POVERTY IN LATIN AMERICA[1]

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SOCIAL PANORAMA OF LATIN AMERICA: 1999–2000. By Economic Commission for Latin America and the Caribbean (ECLAC). (Santiago: United Nations Publications, November 2000. Pp. 312. N.p.)

PORTRAIT OF THE POOR: AN ASSETS-BASED APPROACH. Edited by Orazio Attanasio and Miguel Székely. (Baltimore, MD: The Johns Hopkins University Press, 2001. Pp. 266. $24.95 paper.)

NEW MARKETS, NEW OPPORTUNITIES? ECONOMIC AND SOCIAL MOBILITY IN A CHANGING WORLD. Edited by Nancy Birdsall and Carol Graham (Washington, DC: Brookings Institution Press, 2000. Pp. 331. $24.95 paper.)

RURAL POVERTY IN LATIN AMERICA. Edited by Ramón López and Alberto Valdés. (New York: St. Martin's Press. 2000. Pp. 343. $72.00 cloth.)

POBREZA, DESIGUALDAD Y POLÍTICA SOCIAL EN AMÉRICA LATINA. Edited by Dionisio Borda and Fernando Masi. (Coral Gables, FL: North-South Center Press, University of Miami, 2001. Pp. 448. N.p.)

INTRODUCTION

The five books reviewed in this essay bring together work by respected researchers on poverty and income inequality in Latin America from academia and the multinational institutions most involved in the design of policies for poverty alleviation in Latin America. These books are a high-quality representative sample of state-of-the-art empirical analysis of the incidence and the determinants of poverty in Latin America. The contributors to these books (mostly economists) also suggest new policies for reducing the vulnerability of Latin American families to poverty. These well-organized and well-written books are valuable both to the non-specialist and to the specialist interested in a) understanding the causes of poverty in Latin America, b) new strategies for reducing

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poverty and c) measurement concepts and techniques for the analysis of the causes of poverty.

Economic crisis in the 1980s was accompanied by falling per capita incomes and increasing poverty rates throughout Latin America. With a resurgence of economic growth in the first eight years of the 1990s, per capita incomes rose and poverty rates fell. With stalling growth rates in the later 1990s, poverty reduction also stalled.[2] Accompanying these changes in economic outcomes in the 1980s and 1990s were significant changes in the economic environment, in that the rules of the game have changed regarding the level of protection afforded by governments to the jobs and earnings of workers. Broad structural adjustment policies have led to a restructuring of production and employment. These policies reduced the import-substitution protections against foreign competition, reduced subsidies for agriculture, reduced public sector employment, and generally increased reliance on private investment and market forces. A greater reliance on market forces in product and labor markets created new opportunities within a new economic environment intended to reward hard work, innovation, productivity and talent in order to promote economic growth. At the same time, this restructuring reduced the number of jobs where one could expect stable, long-term (perhaps even lifetime) employment, increasing feelings of insecurity among workers throughout Latin America.

It is generally agreed among academics and the editors of and contributors to the books reviewed here that economic growth contributes in an important way to the reduction of poverty. However, it is also noted in the books reviewed here that in the 1990s the rate of decline in poverty was not commensurate with the rate of growth of aggregate income. Moreover, economic growth in the 1990s was not accompanied by improvements in the distribution of income, which had also worsened throughout Latin America in the 1980s.[3] One potential explanation for the increase in inequality is the change in the structure of employment and pay brought about by technological changes and structural adjustment reforms. These factors increased returns to assets (for

2. Poverty rates for Latin American countries are reported by ECLAC, *Social Panorama of Latin America* (Santiago, Chile: United Nations Publications, various years). This report is published yearly, and the most recent report is available on the web site http://www.eclac.org. The 1999–2000 report, reviewed in this essay, presents poverty estimates for eighteen Latin American countries; Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela. Of these, the highest poverty rates are reported in Bolivia, Guatemala, Honduras and Nicaragua while the lowest poverty rates are reported in Argentina, Chile, Costa Rica and Uruguay.

