worsened substantially in the 1980s.1 Precise estimates vary within the literature. Londono and Székely (1997a) indicated that from 1982 to 1993, the overall number of persons living in poverty in Latin America increased from 78 to 150 million.2 ECLAC (1997) expressed a consensus in observing that the rise in poverty experienced during the 1980s was widespread, affecting most of...

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2. Because of the size of Brazil, the rise in poverty there in the 1980s and the small decline...
the countries in Latin America. Argentina probably underwent the most dramatic increase in poverty, with the percentage of households in the Buenos Aires metropolitan area below the poverty line rising from 5 percent in 1980 to 16 percent by 1990. Uruguay and Venezuela also experienced pronounced deterioration in standards of living in this period. Broadly speaking, countries with the lowest rates of poverty at the beginning of the 1980s experienced the greatest relative deterioration during the remainder of the decade, while those with already high levels of poverty experienced relatively smaller increases.

Considerable evidence suggests that the increase in poverty in the 1980s (and probably inequality, although less data are available) was most pronounced in urban areas (ECLAC 1998; Psacharopoulos et al. 1996, 74). This increase in poverty has been attributed to the differing impact of currency devaluations on sectors of tradable and nontradable goods. While shifts in relative prices associated with currency devaluations hurt workers, the middle classes, and firms in urban areas, they benefited producers and workers associated with agricultural exports (Morley 1995a) or the most advanced enterprises (ECLAC 1997). Analysts also agree broadly that the increase in poverty during the 1980s reversed the sustained decline in the number of the poor achieved in previous decades (Birdsall and Londono 1997). This decline resulted from fairly rapid economic growth and migration from rural to urban areas (Morley 1995c, 51). For example, Albert Berry indicated, “The growth record from 1950 to 1970 would suggest that poverty incidence in 1950 . . . was around 65 percent and probably fell between 1970 and 1980 to around 25 percent” (1997, 4).

Observers also agree that the economic crises of the 1980s had a pronounced impact on inequality. As table 1 shows, virtually all countries in the region experienced rising social inequality (ECLAC 1997). The most dramatic upsurge in inequality took place in Mexico, but it also increased significantly in Argentina, Guatemala, Panama, Peru, and Venezuela. Smaller increases occurred in Costa Rica and Brazil. Only Colombia, Paraguay, and Uruguay bucked the regional trend by recording declines in inequality.  

in the early 1990s disproportionately affected calculations of the absolute dimensions of Latin America’s impoverished population (Psacharopoulos et al. 1996, 72).

3. Some researchers disagree about trends. For example, Fiszbein and Psacharopoulos (1995) and Psacharopoulos et al. (1996) have argued that poverty rates (and income inequality) in the 1980s declined in urban Colombia, Costa Rica, and urban Uruguay.

4. As an indicator of inequality, this article uses Gini coefficients ranging from 0 (low inequality) to 1 (high inequality). Data on inequality (and poverty) are often limited or irregular coverage and are not always comparable, and thus evaluations like those presented in this article must always be considered as tentative assessments.

5. Colombia and Paraguay were less affected by the debt crisis, while Uruguay by the late 1980s was in a phase of “extended recovery” following severe recessions earlier in the decade (Morley 1995c, 46). Morley has argued that inequality also declined in Costa Rica during the period under consideration (1994, 7).
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Some disagreement remains, however, concerning the timing of the rise in inequality. For some analysts, inequality remained stable or even declined before the 1980s (IDB 1998; Londoño 1997; and perhaps Berry 1997). For others, inequality had already begun to increase in the decades before the 1980s (Morley 1995c; Edwards 1995). Oscar Altimir, for example, argued, “Most of the larger and medium-sized Latin American countries ended the long period of postwar growth, during which they developed inwards, with a greater concentration of income than at the outset and almost irrespective of their average rates of growth” (1996, 48). According to Altimir (1995), certain features of import-substitution industrialization (such as social mobilization and state regulation) created the appearance of equality but often masked profound inequalities inherent in the model.\(^6\) Notwithstanding the debate over the precise timing of the recent rise in inequality, researchers agree that Latin America in the 1990s has suffered from the highest levels of inequality in the world (Birdsall, Graham, and Sabot 1998; ECLAC 1998; Edwards 1995; IDB 1998; Lustig 1995; Lustig and  

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6. Reynolds (1996) traced the origins of high levels of inequality in the region to a legacy of concentrated landownership, the “Kuznets effect” of industrialization, and lack of effort by governments to lower inequality. Ramos (1996) and Glade (1996) added racial and ethnic inequality as a crucial variable. For an overview of trends in inequality prior to the 1980s, see Altimir (1995) and Sheahan and Iglesias (1998).

Finally, many studies have highlighted the relationship between poverty and inequality. National trends in poverty (or in the income of the poor) are ultimately an outcome of the interaction between aggregate economic growth (or national incomes) and the distribution of income (Lustig and Deutsch 1998; Morley 1998; Ramos 1996; Reynolds 1996). From this point of view, worsening poverty is not simply an outcome of the lack of economic growth. As indicated by Nancy Birdsall and Juan Luis Londoño, “at least half of the rise in poverty in the 1980s (50 million additional poor) was due to the deterioration in income distribution” (1997, 13). For the same reason, Berry labeled poverty in the region as “unnecessary” because “little poverty would exist if the income share of the bottom few deciles were not so low” (1997, 6).

The debt crisis and the ensuing economic stagnation were the primary factors responsible for worsening poverty and inequality during the

7. For example, Lustig indicated that in the 1990s, “the wealthiest 20 percent of the population in Latin America had an average income 10 times higher than that of the poorest 20 percent, compared to 6.7 times in other low- and middle-income countries for which data are available” (Lustig 1995, 2). Morley indicated, “around 1980 the average Gini coefficient of seven Latin countries for which national household surveys are available was .52, whereas the average Gini for six Asian countries for the early 1970s was only .36” (1995c, 43).
In the 1980s. Inequality became more pronounced because “the wealthy were better able to protect themselves from the impact of recession than the poor” (Psacharopoulos et al. 1996, xi; see also Birdsall and Londoño 1997; Morley 1994, 1995a, 1995b, 1995c). Several mechanisms have been identified as crucial in mediating the relationship between economic stagnation and rising poverty and inequality. Economic stagnation was accompanied by higher unemployment (Edwards 1995; Lustig 1995; Morley 1994, 1995b, 1995c). The scarcity of jobs exacerbated an erosion of average wages as well as growing wage gaps between workers employed in formal and informal enterprises and between more educated and less educated workers (Edwards 1995; Lustig 1995; Morley 1994, 1995b, 1995c; Psacharopoulos et al. 1996; Tardanico and Menjívar Larín 1997). Rising inflation, which often accompanied economic stagnation, worsened both poverty and inequality. The poor in inflationary situations, holding most of their assets in cash and having little ability to protect their wages from currency devaluations, experienced a relative deterioration of income. Better-off sectors, in contrast, were often able to reap significant profits from the speculative opportunities generated by macroeconomic instability and rampant inflation (Edwards 1995; Lustig 1995; Morley 1994; Ramos 1996). Finally, recessions in the 1980s were accompanied by sharp cuts in social spending that eroded the nonwage income of the poor (ECLAC 1997; Edwards 1995; Rosenthal 1996).

Contrary to concurrence on the role of economic stagnation, some dispute has arisen about the impact of stabilization and structural adjustment programs. These programs have been designed primarily to correct balance-of-payments deficits by some combination of increased exports, decreased imports, and larger net inflows of capital. Most analysts agree that such adjustments are unavoidable but disagree on the social impact of the package of market-centered policies that have generally accompanied structural adjustment. Some have argued that as implemented, such programs can reduce poverty and inequality by promoting stronger growth (Lustig 1995; Londoño and Székely 1997a; Morley 1995b, 1995c; Sadoulet and de Janvry 1995). Others remain skeptical that market-centered reforms, as implemented over the past decade, can allow a more equitable distribution of income. For example, Berry found that “market-friendly policy shifts have been systematically associated with an abrupt and significant worsening of income distribution” (1997, 6). Alejandro Portes (1997) argued that reforms have been accompanied by growing unemployment and an intensification of exploitation in informal firms. This contentious ongoing debate is often hindered by the lack of appropriate data to evaluate the trends in question (Sheahan and Iglesias 1998).

8. Rosenthal observed that because of high fertility rates in the 1960s, the recession of the 1980s coincided with a “large number of people [who] were entering the work force for the first time” (1996, 17).
Trends in the 1990s

Although the resumption of moderate economic growth in the 1990s resulted in some progress in reducing poverty (particularly in urban areas), poverty and inequality remained high, above the levels reached prior to the debt crisis in the early 1980s. The ranks of the poor in the mid-1990s numbered about 210 million, some 50 million more than the average for “the lost decade” of the 1980s (ECLAC 1997; Londoño and Székely 1997b). ECLAC figures show that the percentage of poor households declined from 41 percent to 39 percent in the 1990s (1997, 14), still considerably higher than the 35 percent in the early 1980s. Similar trends have been indicated by other studies (such as Birdsall and Londoño 1997). Moreover, the number of individuals and households in poverty almost certainly increased after 1998 as a consequence of the regional economic slowdown provoked by the Asian and Russian financial crises and the Brazilian devaluation in early 1999.

With the probable exceptions of Colombia, Paraguay, and Uruguay, however, most countries experienced some decline in the incidence of poverty during the 1990s. In Colombia and Paraguay, rising poverty rates in the early 1990s contrasted with the decline in poverty during the previous decade. In Venezuela, rising poverty in the 1990s exacerbated deterioration that began in the 1980s. Poverty rose in metropolitan Buenos Aires, remained stable in Mexico, and generally fluctuated considerably in the 1990s (Lustig and Deutsch 1998).