3. Miguel Székely. "The 1990s in Latin America: Another Decade of Persistent Inequality, but with Somewhat Lower Poverty," Inter-American Development Bank Research Department Working Paper no. 454 (Washington, DC: IDB, 2001).

example, skilled labor) that are most productive in the modern, globalized economy. One indication of this change is the increase in returns to education (the wage gap between those with less and more education) observed in Latin America in the 1980s and 1990s.[4] However, the research presented in the books reviewed here suggests that the poor generally do not have skilled labor, nor do they own other assets that are in increasing demand by the modern, globalized economy. Thus, while structural adjustment reforms may have contributed to the economic growth of the 1990s, this growth did not lead to commensurate increases in the incomes of the poor.

Along with changes in the structure of employment and production, the rules of the game also changed regarding access to social programs. Beginning in the 1980s, social programs designed to provide universal access to the entire population gave way to social programs targeted to the currently poor, or to regions or specific groups with high poverty rates. Universal programs, such as subsidies or price controls on basic foods, utilities, housing, transportation, and other goods and services, were seen as expensive and inefficient methods to alleviate poverty. The majority of the beneficiaries of these universal programs were from the expanding middle classes rather than the poor. Targeted social spending was seen as a way to allocate increasingly scarce public funds to have the largest possible impact on current poverty.[5] However, critics are skeptical that targeting social spending to the poor is, by itself, sufficient for reducing the vulnerability of families to poverty. In an economic environment of decreasing stability in employment and earnings, today's middle-income families may be tomorrow's poor. Social policies targeting the currently poor will not help these middle-income families stay out of poverty.

A common theme of the books reviewed in this essay is that policies addressing the poverty problem in Latin America need to go beyond promoting economic growth and providing safety nets targeted to the currently poor. These policies should focus not only on aggregate economic growth, temporary income subsidies and the targeted provision of services to the currently poor, but also on improving the income-earning assets of those nearly poor and middle-income families who are likely to be vulnerable to macroeconomic shocks that could push them into poverty. Consequently, an important part of each book under review is

4. One influential publication that made this point was the Inter-American Development Bank's 1998 *Report on Economic and Social Progress in Latin America*, subtitled *Facing Up to Inequality in Latin America: Economic and Social Progress in Latin America, 1998–1999* (Washington, DC: Johns Hopkins University Press, for IDB, 1998).

5. A 1998 article in this journal reviews the arguments for, and the outcomes of, this shift from universal to targeted social programs (see John Sheehan, "Changing Social Programs and Economic Strategies: Implications for Poverty and Inequality," *Latin American Research Review* 33 (2): 185–196 (1998).

the presentation of a methodology designed to identify the underlying causes that make a family vulnerable to poverty, leading to recommendations for policies that could reduce that vulnerability.

SOCIAL PANORAMA OF LATIN AMERICA: 1999–2000

A central theme of the *Social Panorama of Latin America: 1999–2000* of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) is that the economic changes of the 1980s and 1990s in Latin America have increased income fluctuations and reduced access to social services by middle-income households, making these middle-income households more likely to be pushed into poverty when faced with macroeconomic downturns. Opinion surveys conducted by ECLAC "towards the end of the 1990s showed that growing percentages of the population [in Latin America] felt that they were living in conditions of risk, insecurity and defencelessness" (16). The ECLAC report argues that one source of this increased vulnerability has been new labor legislation designed to make it easier for labor markets to adjust to the changing structure of production. This legislation typically includes reducing severance pay, limiting the right to strike, expanding the reasons for legally firing workers and making it easier for employers to hire workers on a temporary or part-time basis. Increasing insecurity is manifested in the growing proportion of workers who are self-employed, work in microenterprises, work without labor contracts, lack social security coverage, and work part-time or have temporary (non-permanent) jobs. Another source of insecurity identified in the report is the result of policy actions in the 1980s and 1990s in Latin America to target social services to the currently poor, thereby reducing access to these services by nearly poor and middle-income families, who have neither the income to purchase these services for themselves nor access to services subsidized by the government. The ECLAC report concludes that "where access to social services is concerned, targeted measures designed to tackle poverty, especially extreme poverty, need to be supplemented by others that serve the needs of middle- and low-income strata faced with more variable, and, in some cases, declining incomes. This entails restoring some degree of universality to social policy in certain areas, particularly where access to good-quality services—such as education and health—is concerned" (55).

Two later chapters in the ECLAC report focus on two groups that are particularly vulnerable to poverty: older adults and children. Regarding children, the report notes that the accumulation of human capital (especially health and education) is not only important for the

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well-being of children in the short run, but also for reducing their vulnerability to poverty when they become adults. Children of low- and middle-income households are particularly vulnerable to income variability because these families often respond to a decline in the earnings of the main breadwinner by increasing the employment of other family members, in many cases pulling children out of school. Thus, short-term economic fluctuations can have long-term consequences for children vulnerable to poverty, limiting their education and further increasing their vulnerability to poverty in the future.

PORTRAIT OF THE POOR

The *Social Panorama of Latin America: 1999–2000* argues that vulnerability of families to economic downturns is directly associated with the quantity, quality, and prices received for the resources or assets controlled by individuals and families (52). The report suggests that such assets include human capital (principally education and health), work (because labor force participation rates can be thought of as the rate of use of human capital), physical capital, social relationships and family relationships (the last two are forms of what has been called "social capital"). The main purpose of the second book reviewed here, *Portrait of the Poor*, is to empirically identify the assets that have the most important impact on income, poverty, and income inequality. This book presents both cross-country analysis and case studies of individual countries.

The first chapter of *Portrait of the Poor*, written by the book's editors Orazio Attanasio and Miguel Székely, identifies education as an important asset for the poor, and unequal access to education as a key cause of the unequal distribution of income in Latin America. The authors use the Inter-American Development Bank (IDB) database of household surveys from eighteen Latin American countries (which include over 90 percent of the population of the region) to construct and decompose poverty indices in each country into between- and within-demographic group components. They find that "having more or less skills is a stronger determinant of poverty than being located in rural areas, being employed in relatively unproductive sectors of activity, belonging to female-headed households, or living in households with relatively young or old heads" (16–17). Also, because the education of parents is an important determinant of how much education a child will receive (see the contribution by Jere Behrman, Nancy Birdsall and Székely in *New Markets, New Opportunities*), poor families are trapped in a vicious circle where the parents' lack of education contributes to the low level of educational attainment of their children.

Country studies of Bolivia, Brazil, Chile, Colombia, Costa Rica and Peru make up the next six chapters.[6] Each country study presents data showing the evolution of poverty in the late 1980s and early 1990s, and a decomposition of changes in poverty into an economic growth effect and a redistribution effect. Over the years studied, poverty rates fell in all countries except Peru. The decompositions show that declines in poverty have been mainly associated with growth and not with improvements in the distribution of income. This is because inequality increased in most of the countries. However, even in those countries where incomes became more equally distributed over the period studied, the growth effect was much larger than the redistribution effect.

The country studies also examine the correlation between poverty and access to different types of assets. The relationships between access to assets, family income, and poverty were identified using regressions of household income on access to assets, and regressions of the probability of being poor (using a probit) on access to assets. These regressions confirm the key role of access to schooling on incomes and poverty; in all countries education is an important determinant of income and households with heads that have more years of education are less likely to be poor. The Chile country study presents evidence that not only the quantity but also the quality of schooling matters. Using a data set that includes the average scores of individual schools on nation-wide standardized tests, Contreras and Larranaga find that children from poorer families in Chile tend to have access to schools with the lowest test scores. Several country studies also identify education as the key asset correlated with labor force participation (i.e., use of the asset "human capital"). In addition, access to public services, credit or social capital, and ownership of land or a business are significantly correlated with both family income and the probability of a family being in poverty. The Peruvian and Costa Rican country studies also hint at the importance of interactions between different types of assets. In Peru, for example, owning land has much higher returns for owners with more education, while in Costa Rica, returns to physical capital are higher for farmers and small entrepreneurs with more education.

A few of the country studies also attempt to identify the restrictions that the poor face in accumulating income-earning assets. The Colombia and Costa Rica country studies provide some evidence that unequal access to credit is an important limitation on the ability to obtain capital.

6. The authors of the country studies are: George Gray-Molina, Wilson Jiménez, Ernesto Pérez de Rada and Ernesto Yánez (Bolivia); Marcelo Cortes Neri, Edward Joaquim Amadeo and Alexandre Pinto Carvalho (Brazil); Dante Contreras and Osvaldo Larranaga (Chile), José Leibovich and Jairo Núnez (Colombia); Juan Diego Trejos and Nancy Montiel (Costa Rica); Javier Escobal, Jaime Saavedra and Máximo Torero (Peru).