Whatever slight amelioration of poverty that may have occurred in the 1990s has not been mirrored in trends in inequality. Renewed growth has failed to return levels of inequality to their pre-1980s levels (ECLAC 1997, 1998), despite “renewed efforts by the public sector to strengthen social programs” (Birdsall and Londoño 1997, 14). As suggested by the data in table 1, countries with the largest increases in inequality in the 1980s (above 10 percent) generally showed little relative change in the 1990s (less than 5 percentage points either way) in their levels of inequality. Among the countries for which data are available, the two most significant outliers are Uruguay (where inequality decreased over both periods, particularly in the 1990s) and Paraguay (where inequality declined in the 1980s but increased significantly in the 1990s, according to weak data). Confirming this pattern, even the two countries whose economies grew most rapidly in the 1990s witnessed either rising inequality (Argentina) or little change (Chile).

Again, several observers have noted the close relationship between trends in inequality and trends in poverty. For example, Birdsall and Londoño commented, “over the last decade, income distribution has worsened, and has exacerbated the negative effects of limited growth on poverty reduction.” They further pointed out, “the impact of deterioration in income distribution during the 1982–1992 period was so large that it eclipsed the

https://doi.org/10.1017/S0023879100018641 Published online by Cambridge University Press
Several variables have been identified as generating inequality. At the individual level, education, age, gender, and sectoral characteristics are significant in explaining the wage differentials emphasized in the literature as key to overall inequality (IDB 1998). Of these variables, education is generally identified as most crucial. Summarizing the results of one study, Fiszbein and Psacharopoulos indicated, “one-fourth of total inequality can be explained as inequality between individuals with different levels of schooling” (1995, 80; see also Psacharopoulos et al. 1996; Londoño and Székely 1997b). At the household level, demographic factors, labor-force participation, and asset distributions have been identified as significant in explaining inequality (ECLAC 1998; Londoño and Székely 1997b). Some studies have emphasized the impact of natural endowments. For example, a recent report by the IDB (1998) argued that tropical areas historically developed more coercive labor systems, which continue to contribute to pronounced inequality in contemporary times. Volatility has also been emphasized as important in that inequality and poverty increase during periods of economic recession proportionally more than they decline during periods of economic growth. Finally, in many countries, racial and ethnic discrimination (which is highly resilient and largely impervious to economic growth) exacerbates poverty and regressive income distribution (Fiszbein and Psacharopoulos 1995; López 1995; Lustig 1995; Whitehead 1996).

To capture the complexity of developing adequate policies to deal with poverty, some scholars have emphasized the differences between populations suffering from pobreza dura and the situation facing the so-called nuevos pobres (see studies on Argentina in CIPPA 1991; Minujín and Kessler 1993, 1995). According to this distinction, pobreza dura characterizes the situation of the “structural poor,” who have never been incorporated into the labor market and lack the resources (in education, health, and information) required to gain access to the opportunities generated by economic growth. In contrast, the “new poor” are middle- and working-class persons displaced from employment in the formal sector into informal or precarious employment. For this group, economic growth affords greater opportunities because they possess the skills and resources necessary to escape poverty.

The Impact of Growth on Poverty and Inequality

Recent trends have provoked a rethinking of the relationship between growth and poverty and inequality (IDB 1996; ECLAC 1997; Lustig and Deutsch 1998; Morley 1998; Tokman 1997). Until recently, the mainstream literature stressed the countercyclical relationship between economic growth on the one hand and poverty and inequality on the other
POVERTY AND GROWTH

(Morley 1995a, 1995b, 1995c; Psacharopoulos et al. 1996; World Bank 1995a). This perspective held that with macroeconomic stabilization and structural adjustment, growth in the traded commodities sector should generate employment opportunities that compensate for the loss of jobs and erosion of incomes in less competitive sectors. These employment opportunities together with rising productivity, it is generally argued, will eventually promote higher wages (Edwards 1995; Morley 1994).

According to this conventional explanation, expanding employment and rising wages will in turn reduce poverty and affect inequality according to the capacity of the educational system to produce an adequate supply of skilled workers. In other words, given a relatively short supply of skilled workers, wage differentials are expected to widen at first but to decrease gradually when more skilled workers enter the job market (Morley 1994). Growth is also expected to provide “the public sector with much needed resources to support social programs and targeted interventions, without crowding out private initiative and investment” (World Bank 1995a, iii). For these reasons, Sebastian Edwards stated, “Over the medium and long run, faster growth is the main determinant of poverty reduction, improved social conditions and reduced inequality” (1995, 261).

The focus on the centrality of economic growth has by no means softened. But recently analysts are acknowledging more readily that economic growth in the 1990s has done far less to ameliorate poverty than stagnation in the 1980s did to deepen it (Tokman 1997). Thus even in cases where per capita income fully recovered from “the lost decade,” poverty rates in the 1990s remained at higher levels than in the early years of the crisis (Morley 1997). Indeed, liberalization programs have been accompanied by gradually rising (albeit more narrowly targeted) social expenditures (Edwards 1995). Yet high levels of poverty and inequality have persisted despite higher social expenditures (ECLAC 1997). Earlier studies focusing on the 1980s had suggested a strong relationship between economic growth and income inequality, although the accuracy of these findings was itself questioned. But trends in the 1990s have provided evidence of a much less robust relationship.

Recent analyses indicate that far-reaching transformations in the structure of production might impede growth from reducing inequality. For example, studies by ECLAC (1997, 1998) have found that the employment opportunities generated by market reforms and trade liberalization continue to be in low-productivity sectors, thereby widening further the gap between winners (skilled and educated workers associated with successful enterprises) and losers (unskilled workers or those employed by low-productivity enterprises in the informal sector). According to this interpretation, the opening of economies in the region to the forces of globalization results in higher returns to better educated persons, while penalizing those with less schooling (ECLAC 1998; IDB 1996, 1998).
Trends in Argentina illustrate dramatically that economic growth by itself may be insufficient for tackling poverty and inequality (ECLAC 1998, 25). Here rapid economic growth in the 1990s (averaging over 7 percent) was accompanied by a leap in urban unemployment from 6.3 percent in 1990 to 18.4 percent in 1995. Despite the recovery in growth following the Mexican financial meltdown, unemployment declined only gradually, remaining at 13.2 percent in 1998 (Argentina, MESOP 1998, 55). This unusual combination of rapid growth with high unemployment impacted poverty levels. In the Greater Buenos Aires area, poverty rates soared during 1989–1990 (the years of hyperinflation), then declined briefly as a result of the early success of stabilization efforts, only to rise from 13.0 percent to 20.2 percent between 1994 and 1996 (Lustig and Deutsch 1998, 2). According to an unpublished World Bank study, poverty in Greater Buenos Aires continued to worsen, reaching 29.3 percent in 1998. According to the same study, 36.1 percent of the national population (13.4 million persons) was found to be below the poverty line, including 8.6 percent of the overall population in “indigence” (surviving with insufficient caloric intake due to inadequate incomes). Inequality in Argentina also increased dramatically despite rapid economic growth. In 1990 the richest quintile appropriated 50.7 percent of national income versus 4.7 percent for the poorest quintile. In 1998, the top quintile had increased its share to 53.9 percent, while the poorest was reduced to only 4 percent.

Close analysis reveals that rates of economic growth have a paradoxical relationship with policies implemented to reduce inequality. The experience of the 1980s and early 1990s, when growth was stagnant and inflation was rampant, demonstrates considerable political tolerance for reforms that resulted in rising inequality as long as these reforms promised a greater likelihood of future economic growth (Przeworski 1991; Acuña and Smith 1994). By the same token, while economic recovery and more rapid growth might ignite a cycle of political mobilization as losers try to improve their income, it is also possible that rapid growth might legitimize a high level of tolerance for inequality. As Berry observed, “a fairly severe worsening of income distribution over the medium term might not be too difficult to weather if average incomes rise fast enough to spread some of the fruits of growth to those at and near the bottom of the income pyramid.”

9. Argentine press reports indicated that a recent study by the World Bank found a much higher level of poverty in Argentina at the national level (38 percent), with poverty rates in regions like the Northeast and Northwest above 50 percent. See “El legado de Menem al próximo gobierno,” Página/12, 30 Apr. 1999, pp. 3. The changes in the type and scope of data collected as well as the intense debates in Argentina surrounding the publication of these data indicate the institutional transformations discussed in this article. According to the same World Bank report, in the poorest northern provinces, more than 50 percent of the population was impoverished, with indigence rates at 17 to 19 percent.

10. See “Menem se irá con la desigualdad de la hiper,” Página/12, 4 May 1999, p. 5.
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(Berry 1997, 7). From this point of view, national patterns of economic growth in and of themselves cannot be expected to trigger efforts to reduce inequality because both growth and stagnation can reduce the incentives for parties, leaders, NGOs, and other forces to "invest" in constructing alternative reform agendas or political coalitions.11

A New Convergence?

On balance, what can be concluded from this review of academic debates over trends in poverty and inequality in Latin America? Pessimists and critics of Washington-style reforms have been obliged to acknowledge that although inequality rose through the 1980s and remains high in the 1990s, some countries have achieved at least modest success in combating poverty. By the same token, those who earlier had been optimistic about market-oriented reform can no longer claim that economic growth has a strong direct impact on reducing poverty or social inequality. As the authors of an Inter-American Development Bank publication observed, "Optimism about the pace of social progress is unwarranted by the evidence. While education levels in the region have improved, progress has been slow compared to the rest of the developing world. Persistent social gaps in the accumulation of 'human capital' have reinforced the large proportion of people in the region living in poverty and its highly unequal distribution of incomes" (IDB 1996, 242).

These recent trends in growth, poverty, and inequality pose new challenges for analysis and interpretation. These challenges are now beginning to alter the orientation of policy debates and political discourse in the region.