Atanasio and Székely also stress the finding of an income constraint among poor families in acquiring human capital. The income constraint occurs because the poor do not have enough savings to pay for school, nor do they have access to formal capital markets to borrow to finance schooling.

The final chapter by Székely, "Portrait of the Poor," presents a short, recent history of poverty alleviation policies in Latin America and suggestions for a "new generation" of social policies. Székely identifies the "first generation" of social policies as the era of universal programs, which ended in the early 1980s. The "second generation" of social policies was dominated by economic downturn and reductions in government spending, which led to the elimination of many of the expensive universal programs. The third generation of policies of the late 1980s did not reintroduce universal programs, but rather moved towards targeted safety-net programs designed to temporarily transfer incomes or provide services to the currently poor. A fourth generation of policies, in effect during the 1990s, shifted away from the temporary transfers but not from targeting specific groups. This generation of programs provides targeted assistance to the poor, but also includes strong incentives for the poor to accumulate human capital assets. These programs included PROGRESA in Mexico, Bolsa Escola in Brazil and Chile Joven in Chile.[7]

Székely argues that these fourth-generation policies designed to improve the human capital of the poor are necessary but may not be sufficient. Human capital assets will increase incomes only if they are used and only if they yield adequate returns. For example, Székely identifies low labor force participation rates among poor women and low returns to primary and secondary schools as factors that reflect the low use and low returns to human capital among the poor. Labor force participation rates and returns to education have little to do with targeted or universal social policies, and much more to do with the overall economic environment. One implication of this way of viewing the underlying causes of poverty is that the overall economic environment, and economy-wide economic policies, are important in poverty alleviation and should be integrated into an overall poverty-alleviation strategy. This is an argument that poverty-alleviation policies cannot be isolated from other economic and social policies. Székely suggests that policies

7. PROGRESA "provides cash transfers and nutritional supplements to families in extreme poverty in rural areas. Cash transfers are conditioned on children's school attendance rates of at least 85 percent, and regular attendance at health clinics for check-ups and follow-ups. The cash transfer is given to the mother, who also has to attend a series of courses on health practices. Bolsa Escola is a similar program that provides scholarships for disadvantaged children. Part of the cash transfer is held in a special account, which the beneficiary can access after completing a schooling cycle. Chile Joven is also a program of cash transfers, but in this case they are provided to young adults as a training incentive" (247).

to reduce poverty should not only be directed towards poor families and/or directed towards policies to increase the aggregate level of economic growth, but should also consider the way in which all government policies will affect the structure of demand for the assets owned by the poor. As an example, he identifies trade policy, and argues that "to improve the wages of the poor it is necessary to have a trade policy that promotes the use of their human capital . . . Tariff structures that favor intermediate inputs or factors of production complementary to relatively unskilled labor (by Latin American standards) would have better chances of increasing the demand for the labor of the poor" (261).

NEW MARKETS, NEW OPPORTUNITIES? ECONOMIC AND SOCIAL MOBILITY IN A CHANGING WORLD

The first two books reviewed in this essay argue that traditional policies to alleviate poverty may not be sufficient because of the mobility of families into and out of poverty. *New Markets, New Opportunities? Economic and Social Mobility in a Changing World*, a project of the Brookings Institution directed and edited by Nancy Birdsall and Carol Graham, explicitly addresses the conceptual and practical issues involved in the measurement of mobility between income and social classes. The editors deserve much credit for crafting a carefully written and well-organized book where the themes addressed in each chapter flow logically into the next. Joseph Stiglitz's introductory chapter provides an excellent summary of the theoretical reasons why we should or should not care about income mobility. Isabel Sawhill's chapter addresses this issue and provides a review of the literature on social mobility in the United States. Behrman summarizes many of the conceptual problems regarding the measurement of mobility. The chapter by Gary Fields is a clearly written practical guide to the measurement of mobility that discusses which specific measures of mobility are appropriate in different situations and includes useful stylized examples to illustrate the different measures and concepts of mobility. A chapter by Behrman, Birdsall, and Székely, as well as a chapter by David Hojman, construct measures of mobility and examine the individual attributes, economic policies and macroeconomic conditions that affect income mobility in Latin America. Katherine Terrell's chapter examines income mobility in Eastern Europe. The remaining chapters discuss opinion surveys that examine perceptions about income mobility and the extent to which those perceptions reflect actual trends in mobility.