CONTEMPORARY ACADEMIC AND POLICY DEBATES

Paralleling the analysis of trends in growth, poverty, and inequality, a broad convergence of theoretical and policy perspectives has begun in the academic literature and the policies of multilateral lending institutions. This convergence is marked by strong neoclassical and orthodox orientations. Among the first to articulate the new orthodoxy in a coherent fashion were Bela Balassa, Gerardo Bueno, Pedro-Pablo Kuczynski, and Mario Henrique Simonsen (1986). Building on their initial statement, John Williamson's famous "Washington Consensus" enunciated in the late 1980s was actually a pragmatic flexibilization of the position of Balassa and his colleagues (Williamson 1990a, 1990b). Williamson has since reformu-

11. Furthermore, while some expect inequality to be incompatible with democracy and political consensus (Edwards 1995), this assumption is itself an open question (see Acuña and Smith 1994; Altimir 1996; Rosenthal 1996).
lated his original program in response to critics and changing events (Williamson 1993, 1997; Williamson, ed., 1994).

The various iterations of this consensus permeated the declarations, analyses, and policy recommendations of the International Monetary Fund, the World Bank, and the Inter-American Development Bank. The United Nations Economic Commission on Latin America and the Caribbean (ECLAC), notwithstanding its structuralist legacy and enduring heterodox inclinations, also evidenced considerable rapprochement with more mainstream market-oriented postulates (e.g., ECLAC 1994). Although the formulation and emphases strike a more progressive chord, the core policy recommendations espoused in recent analyses by the United Nations Development Programme (UNDP 1995, 1996, 1998) and the recent UN-sponsored summits in Copenhagen on social development (1995) and in Beijing on women (1997) broadly resemble the latest variants of the emergent consensus.

The broad consensus favoring market reforms in the 1980s was rooted in concerns about social and political instability, as important lessons were drawn from cross-regional comparisons. A decade after the Williamson manifesto, new developments (albeit less momentous ones) point toward the crystallizing of a more specific set of policies for combating poverty and inequality. Interestingly, the same factors that shaped changes in the earlier period of convergence are operating again, although with a somewhat different valence.

A major concern addressed by the intellectual architects of the original consensus involved the social conflicts and political instability of the 1970s, both linked to the crisis of civilian rule and the prevalence of authoritarian regimes in the region. Rising instability, associated with “macroeconomic populism,” was linked to the crisis of state-centric development models in closed protectionist economies (see, for example, Dornbusch and Edwards 1991). In this regard, the collapse of heterodox shock policies (such as the Austral, Cruzado, and Inti plans in Argentina, Brazil, and Peru) contributed to the growing hegemony of more orthodox neoclassical policies. In addition, cross-regional comparisons with the then-thriving East Asian economies called attention to the advantages of an alternative model of development based on a “market-friendly” strategy built on trade liberalization and export orientation as engines of growth (Kahler 1990, 1992; World Bank 1993c).

This shift in models gathered momentum during the early years of the Margaret Thatcher and Ronald Reagan administrations. It was buttressed by the ongoing intellectual crisis of Keynesian macroeconomics, together with a partial revival of liberalism and monetarism, the brief popularity of theories of rational expectations, and fleeting interest among a minority of professional economists coupled with greater enthusiasm among a vocal cohort of activist policy entrepreneurs in supply-side and re-
lated neoconservative perspectives (Krugman 1994; Heilbroner and Milberg 1995). These changes in intellectual fashion accounted for the pronounced neoclassical stress on "government failure" and the strong preference for market solutions during what came to be labeled as the "first generation" of neoliberal reforms.

By the early to mid-1990s, the terrain of the debate had begun to shift again, ma non troppo. By the time Bill Clinton was first elected and Tony Blair and other advocates of a "third way" renewal of social democracy (Giddens 1998) had appeared on the scene, the basic consensus on the superiority of market mechanisms was well consolidated. Debate continues nevertheless on the appropriate mix of state and market regulation, and some fissures on questions that had received only secondary attention acquired new salience. For example, influential figures such as Enrique Iglesias, president of the Inter-American Development Bank, and other highly visible mainstream policy makers and academic observers became alarmed by the high social costs of the structural adjustment programs in progress and warned that social and political unrest could weaken new democracies and undermine the sustainability of market reform (Naím 1994, 1995; Domínguez and Lowenthal 1994).

Moreover, new and different "lessons" from the East Asian experience began to receive greater attention. Particularly significant was the growing recognition that rapid growth in this region also had to be explained with reference to the fundamental importance of land reform and asset redistribution, investments in infrastructure and human capital, and institutional arrangements reducing transaction costs. Similarly, while export orientation was fundamental, a new appreciation recognized that the Asian model also depended on selective regulation of international capital flows, pervasive import restrictions, and extensive political governance of the market (Bresser Pereira 1995; Cummings 1989; Evans 1992, 1995; Gereffi 1991; Gereffi and Fonda 1992; Gereffi and Wyman 1990; Stiglitz 1996; Wade 1990).

Finally, while Keynesian perspectives failed to regain their previous intellectual influence, notable theoretical developments and empirical work in economics sparked renewed interest in the role of endogenous variables in promoting growth, particularly in regard to human capital. The older conventional wisdom, inspired by Simon Kuznets, had emphasized that growth was the best anti-poverty program and that income distribution had no effect on steady-state growth (Kuznets 1955, 1971; Kaldor 1978; Lewis 1955). Growth in per capita income was believed to be determined primarily by the rate of technological innovation. In these formula-

12. Changes in the lessons drawn from the East Asian experience are likely to become more pronounced with the current crisis (see, for example, Stiglitz 1998a, 1998b, 1998c).
tions, income distribution could influence growth rates only if an economy was off its steady-state equilibrium.

Strictly speaking, little of this is new. In contrast with previous debates, what is novel is the considerable impact of the new growth theories at the multilateral banks in framing debates about specific policies that are now considered integral components of long-term strategies to promote growth, alleviate poverty, and reduce inequalities.¹³ These theories envision the possibility of multiple long-term equilibria and make technical progress endogenous to the model as a function of structural or behavioral parameters of the economy such as income distribution. In this vein, as Nora Lustig pointed out, these theories underscore the reasons why high income inequality can slow economic growth (1997). Inequality has a negative effect that discourages investment in education and the accumulation of human capital. In highly unequal societies, powerful social groups are able to extract political rents and advance claims for subsidies and distorting taxation policies that place the poor at a disadvantage. High levels of inequality may lead as well to political instability, which in turn harms investment (Alesina and Perotti 1994, 1996; Perotti 1994; Persson and Tabellini 1994).

Endogenous growth theories demonstrate how the whole production process can benefit from the efficiency gains and positive externalities provided by education and improved health care, for example. These benefits explain in part the income gap between rich and poor countries, why poor countries fail to “catch up,” and why they may even be falling further behind. Because these countries lack domestic savings or have difficulty securing external finance (due to debt repayments and capital flight), they cannot make the investments in human capital (education and health care) that can raise productivity and enable the workforce to adopt the new technologies of a globalized economy (Alesina and Perotti 1994; Barro 1994; Barro and Sala-Martín 1995; Psacharopoulos 1995).

The analytical framework now coming into favor at the multilateral institutions draws on these newly influential theories of endogenous growth but also echoes older work from the 1960s and 1970s that provided calculations of the microeconomic rate of return on investment in primary education (e.g., Becker 1964; Schultz 1993). The revised framework also draws on earlier cepalina neostructuralist analyses that have long insisted that inequality constrains rapid economic growth (see Sunkel and Zuleta

¹³. Little cross-fertilization has occurred between recent endogenous growth theories and ongoing empirical work. As one of our anonymous referees pointed out, many empirically oriented researchers tend not to take such theory seriously, while theorists frequently are not aware of new empirical findings. Two of the more policy-oriented researchers noted recently that works by the new growth theorists frequently “embody assumptions that are poor guides to policy choices” (Birdsall and Londoño 1998, 111).
This partial convergence has by no means resolved all outstanding controversies over the optimal mix of state regulation versus market mechanisms in allocating resources. Yet when taken as a whole, the resulting focus on the importance of investments in education and health for achieving faster growth gives rise to three basic premises that are coming to underpin a growing consensus on strategies and policies for combating poverty and inequality.

The first premise holds that no alternative exists to market-driven economic growth. Second, economic growth and social welfare are not in a zero-sum relationship, and under certain circumstances, greater equity may be a precondition for more rapid growth. Thus addressing the social agenda successfully is crucial to the sustainability of market-driven economic growth. Third, if economic growth with greater social equity is to be sustainable, appropriate institutional arrangements and more robust forms of state regulation must complement and govern market mechanisms. Each of these premises merits brief comment.

The consensus in favor of markets is broad but reveals significant modifications of the fundamentalist dogma of the early years of the Washington Consensus. High levels of inequality are now recognized as pernicious to growth, but heavy reliance on market-driven mechanisms to address inequalities persists. Hence Birdsall and her colleagues noted that a major contrast between East Asia and Latin America can be found in “an implicit emphasis on opportunities” for the poor in East Asia versus an emphasis on redistributive transfers in Latin America. Consequently, for these analysts, “the challenge in Latin America... is to find ways to reduce inequalities, not by transfers, but by eliminating consumption subsidies for the rich and increasing the productivity of the poor. Investment in education is a key to sustained growth, not only because it contributes directly through productivity effects, but because it also reduces income inequality” (Birdsall, Ross, and Sabot 1997, 126; see also Birdsall, Ross, and Sabot 1995a). We insist that many of these arguments are not new. Back in the 1970s, calls were already being issued to make social expenditures more selective, particularly in education, so as to magnify their impact among the poor (e.g., Ffrench-Davis 1976; Fishlow 1972; Pinto and Di Filippo 1976). But from a political and policy perspective, the reemergence of these concerns within the market consensus of the late 1990s is highly significant.