The study of income and social mobility in Latin America is complicated by both data and conceptual issues. Behrman (chapter 4) identifies the primary data problem as the paucity of panel data available from Latin American countries. Panel data (data on the same individuals or

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families over time) are necessary if one is to measure how the income or social status of individuals and families changes over time. An important conceptual issue that complicates the study of mobility, and addressed by many of the contributors to this book, is the existence of many different types of income and social mobility. One distinction in several studies is between absolute and relative mobility. Absolute mobility occurs when the absolute incomes of people change, while relative mobility occurs as incomes change relative to others. If average incomes are changing but inequality in the distribution of incomes does not change, an economy can exhibit substantial absolute mobility even as relative mobility remains constant. The direction of absolute income mobility can also be important; Fields notes that mobility is more likely to be seen as desirable if the majority of people are seeing their incomes rise over time or between generations than if the income mobility is downward. Another distinction made is between intergenerational mobility (mother/father to daughter/son) and intragenerational (over one person's lifetime) mobility. Hojman (chapter 8) further distinguishes different types of intragenerational mobility. For example, short-term intragenerational mobility related to the business cycle (for example, as people move in and out of unemployment and poverty with recessions and expansions) is the type of instability decried in the *Social Panorama of Latin America 1999–2000*. On the other hand, life-cycle intragenerational mobility occurs as people become older and move up to better-paying jobs and is generally seen as a good thing.

As noted, the paucity of panel data limits the ability of researchers to study income mobility in Latin America. Behrman, Birdsall and Székely avoid the panel data problem and use cross-sectional household surveys from sixteen Latin American countries to construct measures of intergenerational mobility in schooling levels.[8] They first calculate a "school gap" for each child (ten to twenty-one years old) in the data sets. The "school gap" is the difference between the actual education of that child and the expected level of education if the child had attended school continuously from the age of six. The measure of intergenerational mobility used is an index based on the share of the total variance in this school gap not explained by father's education, mother's education and family incomes. By this measure, intergenerational mobility is greatest in Chile and lowest in Brazil. Next, they regress measures of intergenerational mobility on variables reflecting macroeconomic conditions (GDP per capita, trade openness, financial depth, and the inflation rate) and education policy variables (government

8. The countries are Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela.

spending on education as a percent of GDP, public spending on primary school per person, and the average schooling of teachers). Of these variables, they find that financial depth, public spending on primary schools, and the average schooling of teachers (a measure of school quality) are significantly positively correlated with mobility. The authors of this chapter argue that their results imply that the level of public support for primary education and the level of completeness of financial markets are important determinants of intergenerational mobility because they loosen "the strong link between parental background and children's education" (164). More complete financial markets are important because they increase the availability of credit, which can be used to finance an investment in education. If financial markets are not complete, and credit is not available to poor families even for such high-return investments as education, such investments must be financed by savings or the sale of assets. Thus, the lack of access to credit can limit the ability of poor families (who have little savings or assets) to afford education.

Chapters 9 through 11 examine perceptions about income mobility and how these perceptions are related to actual mobility. Richard Webb combines the results of a survey of the perceptions of personal and family mobility with actual measures of mobility constructed from a World Bank Living Standards Measurement Survey (LSMS), a panel data survey carried out in Peru between 1985 and 1997. The most interesting finding from this comparison is that perceptions of mobility are not correlated with actual mobility. In particular, those surveyed tended to take a "more pessimistic view of their own experience than was warranted by the apparent facts" (278). In one striking finding, "Of the highest performers in the sample (those with per capita income improvement of 100 percent or more between 1985 and 1997), 67 percent said that they were worse off and only 11 percent said better off" (272). Petr Mateju reports a similar finding for Eastern Europe, whereas Graham's chapter argues that upwardly mobile groups might underestimate their income gains because these groups tend to have initially higher expectations than do the poor. Birdsall and Graham hypothesize that the existence of increased mobility accompanying increasing opportunities might make increasing inequality caused by structural adjustment reforms more politically acceptable. However, Mateju finds that subjective perceptions of mobility, not the actual mobility of a person or family, have the most influence on how people vote in Eastern Europe. Unfortunately for the politicians who have promoted policies that have led to increasing mobility and income gains, the results presented in these chapters suggest that perceptions of mobility and income gains are likely to be more pessimistic than actual changes.