The recognition that growth and social welfare are not linked in a zero-sum relationship implies that no theoretically necessary tradeoff ex-

ists between policies promoting growth and those combating poverty and inequality. Hence the new literature interrogates and restates older ideas from different empirical theoretical perspectives in order to identify lower-income inequality as a crucial variable that explains the rapid growth of both human capital and savings in East Asia as compared with Latin America (Jaspersen 1997, 74). In fact, as the theories of endogenous growth argue, reducing inequality may increase the rate of economic growth by promoting four outcomes: higher savings and investment by the poor; greater political and macroeconomic stability (by reducing pressures for public spending and exchange-rate overvaluation); greater “x-efficiency” (motivation) of the poor; and reduced rent-seeking behavior (Birdsall, Ross, and Sabot 1997, 108–12; Birdsall and Londoño 1998).

Finally, recognizing the need for state regulation to complement market mechanisms stems from the realization that under conditions of missing, incomplete, or inefficiently functioning markets, the provision of public goods is an essential function of governments (Greenwald and Stiglitz 1986; Stiglitz 1989). A variety of policy interventions ranging from the specific (as in the fields of health, education, and public infrastructure) to the more general (such as strengthening property rights and reducing transaction costs through effective legal systems) are required for markets to be efficient, promote growth, and have Pareto-neutral or improving outcomes (Stiglitz 1998a, 1998b; Maravall, Bresser Pereira, and Przeworski 1993, 1994).

As these views begin to permeate the debate, it may be less surprising to find mainstream figures such as Williamson insisting that “the focus of policy needs to shift from cutting back a state that had become bloated to strengthening a number of key state institutions, the efficient functioning of which is important for rapid and/or equitable growth” (1997, 56). More boldly, after leaving a position on the Clinton administration’s Council of Economic Advisors to become chief economist at the World Bank, Joseph Stiglitz now stresses a more activist role for the state in promoting education: “Left to itself, the market will tend to underprovide human capital. It is very difficult to borrow against the prospects of future earnings since human capital cannot be collateralized. These difficulties are especially severe for poorer families” (Stiglitz 1998a, 16).

In short, since the mid-1980s, a subtle but explicit shift has occurred toward greater skepticism about narrow utilitarian prescriptions regarding the role of the state (e.g., Evans, Reuschemeyer, and Skocpol 1985), along with a growing recognition of the importance of formal and informal institutions in resolving coordination problems and addressing social conflicts (North 1990a, 1990b; Knight 1992; Acuña and Tommasi n.d.). The early versions of Washington-style reforms focused almost exclusively on macroeconomic stabilization and structural adjustment, emphasizing “government failure” as the cause of inflation and allocative inefficiencies. Specific
measures to address issues of poverty and inequality were notably absent. But when analysis of the macroeconomic dynamics of the adjustment and reform process began to show that rising unemployment and worsening poverty typically follow periods of recovery (IDB 1996, pt. 1, chap. 1), greater attention was focused on the importance of policy innovations to correct market failures in providing public goods. Moreover, greater recognition now exists that under democratic conditions, the provision and financing of health and education “solely through private competitive markets” is not politically feasible because markets respond to effective demand, which would sharply limit access by the poor (IDB 1996, 236).

Perhaps the most forceful statement of this theoretical and political aggiornamento has occurred among the professional economists at the World Bank. Recent bank studies with suggestive titles like The Long March (1997b) and Beyond the Washington Consensus: Institutions Matter (1998) implicitly accept the validity of many of the arguments raised by critics of the multilateral institutions. World Bank analysts’ framing of the issues merits citing:

With one exception (namely, the protection of property rights) the policy prescriptions of the “Washington Consensus” ignored the potential role that changes in institutions could play in accelerating the economic and social development of the region; it focused instead on the issues of fiscal discipline, liberalization of trade and investment regimes, deregulation of domestic markets, and privatization of public enterprises . . . The expectation [generated by the advent of Washingtonian reforms] was not only that globalization and the “first-generation” reforms would raise economic growth rates but that they also would significantly reduce poverty and inequality. . . . This has not occurred. (World Bank 1998, 1).

According to this new World Bank perspective, although poverty rates may have recently declined somewhat in some countries, this outcome is due not to trade and financial reforms but to lower inflation and a return to modest growth. This admission brings the views of the bank into alignment with the broad consensus previously discussed. Moreover, the authors of these studies agree that formal and informal unemployment has risen in many countries and that wage differentials between skilled and unskilled workers have worsened. This rather pessimistic assessment of a decade of Washington Consensus–style reforms is the basis for their advo-

15. For a review of the contributions of the new institutional economics, the new institutionalism, and the new political economy to recent innovations in mainstream discourse at the multilateral institutions, see Acuña and Tommasi (n.d.).

16. The authors of this report note, “Consequently, income-distribution problems have not improved in many countries and have deteriorated in others, which resulted in poverty rates that remain unacceptably high. In addition, economic insecurity for the poor and middle classes, linked to job insecurity and income volatility, has tended to increase” (World Bank 1998, 1). For similar acceptance of points long articulated by critics of the Washington Consensus, see IDB (1996).
cacy of “a dialogue among policy-makers, civil society, and the academic community in [Latin America and the Caribbean] on how best to design and reform institutions—that is, on how to ‘supply’ institutional reforms to meet new societal demands” (World Bank 1998, 2).

Notwithstanding this explicit recognition by senior economists at the World Bank of the importance of strengthened institutions to govern the process of market reforms, recent calls to “bring the state back in” obviously do not signal a return to dirigiste solutions to redress poverty and inequality directly through centralized transfer mechanisms for the redistribution of income and goods. Rather, the emphasis is on “good governance” and on innovations in indirect policy methods, including social investment funds and targeted social policies to compensate the victims of structural adjustment (Graham 1994). These indirect measures are preferred because they are consistent with the well-established macroeconomic agenda advocated by the Washington-based multilateral financial agencies, and they also contribute to rebuilding the state capacity required to address microeconomic issues of specific productive sectors or at the level of the firm (see Naim 1994, 1995; World Bank 1997a; Haggard 1997).

For some at the multilateral banks, the challenge is primarily an issue of how best to increase employment and raise wages, especially for unskilled labor, because it is now understood that trade liberalization and growing integration into the world economy initially increase inequalities by enhancing opportunities and increasing returns for skilled workers (IDB 1996, 244). Consequently, in the context of globalization, reducing poverty requires efforts by governments to enhance access for unskilled workers via training and health programs (Rivera-Batiz 1995). Others have argued that workers in the informal economy are most affected by poverty because they lack legal protection or are less likely to have the resources (education, access to capital and factors of production) to take advantage of the economic opportunities brought by modernization (López 1995). Similar observations were raised much earlier by authors such as Ricardo Ffrench-Davis (1976). Proponents of this view stress hysteresis, in which a short-term deterioration in income can have long-term effects on recovery by the poor. Both perspectives acknowledge that market mechanisms by themselves are insufficient to lift individuals out of poverty.

Recent publications by the Inter-American Development Bank have moved in the same direction as the World Bank. Recent IDB studies (1996, 1998) have argued that the growth patterns made possible by the macro and structural reforms of the past decade, even if complemented by second-generation microeconomic policies, are insufficient to alleviate social inequalities at an acceptable rate. In this view, the underlying causes of “empty-box syndrome” stem from the slow accumulation of human capital and the way that political institutions and markets reproduce the exist-
ing unequal distribution of physical assets and access to quality education and health care.\textsuperscript{17}

Out of this rethinking and new empirical analysis comes a general recipe for addressing the social agenda by means of targeted social expenditures with redistributive impacts on growth (Lustig 1995; Rosenthal 1996). According to Lustig and Deutsch, a comprehensive poverty reduction strategy needs to focus both on stable and sustained growth and on generating the conditions for equitable growth. Public policies such as providing the poor with equal opportunity to quality education and health services; increasing the assets of the poor through land reform, land titling, and housing programs; fiscal reforms which improve the progressivity of taxes and public spending; correcting market failures in the credit market and eliminating discriminatory practices; and creating mechanisms which protect the poor from adverse shocks are all key ingredients of growth with equity. (Lustig and Deutsch 1998, 4)

As indicated in the executive report of a World Bank study on poverty and income distribution in Latin America, “educational attainment has the greatest correlation with both income inequality and the probability of being poor. From a policy standpoint, there is a clear association between the provision of education, lessening of income inequality, and poverty reduction” (Psacharopoulos et al. 1996, ix; see also Londoño 1997; Stewart 1997). Londoño has called for a “human-capital shock”: although expensive, “the payoff . . . is high and fast” (1997, 130). According to this perspective, when the poor have limited access to education (as in situations of higher inequality), growing demand for skilled labor further increases inequality. With greater access to education, a growing number of educated workers would effectively reduce overall inequality (Birdsall, Ross, and Sabot 1997, 104–6). For this reason, “improvement in the provision and quality of education represents a key mechanism for reducing overall inequality and lowering the number of individuals living in absolute poverty” (Psacharopoulos et al. 1996, xi; see also Ramos 1996; IDB 1996, 1998).\textsuperscript{18} Simultaneously, recent policy recommendations (such as IDB 1998) include measures such as providing child care, health, and infrastructural services and eliminating restrictive labor legislation to facilitate

\textsuperscript{17} IDB statistical projections (1996, pt. I) indicate that completion of the cycle of “first-generation” reforms would raise the region’s potential growth to about 5.5 percent, but this rate would still not be enough to enable Latin America to catch up with the rest of the world.