RURAL POVERTY IN LATIN AMERICA

In *Rural Poverty in Latin America*, editors Ramón López and Alberto Valdés point out that while poverty is much more widespread and deeper in rural areas, almost all available empirical studies of poverty focus on the urban sector. The studies in this book, financed by grants from the World Bank, are designed to fill this gap in the literature. The book includes two types of studies: thematic studies and case studies of six Latin American countries. The thematic chapters examine women and indigenous groups (Roberto Korzeniewicz), land markets and land reform (Michael Carter and Eduardo Zegarra), labor markets (Alejandra Cox Edwards), rural non-agricultural employment (Peter Lanjouw), credit markets (Rodrigo Chaves and Susana Sánchez) and natural resource degradation (Edward Barbier). The case studies (of Chile, Colombia, Honduras, Paraguay, El Salvador and Peru) provide a wealth of new information based on original surveys conducted for this project. These rural household surveys include data on demographic characteristics, farm production, household income, and expenditures. A clear effort was made to maintain strict comparability in conducting and analyzing these surveys. An indication of this effort to maintain comparability is that one of the editors, López, is the sole author or a co-author on all six country studies. This strict comparability across countries is a significant contribution of the case studies presented in this book. In most other cross-country comparisons in the literature, researchers are forced to use household surveys conducted separately in different countries, often with different sample designs, definitions of variables, and other non-comparabilities.

As with the other books reviewed here, an important focus of the case study chapters is an empirical analysis of the characteristics of the poor and the determinants of income among the poor. To address the heterogeneity of rural employment and income generation, the case studies examine separately the process of income determination among three groups likely to be vulnerable to poverty: small and medium farmers, landless farm workers, and rural non-farm workers. Each country study presents the characteristics of each group, a quantitative analysis of the determinants of farm output (through estimates of a Cobb-Douglas production function) and an estimation of a household income function.

The evidence presented in the country studies leads the editors to conclude that the poor are poor because they have few assets, and the productivity (and hence returns) of the few assets that the poor have is low. For example, not only do poor farmers work farms too small to bring in enough income necessary to escape poverty, but small farmers often lack clear title to the land they work (the "quality" of this asset is low) and therefore cannot use this land as collateral for loans to make capital improvements. Another asset the poor lack is education. Further, the rural poor not only generally have low levels of education, but what education they have is of low quality. The country studies present evidence that education contributes very little to farm output, and that while returns to education are higher in rural non-farm employment than on the farm, they are still smaller than returns to education in urban areas. However, this does not mean that rural children cannot benefit from education. Rather, "perhaps the main impact of education among rural people is to facilitate their migration to urban areas where they can obtain higher yields to their human capital investments" (6). Indeed, the country studies find that there is substantial migration from rural areas, and that "one or more household members typically migrate during part or all of the year to earn income as wage laborers" (3). The editors argue that the process of economic development inevitably brings about an increasing concentration of economic activities (particularly manufacturing and services) in urban areas. An implication of this is that one key to lowering rural poverty is permanent or temporary migration to urban areas, and "fast growth in the non-rural economy can go a long way to reducing rural poverty" (3). Alejandra Cox Edwards, in a thematic chapter focusing on labor markets, notes that rural-urban employment mobility is substantial in Latin America, and that in part because of this, "rural workers are not confined to working in agriculture-related jobs, or as own-farm operators, but in fact face a diverse set of employment opportunities" (86). Furthermore, because the share of the population in rural areas is smaller in Latin America than in other developing countries, the editors argue that even a large number of rural workers migrating to urban areas in Latin America will have a minimal effect on unemployment and wages in urban areas, and therefore substantial rural-urban migration is not likely to increase poverty in urban areas.