\textsuperscript{18} If Latin America’s current average of five years of education were raised to 6.8 years by 2005, for example, while macroeconomic reforms were completed, potential economic growth would rise to 6.5 percent, a pace that would contribute significantly to reducing both poverty and inequality. If the region could achieve an average schooling of nine years by 2020, the education gap with the rest of the world would be eliminated, and inequality could be reduced to levels approximating those of other regions of the world (IDB 1996, pt. 3).
female labor-force participation and educational achievement among poor women, with the aim of increasing the income of their households.

A comprehensive strategy embraced by all has yet to emerge from these efforts. The institutions in question are complex in composition, and the emerging analytical perspective discussed in these pages seeks to challenge other programs that guide these institutions.\textsuperscript{19} As indicated by some of the relevant policy makers, however, the ultimate aim of current intellectual formulations is to build “a ‘Latin consensus’ on a second round of reforms—reforms that would address the inequality issue without undermining efficient economic growth” (Birdsall, Graham, and Sabot 1998, 2).

These efforts resonate with calls from other quarters to develop what we term “a high road” to development. Thus for Foxley (1996), the transition-sustained economic growth (which he calls “phase 3”) requires “two basic political notions”: the perception of “a fair deal” (to be achieved through targeted social practices); and the development of “social capital” (a la Putnam 1993). Similarly, Edwards has indicated that the consolidation of “the market-based programs” and success “in generating Latin America’s definitive takeoff” will “clearly require addressing issues related to poverty and inequality” (Edwards 1995, 10). And John Sheahan has argued, “When a country combines the competitive economic model with the kinds of social programs that reduce inequality of opportunities, that powerful combination might well be considered a distinct third model of liberalization: a ‘competitive-plus-social model’” (Sheahan 1997, 11).

Such calls are not new. Hirschman voiced these concerns thirty years ago in discussing “reform-mongering coalitions.” More than twenty years ago, Foxley pointed out that “a redistributive strategy, in order to be successful, requires solid political support. The problem may reside in the fact that the social groups to be benefited by redistribution are usually those with the lowest level of organization, internal cohesion, and ability to pressure the state apparatus. It is necessary, then, to design policies that open the way for these groups to participate in power so that the advances they attain become irreversible” (Foxley 1976, 8). Mindful of the inherently polemical and highly contested nature of these questions, we turn now to a more detailed but still schematic discussion of the political and institutional dimensions of current changes in the policy-making consensus.

\textsuperscript{19} As Bresser Pereira indicated, the World Bank does not commit to a single coherent theory of development: “The Bank is a practical or pragmatic institution that avoids rhetoric and ideology as much as possible. Besides, it is a big institution. Its directors and its staff come from all parts of the world and represent a diversified and contradictory set of interests and ideologies” (Bresser Pereira 1995, 218). This observation can be extended to other institutions.
What has been conspicuously missing from these debates and from the arguments so far is a discussion of the social and political actors in Latin America that could form a broad coalition capable of designing and implementing a strategy combining growth with reduced poverty and greater social equity. This discussion requires us to engage in a “utopian” excursion into the sociology of the nonexistent, an exercise that emphasizes imagining possible political futures rather than constructing formal policy blueprints. The essential question guiding our discussion, then, is whether a “high road” to economic growth and democracy is likely or even feasible in the immediate political future of Latin America.

Moreover, we are focusing on the possible future of social and political coalitions under the assumption that pro-equity institutional configurations and outcomes can be sustained only by such coalitions rather than by mere technocratic initiative. Whereas the “first generation” of reforms (macroeconomic stabilization) was relatively simple and could be enacted by presidents and insulated agencies in the executive branch, the reforms of the “second generation” involve an array of microeconomic issues and complex interrelated institutional changes (at national, provincial, and local levels) as well as voluntary coordination among diverse social and economic forces. Therefore, the coalitional underpinnings of these more ambitious reforms are essential, making the new reform agenda political par excellence (Acuña and Tommasi n.d.; Sheahan 1997).

We will argue here that embryonic and fragmentary efforts are already underway in Latin America that make it possible to visualize a “high road” to economic growth, hemispheric integration, and globalization (Smith 1998). These efforts, were they to coalesce and gather momentum by selectively incorporating some elements of the technocratic programs now beginning to win endorsement by the multilateral banks and allied supranational organizations, might transform the discourse and practices of progressive political parties, social movements, and reformist policy makers and give them a new creative thrust.

Convergence from Above and Below: The SNO-NGO Coalition

To understand better the emergent political and institutional shifts at hand, it is useful to consider the growing convergence among Latin American social movements, transnational advocacy networks, and local NGOs and supranational organizations (SNOs). We will illustrate this potential convergence by discussing recent developments within the World Bank. Similar analyses could be advanced by focusing on other SNOs such
as the Inter-American Development Bank and the Pan American Health Organization or on private agencies such as the Ford Foundation and its European counterparts.

The aim of promoting “growth with redistribution” has a long-standing tradition within the World Bank. But in the 1960s, the prevailing view among the multilateral banks and in the social sciences (particularly in economics) was that economic growth necessarily had to precede income redistribution and that efforts to engage in redistribution before achieving sustained economic growth could actually undermine growth by withholding resources from investment. This perspective was challenged in the 1970s by the introduction of a poverty agenda by the Robert McNamara administration at the World Bank.

The McNamara agenda sought to target poverty and human needs (especially in rural areas) as a development priority. According to this agenda, “no trade-off was necessary between the goals of output growth and equity for poor countries” (Kapur, Lewis, and Webb 1997, 16). Rather than relying solely on market processes, the McNamara agenda emphasized the need to build more effective institutions among both private enterprises and public agencies. The development of this agenda in the 1970s was clearly linked to broader concerns about how best to prevent social and political unrest in peripheral and semiperipheral countries.

The effort to shift priorities to poverty and inequality encountered several immediate constraints in the 1970s. First, the growing prevalence of authoritarian regimes during the 1970s created a hostile environment for such priorities. Also, no clear and generally accepted theoretical framework had been established as yet for these concerns—even theories of human capital were of recent creation. Furthermore, the leverage of the World Bank was curtailed after the mid-1970s because of liquidity problems and the easy availability of commercial bank credit. Finally, the bank staff was only weakly committed to McNamara’s agenda, and even the institution’s knowledge about poverty, inequality, and possible policies was limited.

Moreover, practically no effective linkages connected the World Bank to local political actors and grassroots social movements. Several studies have suggested the importance of this issue in direct and indirect ways. For example, Robert Ayres indicated that some of the difficulties faced in implementing McNamara’s efforts to alleviate rural poverty arose because the success of such efforts “required local-level knowledge and expertise that the Bank arguably did not possess in sufficient abundance” (1983, 65). Consequently, Ayres concluded in the early 1980s that “an intensified effort needs to be made to explore the feasibility of utilizing non-governmental intermediaries as recipients of the transfer of Bank resources. They may be more effective vehicles for the address of poverty alleviation
than the governmental intermediaries through which the Bank now almost exclusively lends” (Ayres 1983, 248).20

Facing difficulties in effective implementation as well as opposition to its aims by a broad range of actors, McNamara’s agenda was rapidly dropped in the subsequent administration at the bank. According to Kapur, Lewis, and Webb, “when Tom Clausen succeeded Robert McNamara as the president in June 1981, the poverty theme, which had been faltering, was abruptly muted in Bank decision making and public statements” (1997, 331). Moreover, various international events and trends favored a major ideological shift in economic priorities: the election of Ronald Reagan, Margaret Thatcher, and Helmut Kohl; a reading of the East Asian success stories that emphasized the need to curtail state regulation and rely instead on market mechanisms to promote economic growth; and the pressures generated by the Latin American debt crisis.21

In retrospect, however, both this ideological shift and the retreat from the poverty and inequality agenda were rather brief. Within the World Bank, poverty and inequality concerns had already begun to regain priority under the Barber Conable administration (1986–1991), and they were further strengthened under the presidency of Lewis Preston (1991–1995).22 Although the poverty agenda had been dropped in the early 1980s, “almost as suddenly, it reappeared in 1987 and again permeated policy debates and documents, even taking center stage in World Development Report 1990” (Kapur, Lewis, and Preston 1997, 331). By 1991 the poverty agenda was being pronounced the World Bank’s “overarching objective.”

This shift in institutional perspectives is partly explained by broader economic and political changes experienced over the last decade, as indicated. But we should emphasize two important additional issues. First, despite limits on its effective implementation, the McNamara agenda con-

20. Along similar lines, Kapur, Lewis, and Webb noted that greater efforts to promote local participation were needed because “equity considerations apart, painful experience had shown that there were sound reasons (in fields such as agriculture, population, health and nutrition) to expand the participation of beneficiaries if project effectiveness was to be improved” (1997, 40).

21. This ideological shift immediately influenced intellectual leadership within the bank: “Given the new wave of neoclassical economic orthodoxy that was building in the intellectual communities around the Bank, Chenery’s replacement was especially significant. Clausen [the new Bank president] chose Anne Krueger, an able, unflinching neoclassical trade economist, and she, in turn, replaced large fractions of the Bank’s central economics establishment until she had a highly compatible staff” (Kapur, Lewis, and Webb 1997, 22).

22. Already under Conable, “the adjustment umbrella with which the institution had been so preoccupied since 1980 was stretched in two ways—one, to protect the poor against adjustment shocks to their jobs and incomes, and two, to add to the macro adjustment targets an assortment of related matters that spelled out the quality of life for the poor and disadvantaged, among others” (Kapur, Lewis, and Webb 1997, 29).

https://doi.org/10.1017/S0023879100018641 Published online by Cambridge University Press
tributed to intellectual and organizational changes within the bank. Following the departure of McNamara, as indicated in the bank’s official history, “though poverty lending was delayed, constrained, and later disowned by many in the Bank, the cause may have been given a lasting boost because taboos were broken, concepts changed, and a new generation of staff members—more open to the poverty goal—was inserted into the Bank’s staffing pipeline” (Kapur, Lewis, and Preston 1997, 222).