López and Valdés identify rural non-farm employment as another of the diverse employment opportunities available to the rural population, as an important source of rural income for rural families, and as an important focus for policies to alleviate rural poverty. The country studies present evidence that even farm families supplement farm income with earnings from non-farm employment. Lanjouw's thematic chapter focuses on rural non-farm employment. His analysis is based largely on recent household survey data from El Salvador and Ecuador, and he argues that rural non-farm employment is strongly associated with a reduction in poverty; richer households receive a larger share of income from non-agricultural employment and households with more non-farm income are less likely to be poor. Lanjouw identifies the co-existence of two types of non-agricultural employment. The first is low-productivity and low-wage employment that is generally small-scale, often home-based subcontracting in areas such as textile and garment production, construction, or domestic service. The second is employment in higher productivity activities not dependent on agriculture—generally employment in services, teaching or administration in large private firms or for the government. Lanjouw argues that governments should do more to expand access to these high-productivity jobs in rural areas. López and Valdés also make the argument that more needs to be done to expand non-agricultural employment in rural areas, writing that "while so many public resources are devoted to agriculture, it is a paradox that so little is allocated to the development of the rural non-farm subsector for research, extension, technical assistance and training" (17). How can the rural non-farm subsector be expanded? López and Valdés note that "roads, schools, communications and electricity are the keys" to make rural areas more attractive for the creation of rural non-farm employment (18). Access to education, roads, telephones and electricity are strongly correlated with higher non-agricultural incomes. Governments clearly play a role in providing this infrastructure. Governments can also contribute directly to the creation of high-productivity rural employment by locating public sector jobs that provide rural services in rural areas.

The poor remaining in rural areas are often those less able to migrate because of low skills, old age, or ethnic characteristics (particularly language barriers). In a thematic chapter focusing on women and indigenous groups, Roberto Korzeniewicz notes that poverty among indigenous peoples is "pervasive and severe" (58). Korzeniewicz reports that poverty rates among the indigenous population are 87 percent in Guatemala and 83 percent in Peru. In addition, indigenous peoples more often lack the assets that would make them less vulnerable to poverty. For example, education levels are lower and illiteracy rates higher among indigenous peoples than among non-indigenous peoples. In this chapter, illiteracy rates of 79 percent and 70 percent are reported for indigenous peoples in Guatemala and Paraguay, respectively (compared to 40 percent and 13 percent for non-indigenous peoples in these two countries, respectively). Thus, indigenous peoples in general are not well situated to take advantage of any new opportunities offered by the reformed, market-oriented economies of 1990s Latin America. Indigenous peoples also often lack legal title to their land, and they generally live in isolated regions not well served by the education system nor by transportation, electricity, telephone, water, sanitation and other infrastructure. This geographic isolation of the indigenous community is highlighted in the Peru country study as an important source of vulnerability to poverty. The authors of this country study (López and Carla della Maggiora) present evidence that this isolation may be more important than direct discrimination against indigenous peoples in keeping the incomes of indigenous peoples low.

They report that "indigenous households located in non-indigenous villages do just as well as non-indigenous households. Moreover, the effectiveness of education in promoting income growth among indigenous households is not less than its effectiveness among non-indigenous households" (304).

The editors and contributors to *Rural Poverty in Latin America* are pessimistic that land reform aimed at redistributing land from large to small farmers can have a significant effect on the incomes of the poor. This reflects the findings from the country studies that the contribution of land to the per capita household income of farmers is small. "Overall, our analysis suggests that to have a sizable impact on rural poverty, a massive land redistribution would be necessary. For example, in El Salvador, raising the poorest farmers out of extreme poverty would require expanding farm size from 2 hectares to 5 hectares, and up to 12.6 hectares to surpass the poverty line" (29). Micheal Carter and Eduardo Zegarra focus on the theme of land markets and poverty. They suggest that two more effective ways of improving the incomes of small farmers are the removal of tax preferences given to large landholders and programs that promote land tenure security by providing small farmers with legal title to their land. Among other benefits, the latter will allow small farmers to use their land as collateral and thus improve access to credit markets. Where land redistribution is desirable, the authors argue that land redistribution programs based on expropriation have been largely unsuccessful and they suggest "market-assisted" land reform, such as those in South Africa and Colombia, that provide grants to small farmers and the landless to assist them in buying land. To be successful, the authors of this chapter also argue, land reforms must be augmented by small-farm competitiveness policies. They suggest that small farmers fare better when conditions favor crops that require little long-term investment in capital and are intensive in high-quality labor. They mention the case of export vegetable production in Guatemala as a success. Small farms fare less well when conditions favor crops that require a large initial investment and a long time to capture returns (as with many long-lived tree crops).

POBREZA, DESIGUALDAD Y POLÍTICA SOCIAL EN AMÉRICA LATINA

Pobreza, desigualdad y política social en América Latina, edited by Dionisio Borda and Fernando Masi, contains papers presented at a 2000 conference in Paraguay organized by the Centro de Análisis y Difusión de Economía Paraguaya and is directed primarily to a Paraguayan audience. The book begins with four chapters by international experts Samuel Morley, Enrique Ganuza, Lance Taylor, Rubén Kaztman and Rolando Franco. These chapters summarize work that has also been published elsewhere. After the first four chapters, *Pobreza, desigualdad y política social en América Latina* contains sixteen chapters written by Paraguayan authors focusing on Paraguay. Paraguay has one of the most unequal distributions of income and land in Latin America (a study by Luis Galeano reports a Gini coefficient for income of 0.59), and poverty has been increasing. Part 2 of the book (five chapters) examines poverty among rural areas, urban areas, by gender, among indigenous peoples and among children. Part 3 (four chapters) presents data on inequality and poverty in Paraguay and examines some of the determining factors. Part 4 (four chapters) looks at public spending policies in education, health, housing and other social services. The final section (three chapters) summarizes recent structural adjustment reforms, and discusses the appropriate policies and the role of political institutions in future reforms.

CONCLUSION

One purpose of the books reviewed in this essay is to contribute to the design of policies to reduce both chronic poverty and the vulnerability to poverty of the nearly poor and middle-income populations. In this review I have summarized some, but by no means all, of the policy recommendations made in these books. The space is not available to discuss all of the policy recommendations with the detail they deserve. However, in concluding this review I want to highlight some policy recommendations around which there is almost universal consensus among the contributors to these five books.

The most important policy recommendation mentioned in each book is to improve access to, and the quality of, primary and secondary education (and, some would add, especially in rural areas). The authors provide a vast amount of empirical evidence, which indicates that education is the most important measurable determinant of income; its acquisition and distribution can explain the incidence of poverty, inequality in the distribution of income, and the chances for upward income and social mobility. Even in rural areas, where the return to education on farms is low, education contributes to poverty reduction by improving the opportunities for rural-urban migration and obtaining high-productivity rural non-farm employment. Education not only increases earnings, it increases the probability that a person will find work. Furthermore, the education of parents is an important determinant of the educational attainment of the next generation. There is also evidence that education and other factors of production are complementary; some authors report that returns to capital and land are higher for those with more education. In Latin America, where primary school enrollment rates are high, the focus has been on increasing graduation rates in secondary schools in order for individuals to have the critical amount of education to be able to get and stay out of poverty.[9] However, reducing dropout rates in secondary schools, especially in countries with large rural populations, can be very difficult. Increasing public spending on education in rural areas may not be enough because returns to education in rural areas are low, lack of good roads can make transportation costs to secondary school prohibitively high, and secondary school-age children are valuable as workers on the farm. One criticism that can be made of the books reviewed in this essay is that while all call for increasing access to high-quality education, none provide much practical advice to policy makers for achieving this.

A second policy recommendation with broad agreement in all of the books reviewed here is the need to improve the poor's access to financial markets. High transaction costs of borrowing from formal financial institutions and a lack of collateral are important factors limiting the ability of the poor to borrow to finance capital investments, land purchases and education. In the absence of access to formal credit markets, investment can be financed through savings. Several authors suggest promoting community-based micro-lending institutions or small-scale institutions that provide the poor with a low transaction cost way to save.

Finally, while there is broad agreement that poverty reduction policies must protect vulnerable low- and middle-income families from falling into poverty, all also agree that safety nets and programs targeted to the currently poor must be maintained. Some such programs were identified as being particularly valuable because they both target the poor and promote the accumulation of assets. In these programs, targeted cash transfers are conditioned on recipients attending school or training programs. These programs included PROGRESA in Mexico, Bolsa Escola in Brazil and Chile Joven in Chile.

9. The *Social Panorama of Latin America: 1999–2000* reports that a minimum of ten years of education is necessary to pull a person out of poverty.