Second and more pertinent here, the 1980s and 1990s witnessed the emergence of NGOs that frequently belonged to transnational advocacy networks as major political and institutional forces. This rising importance has been partly reflected in the growing contacts between NGOs and the World Bank. Moreover, the focus on civil society and development of a poverty and inequality agenda by the bank (as well as by the IDB) in the 1990s can be analyzed as a response to growing pressures from a wide array of nongovernmental actors, ranging from other supranational organizations (such as UNICEF and the UNDP) to local and international NGOs and advocacy networks focusing on issues like human rights, gender and women’s rights, protection of the environment, and the plight of indigenous peoples (Keck and Sikkink 1998). Kapur, Lewis, and Webb therefore concluded, “to a much greater extent than in the 1970s, the Bank’s dedication to poverty alleviation in the late 1980s was a response to outside pressures,” such as those generated by social movements, NGOs, and transnational networks directly and indirectly through their impact on the media and public opinion (1997, 369).

Thus although critics have argued that recent policy and institutional changes from technocratic circles in Washington-based SNOs represent concessions or accommodations by advocates of neoclassical recipes,24

23. For example, in the late 1980s, “Frank Vogl, of the External Affairs Department, proposed a public relations effort to head off what he saw as potentially troublesome pressure on the women-in-development theme: ‘I most strongly believe that the issue of women in development is a major one that could enter the political arena in a major way at any time, with interest groups urging the Board to do far more in this sector. Such interest groups are, in my opinion, likely if aroused to be at least as influential as groups working on environmental issues. We dare not be caught by surprise’” (Kapur, Lewis, and Webb 1997, 367).

24. From such a critical perspective, the hidden agenda behind efforts to gain greater efficiency in the delivery of social services by privatizing, targeting, and decentralizing is to continue cutting social spending (Stewart 1997). Poverty is not perceived as a consequence of market reforms or of the underlying economic system but as a social and individual pathology. Consequently, social spending to alleviate poverty is evaluated negatively as “an expense” rather than an investment in human capital or physical infrastructure. Furthermore, according to critics, social targeting fails either to improve the reach of the relevant programs among the truly poor or to restrict effectively access to targeted resources among the underserving middle class or relatively well-off formal-sector workers. Such reforms often seem to be short-term “compensatory” palliatives, frequently tied to electoral bids of incumbent presidents, and are insufficient either to propel new political realignments favoring a different
we wish to highlight an alternative interpretation. Many Latin American social movements and NGOs have expressed support and have helped develop the new agenda emerging among SNOs, including private U.S. and European foundations. Clearly, local NGOs throughout Latin America have forged numerous complex ties with supranational organizations, often as an alternative to populist and clientelistic arrangements, while funding research projects, social programs, and training workshops designed to develop new management practices in the social field (see, for example, the detailed study by Keck and Sikkink 1998). We argue that in developing these ties, recent democratic and market transitions have brought together organizations from “above” and “below” to challenge the supremacy of long-standing state-centric institutional arrangements and political practices.25

Some observers are optimistic about the social and political impact of the growth of NGOs. According to Charles Reilly, “As real-world academies for democracy, NGOs permit people to taste the full menu of rights and responsibilities, including, but not restricted to, voting, which characterizes ‘primary’ citizenship” (1995, 2). In a similar vein, some international relations theorists speak of “global civil society” (Millennium 1992). Others are more skeptical about “the community face of neoliberalism,” viewing NGOs as instruments of global financial institutions and forms of organization that demobilize autonomous social movements and undercut traditional mechanisms of representation such as trade unions and political parties.26 Even Reilly observed, “Just as there are inefficient, opportunistic,

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25. NGOs are also developing strong linkages with government at more localized levels: “Municipal governments will increasingly become the setting where people who experienced secondary citizenship through membership in NGOs may graduate into a fuller realization of citizenship” (Reilly 1995, 2). The strategy of moving “above and below” a targeted agency is broader than SNO-NGO alliance. On Mexico, Reilly has argued that “membership organizations must make pacts with federal technocrats in order to counteract local clientelistic elites” (1995, 24).

26. See Petras (1997, 11). Veltmeyer, Petras, and Vieux have charged, “what the NGOs create is a new strata of dependent administrators based on external resources who are in direct competition with socio-political movements for the loyalty and activity of the poor” (1997, 86). For a more nuanced and less extreme view, see Macdonald (1994). For the opposite view
and bankrupt states or markets, there are inefficient, opportunistic, and bankrupt NGOs” (1995, 8; see also Fisher 1997).

Indeed, serious ambiguities are associated with the burgeoning “third sector.” For example, Elizabeth Jelin views NGOs as essential actors in the construction of more democratic civil societies, but she notes nevertheless:

The fact is that NGOs and “private-yet-public” organizations do not have a built-in mechanism of accountability. They do not have a constituency or membership composed of their “sovereign citizens.” They are fundamentally accountable to those who provide funds and to their own ideology and consciousness, hopefully (but only hopefully) based on “good” values, solidarity, compassion, and commitment. Given the relative absence of institutional and societal accountability, there is always the danger of arbitrary action, of manipulation, of lack of transparency in objectives and practices. (Jelin 1998, 412; see also Jelin 1997)

Such concerns about the accountability of NGOs are likely to become more salient. As NGOs become more influential in shaping the policies of national states and SNOs, many among these NGOs and their leaders are likely to be recruited by states and SNOs. This recruitment might be one of the key mechanisms through which the influence of NGOs expands. This trend is likely to be accompanied by a growing stratification among NGOs (shaped, for example, by access to resources and policy-making and advocacy networks). Such transformations are likely to generate increasing concerns among observers and participants regarding the impact of bureaucratization and hierarchization on the relationships among NGOs, their leaders, and the social forces that these organizations claim to represent. Similar transformations and concerns have accompanied the development of other social movements in the past, such as labor.

Despite these caveats, much of the recent literature has been generally optimistic about the ability of social movements and NGOs to generate new oppositional identities, expand public space, and ensure adequate representation and transparency (e.g., Alvarez, Dagnino, and Escobar 1998). Yet many remain skeptical about the ability of SNOs to do the same. Along these lines, Paul Nelson has argued, “NGOs’ tendencies to process-oriented programming, emphasis on participation, and partisanship in support of poor people—the very virtues that are said to argue for cooperation—contradict the interests and organizational characteristics of the Bank so directly that systematic, collaborative relations are extremely difficult” (Nelson 1995, 4).

While dependency on funding constrains the discourse and practice of the various components of transnational networks, supranational orga-
nizations also need locally based interlocutors in order to implement their own programmatic and organizational efforts. As a consequence, it is erroneous to view NGOs as highly vulnerable actors. Jelin has pointed out the opposite reality:

At the local and national levels, [NGOs] are becoming the mediators between the excluded and the state; between international movements and organizations, and local demands; between international cooperation and the final recipients of aid. They are increasingly recognized as legitimate organizations by governmental agencies. (In some countries, NGOs are even selected by international programs as channels for the transfer of resources, preferring them to governmental agencies in recipient countries.) In that vein, local and national NGOs, and their international links, through the formation of a class of professional staff members and voluntary workers, are becoming a major actor in the arena of social issues and processes. (Jelin 1998, 411)

Likewise, our analysis in this section suggests that the policies and organizational dynamics of supranational organizations respond to a complex array of pressures that include (through direct and indirect mechanisms) the challenges and issues raised by Latin American social movements and NGOs and their growing presence in transnational networks. From this perspective, the organizational and programmatic changes affecting SNOs such as the World Bank are themselves shaped by broader processes of social and political change rather than being mere outcomes of economic trends or technocratic shifts in policy design.

The New Face of Social Democracy: Polycentric Development Coalitions

The new discourse and patterns of collaboration among social movements, NGOs, and supranational organizations have been evolving hand in hand with a broad but still inchoate rearticulation of political and social forces. Traditional populist alliances of the old state-centric model have crumbled under the onslaught of market restructuring, hemispheric trade integration, and globalization. At the same time, an incipient renovation of “social democratic” forces is incorporating some remnants of conventional political forces (unions, parties, national and local state agencies, and other groups) along with new groups potentially linked to the loose SNO-NGO coalition. From our perspective, inclusion of these latter groups is transforming the logic of plausible social and political alliances.

We refer provisionally to this rearticulation of political forces as “polycentric development coalitions” (PDCs), which are distinguishable from the state-centric patterns characteristic of political arrangements prior to the 1980s. While established political forces (such as existing political parties and trade unions) are generally part of the emerging PDCs, these coalitions could be broadened to engage directly the various actors of SNO-NGO coalitions mentioned above. Our usage regarding PDCs shares some
similarities with recent concepts of “associative networks” (Chalmers, Martin, and Piester 1997), “social movement webs” (Alvarez, Dagnino, and Escobar 1998), and “polycentric, heterogeneous field of action” (Alvarez 1998). But the stress usually placed by these authors on horizontal ties of solidarity and reciprocity does not preclude the possibility that in the future, stronger hierarchical arrangements might be reconstituted within PDCs.

What kind of ideological and political form might future PDCs assume? To exemplify our argument, we will examine briefly the Consenso de Buenos Aires, a document representing a wide array of political forces from many Latin American countries. Ideologically and organizationally, the Consenso is a project involving many of the leaders of “new Left” parties: Cuauhtémoc Cárdenas of the Partido de la Revolución Democrática in Mexico; Carlos “Chacho” Alvarez of the FREPASO in Argentina; Luiz Inácio Lula da Silva and Vicentinho of the Partido dos Trabalhadores in Brazil; and Ricardo Lagos of the Partido Socialista and the Partido por la Democracia in Chile, among others. They have joined with “post-Marxist” intellectuals like Jorge Castañeda and Roberto Mangabeira Unger to construct a new face for social democracy in the region. Their joint goal is to create new democratic alliances that bring together parties, movements, leaders of the Center (to “give expression to the nonconformity of the middle class”), and leaders of the Left (to “confront inequality” and “combat social exclusion”). Their purpose is to reshape the logic of globalization in order to render it more compatible with the larger objective of strengthening the institutions of representative democracy. They also seek to incorporate a broad array of societal actors in order to extend participation and citizenship well beyond the electoral arena to culture and the organization of the political economy (Castañeda and Mangabeira Unger 1998; Dagnino 1998).

Although the general principles, critiques, and denunciations of neoliberalism in the Consenso de Buenos Aires eclipse its specific policy proposals, this document and similar manifests can be read as the early stages of an aggiornamento designed to be infused with political realism and to bring progressive policies and strategies into line with the perceived constraints and opportunities of an emerging social order shaped decisively by the logic of global markets. This new-style social democratic discourse (although some participants might not accept this label) resonates with endogenous growth theories and recent advances in thinking about growth with equity discussed earlier: there is no alternative to market-driven growth; growth and welfare are not in a zero-sum relationship; and appropriate institutional arrangements for societal and state regulation must complement market mechanisms. Although the precise formulation differs notably, “technocratic” themes of the strategies and policies advocated by the multilateral institutions find unsuspected and surprisingly close parallels in the reworked discourse of the post–cold war Left.

36
Beyond abstract premises, we find considerable convergence in several areas that might provide fruitful ground for future reforms. As in recent policy recommendations produced by Washington-based SNOs, the Consenso de Buenos Aires emphasizes the need to continue advancing regional economic integration as a means of pursuing economic growth, endorses efforts to raise domestic savings rates and to promote productive investments, and calls for the state to raise fiscal resources through taxes on consumption. Poverty and inequality are targeted as key areas for policy intervention through broadened educational opportunities, enhanced access to health care, and redistributive fiscal policies that direct scarce resources to those social sectors in greatest need.

Agreement on such questions could enable a mutually reinforcing relationship among growth, equity, and democracy. Economic growth is necessary to provide the fiscal resources to fund investments in social welfare. Along with contributing to growth, enhanced equity is fundamental for social stability and confidence in the permanence of democratic institutions and market reforms. Growth with equity, in turn, might help overcome expectations of zero-sum distributive outcomes, thereby lengthening time horizons and facilitating the social learning required for abandoning confrontational strategies and consolidating a broad democratic class compromise. As Victor Bulmer-Thomas noted, “what is needed is a consensus among the main political parties on the substance of reforms required to improve equity over the longer term. That consensus already exists in most Latin American countries on the main elements of the [new economic model]; it is time to extend it to the key determinants of income distribution and poverty” (Bulmer-Thomas 1996, 312).

Contestation, Constraints, and Possibilities

Significant areas of contention limit the construction of new polycentric social-democratic development coalitions. First, disagreement exists about the optimal extent of state reform. At one end of the spectrum (where both supranational organizations and local NGOs are found), the assumption is that the role of the state should be highly restricted to a few activities where markets might not optimize social gains. At the other end, a wide range of actors (from the Consenso de Buenos Aires to SNOs) are convinced that the state still has many crucial roles to play in regulating strategic markets (Bradford 1994; Castañeda and Mangabeira Unger 1998; Stiglitz 1998a, 1998b).

27. According to Lehmann and Bebbington, “In an unexpected convergence, the anti-statism of neoliberalism has found a partner in the basista hostility to bureaucracy cultivated by the NGO movement” (1998, 261).
The debate over the appropriate level of state regulation involves more specific policy areas. For example, for all but market fundamentalists, effective state action requires an effective system of taxation, but disagreement continues over the appropriate means and levels of such taxation. For instance, agreement is growing on the effectiveness of taxes on consumption, yet greater discrepancies persist on whether to maintain or perhaps raise taxes on corporate and individual income. Similarly, in the wake of the recent Asian, Russian, and Brazilian financial crises, many centrist and center-leftist Latin American reformists accept direct foreign investments (particularly in new industries) but call for selective mechanisms (such as the Tobin tax on financial transactions and moderate Chilean-style capital controls) to reduce the volatility of international financial markets and the region’s dependency on the vagaries of flows of “hot” portfolio capital. Considerable debate is still going on over the extent to which states should intervene in redistributing assets, such as between more competitive and less competitive manufacturing enterprises, between large and small landholders in rural areas, or more broadly between the wealthy and the poor.

Second, considerable disagreement remains about the desired direction of labor reform. For some analysts (see IDB 1996 and 1998), sustained economic growth and the creation of employment opportunities require the substantial flexibilization of labor markets, a centerpiece of liberalization programs. For others, substantial de facto flexibilization has already been achieved, but such reforms have failed to expand employment opportunities sufficiently. From such a perspective, future reforms should be more activist and aimed directly at creating jobs, upgrading job skills, and incorporating appropriate technologies (ECLAC 1997; Tokman 1997). This issue is crucial because such policies affect the stances of trade unions and political parties on “second-generation” reforms.

The third issue of contention involves the relationships among democracy, economic growth, and social mobilization. While a broad consensus holds that states have an important regulatory role to play in attacking corruption and rent seeking and in ensuring competition and market transparency, some argue that social mobilization is pivotal to achieving these objectives, while others are wary about the potential uncertainty that might be inherent in such mobilizations. For many political

28. The World Bank takes a hard line on labor reforms: “Although reversals of past liberalization attempts have been partially influenced by inappropriate labor market policies, we do not know of any recent liberalization attempt where unemployment problems have led to reversals” (Primo Braga, Nogues, and Rajapatirana 1997, 106).

29. According to O’Donnell (1998), many unions are likely to limit their political action to supporting those in the formal labor force (rather than extending their support to the unemployed or those in the informal sector), thereby complicating their participation as core actors in a high-road coalition.

30. The first position characterizes the approach of the World Bank and the Inter-American
parties, social movements, and NGOs, active social mobilization and the strengthening of the capacity for collective action of subordinate or excluded groups are crucial to promoting further democratization. From this point of view, social mobilization should seek to engage in particular those who have been excluded from power (women, ethnic and racial minorities, children, unorganized and informal-sector workers). Furthermore, from the perspective of the participants in the Consenso, while “the market should be the principal allocator of resources . . . , it is up to the state to create the conditions for the needs of the poor to be transformed into effective demands that can be processed by [the market]” (Castañeda and Mangabeira Unger 1998).

Such a strategy might be opposed by a range of social and political forces fearful of further shifts in the prevailing balance of power. For example, opposition might come from economic elites and policy makers who might contend that social mobilization could generate political instability and hence endanger macroeconomic equilibrium and access to international capital flows. Leaders from established political parties and corporate organizations might oppose efforts to shift the political agenda or open access to decision making by broader sectors of the population. Opposition might even be strong among sectors of the labor movement (such as teachers and health professionals) threatened by some dimensions of the reforms in question. Finally, given that the poor are often a weak political constituency, privileged social sectors and the middle class might form “veto coalitions” opposing policies that favor the poor (O’Donnell 1998). In the future, these forces can be expected to coalesce in various combina-

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Development Bank. See also Williamson, who has defended strengthening tax agencies and enhancing the autonomy of independent central banks to “insulate” them from electoral politics (1993). Critics believe that this idea entails potentially anti-democratic implications. For some on the Left, such as Chilean socialists and perhaps the FREPASO or the Partido de la Revolución Democrática, emphasis on accountability through public participation is essential. Relying solely on technical oversight by regulatory agencies runs the risk of “capture” by the new private-monopoly interests to be regulated.

31. For example, Markoff stressed that “the great challenge of the twenty-first century, if democratization is to have a meaningful future, will involve developing ways to make the transnational structures of power, from the ‘emerging Europe’ to the far more difficult challenge of the planetary networks of finance, responsive to those affected by their actions” (Markoff 1997, 67).

32. After all, as noted by the Consenso de Buenos Aires, “in our fragmented and heterogeneous societies, almost no one is just a citizen: the number of groups, sectors, minorities, regions and ethnic groups victimized by some additional form of discrimination or oppression beyond that present in all societies [generates] a politics of permanent effervescence. Women, young people, workers, indigenous communities, blacks and mulattoes, minorities with specific sexual orientations, oppressed ethnic groups, marginalized religious sects, and many other groups deprived of the fullness of their rights and aspirations should be stimulated to mobilize, to conquer [their] space, and [to pursue] their rights and interests” (Castañeda and Mangabeira Unger 1998).
tions to oppose the emergence of polycentric development coalitions. Hence, the prospects for the success of PDCs favoring the growth-with-equity model will be constrained and shaped by enduring state-centric political arrangements, some aspects of which might be reinforced by reforms of state elites to fragment and exclude subaltern groups and co-opt privileged social sectors (Acuña and Smith 1994).

In discussing the implications of these constraints for potential polycentric coalitions, it is useful to consider three alternative models: the “low road,” the “middle road,” and the “high road.” In a low-road scenario, political elites pursue alliances with some strategic minorities and seek to neutralize the capacity of most social and political forces to engage in oppositional collective action. Political and economic stability in this scenario is facilitated by a dual logic of state power (support for the organization of the allied minority and disarticulation of the rest) and unequal distribution of resources to support clientelistic practices (Acuña and Smith 1994; Roberts 1995; Weyland 1996). The low-road scenario is often accompanied by a lack of transparency, deterioration in accountability, and widespread corruption among officeholders (features that become major obstacles to sustained economic growth). The low-road scenario places the transition costs and long-term burden of market reforms and the opening of the economy to global competition on the poor and the unorganized sectors of society, and thus high and often rising poverty and inequality become additional characteristics of this path. The participation of social movements, NGOs, and contesting political parties in this scenario is generally limited to inclusion in clientelistic networks.

This low road does not exclude the exercise of electoral politics, however. Indeed, the governments in the region that have pursued such a path (in Argentina, Brazil, and Peru) have gained power through elections. In many instances, the electoral advent of such governments came on the heels of hyperinflation and catastrophic failure of heterodox stabilization policies in the late 1980s (Smith 1989). Notwithstanding differences among countries and periodic efforts to shift paths and enhance the quality of growth, this path is the trajectory that has characterized most of Latin America over the past decade.

An intermediate middle-road scenario combines three features: a full-blown variant of market reform and sustained economic growth; a stable, relatively consolidated democratic regime with significant elitist and exclusionary traits; and a consistent reduction in unemployment and poverty (achieved through growth, greater inclusion, and targeted state expenditures) but meager results in reversing persistent inequalities in the distribution of income and wealth. Accompanying these features are policies that begin to be adopted to enhance transparency and accountability and to attack corruption and clientelism. Contesting political parties play a role in governance, and neocorporatist mechanisms involving these parties
and interested social and economic actors may complement parliament in effective policy negotiation. Social movements and NGOs tend to play a greater role in shaping policy in this scenario, albeit by using channels that at times lead them to be perceived more as "neogovernmental" or "paragovernmental" than as nongovernmental organizations (Schild 1998).

The experience of Chile over the past decade comes closest to this middle-road strategy and has come to be portrayed as a "growth with equity" model for other nations in the region to follow. Several features bring Chile closer to a "middle road" than to a "high road." The country’s success in economic growth is partly indebted to harsh policies implemented by the Pinochet regime, and it has remained framed in enduring authoritarian institutional mechanisms. (Examples include nonelected military and conservative representatives in the Senate, the "Ley del Cobre" by which 10 percent of copper export earnings are automatically allocated to the military, electoral rules that overrepresent conservative minorities, and continued dominance of military appointees in the judicial system.) Nevertheless, relatively strong political parties and "encompassing" institutions grouping the peak associations of capital and labor have made it possible to reduce poverty significantly from the peak reached in the mid-1980s (Weyland 1997a). Inequality, however, remains well above pre-1973 levels, with scant progress made under the new democracy (Martínez and Díaz 1996, chap. 4).

In contrast to the two previous paths, in the high-road scenario of growth and integration into global markets, elected presidents and their economic and political teams reformulate the decision-making process. Strong economic performance, a more equitable distribution of income and wealth, and the abandonment of Hobbesian postures would be accompanied by a relative deepening of procedural democracy. Transparency and accountability would prevail in the exercise of government, and practices of rule would be largely free from corruption and clientelism. Moreover, in this scenario, social movements and NGOs (and the transnational networks of which they are part) would play more crucial roles in promoting the autonomous participation of subaltern groups and in expanding democratic spaces for public debate. Political parties and other social actors would be strengthened and incorporated more fully into policy design and implementation.

33. From a somewhat different but converging theoretical perspective that gives signal importance to the extent of "encompassingness" of institutions in civil society and the state in generating equitable outcomes under democratic conditions, see Weyland (1996, 1997a). For interesting proposals on deepening democracy and enhancing the equity of the Chilean model, see Hardy (1995) and Comisión Económica PSCH (1998) on proposals being discussed by Socialist party economists for a possible third Concertación government. Note also the similarities of these Chilean proposals to the Consenso de Buenos Aires platform to be discussed (Castañeda and Mangabeira Unger 1998).
Because this high-road approach envisions more active state participation in implementing social policies and inducing growth, there are theoretically persuasive reasons to believe that a renovated social-democratic project could generate a stable macroeconomic equilibrium with dynamic growth similar to that achieved in the middle-range option (see Bresser Pereira, Maravall, and Przeworski 1994; Acuña and Smith 1994). At the same time, however, a high-road strategy would place greater emphasis on equity and more generous and expansive compensation via safety nets, social investments, and skill retraining for the “losers” in competitive integration into the global economy. Historical comparisons and the expected consequences of broadened social and political participation in the decision-making process make the distributional properties of this social-democratic scenario much more advanced than in the low- and middle-road strategies.

The challenge for advocates of the high road is to provide effective leadership as they construct broad “reform-mongering coalitions” (Hirschman 1971) that address the changing concerns of the middle class, formal and informal workers, women, environmentalists, and indigenous peoples. Such an effort would seek to preempt the participation of these constituencies in veto coalitions appealing to nostalgia for statist protectionism and the illusion that the subsidies and rent-seeking privileges of import substitution can be easily restored.

Social movements and NGOs linked to transnational networks are likely to play a pivotal role in shaping the relative success of these efforts. But we should stress that in each of the three alternative roads, the NGO-SNO alliance can play very different roles. Optimists might argue that the organizational characteristics of local social movements and NGOs will make it more likely that polycentric coalitions will succeed in promoting high-road strategies and deepening democratization beyond the politico-institutional realm. We should also recognize, however, the possibility of a more problematic outcome in which the growth of such organizations might provide legitimacy for neopopulist leaders to pursue the further dismantling of the welfare state, and even for the development of new corporatist linkages between the state and political clients.

Here it is useful to draw some parallels with the adoption of Keynesian-inspired models of growth in the postwar period (Esping-Anderson 1990). The adoption of such models was uneven throughout the world,

34. This strategy represents an attempt to base democratic stability on broad social and political pacts that would assure major collective actors that their interests would not be seriously undermined by structural adjustment and global market forces. This scenario resonates with proposals calling for “the building of a new developmental state [that] has to reside in a mix of de-regulation and re-regulation. It requires that the state walk a narrow path of letting the market operate without choking it and, at the same time, playing a coordinating and overseeing role that private firms left to themselves would not assume” (Cavarozzi 1992, 682).
with the welfare state generally reaching the furthest development in core countries, and was also accompanied by democratization of some aspects of social and political life (for example, in regard to labor relations) in some countries but dictatorship and exclusionary corporatism in others. The future development of the growth-with-equity model might be characterized by a similar unevenness among countries.

As discussed earlier, the adoption of a growth-with-equity model in Latin America might be hindered by the specific legacy of political forces and institutional arrangements in the different nations in question. But what might give the high-road strategy added impetus is precisely the fact that such a strategy is ultimately propelled by a broad configuration of forces. First, support for the model comes from groups that operate above and below state-centric arrangements and are gradually pushing these arrangements toward a new institutional matrix embedded in the new political discourses, organizational forms, and political alliances that we have discussed as characteristic of polycentric coalitions. Second, because comparative economic performance is pivotal, the adoption of the high-road strategy might be facilitated to the extent to which it becomes implemented broadly throughout (or even beyond) the region. If adoption of high-road strategies were to be accompanied by perceived success (as measured by economic growth, performance in poverty and inequality, and deepening democracy) in one or a few countries, the growth-with-equity model could achieve a “critical mass” that would lower the perceived costs of adopting similar strategies in other countries.

Ultimately, the relative success of each path is likely to be measured by the extent to which each is effective in overcoming the persistent legacy of poverty, inequality, and authoritarianism in the region. The “high road,” as delineated in this article, represents less a blueprint for development than a preliminary effort to specify some of the measures and transforma-

35. This is largely unexplored terrain where a variety of contradictory hypotheses might be entertained. Careful comparative research will be required to identify the various constellations of factors (such as traditions of clientelism and particularism, cohesion of state apparatuses, strength and “encompassingness” of class and sectoral organizations) that favor or block the emergence or limit the success of polycentric development coalitions of a social democratic coloration.

36. As the current financial crisis and contagion effects in the region suggest, globalization hurts a broad range of domestic groups, including employers and the middle class. It is therefore possible that such groups may find it increasingly attractive to abandon low-road maximalist strategies with attendant zero-sum distributive outcomes when they perceive the payoff matrix turning negative, that is, when the risks of “hanging separately” surpass the risks of cooperation. Incipient debates among economists, less globalized business elites, unions, and consumers suddenly spooked by financial globalization as to the benefits of controls on capital flows and exchange-rate regimes as well as the advantage of industrial policies may indicate that the prospects of polycentric coalitions and high-road alternatives for post-Fordist social democracy might not be so “utopian” after all.
tions that can guide analysts in assessing whether a given strategy of growth is moving closer or further away from the equally substantive goals of equity and democracy.

Achievement of a high road to globalization is a tall order. Realism and past experience counsel that strong coalitions bent on blocking such experiments are highly probable and that in many countries, such coalitions are likely to succeed to varying degrees in imposing their preferences. Consequently, relatively stable outcomes falling far short of an optimal equilibrium combining democratic deepening and growth with equity are certainly possible—and perhaps even probable. Success will demand a fortuitous combination of capable leadership and propitious regional and world economic circumstances. In any case, the imagined future discussed in this article will ultimately give way to a broad spectrum of blueprints and outcomes, produced by many architects in pursuit of their own diverse goals.

CONCLUSION

The original Washington Consensus consisted of a minimalist platform that was appropriated by some to advance low roads to globalization. In this article, we have attempted to demonstrate that as the new century unfolds, a new consensus is developing among supranational organizations that efforts to promote sustained economic growth can be strengthened only by poverty abatement, greater equity, more robust institutional arrangements, and a deepening of substantive democracy. A broader political consensus has also emerged among social movements, NGOs, and progressive political forces that deepening poverty and egregious inequalities constrict political and social citizenship and diminish its quality. The main question of the new century will be whether economic reform and integration into the world economy will continue to be managed from above by technocratic forces and elites seeking to restrict reforms to the procrustean bed of neoliberalism and to contain mobilization and popular participation, or will it now become one of the axes that define what we have called polycentric development coalitions. As in the past, the relative strength of progressive political and institutional configurations favoring a high road to globalization will reflect not simply or even primarily structural forces but the ability of the social forces in question to develop their imaginations effectively and deploy their wills on behalf of creative and necessarily utopian political projects.
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