

The Politics of Poverty in Latin America

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Poverty has long been recognized as one of the most serious and lasting problems facing Latin America. The most recent data from the United Nations' Economic Commission on Latin America and the Caribbean (ECLAC) show that the average poverty rate, as measured by the World Bank's two dollar per day criterion, was 29% of households and the extreme poverty rate, as measured by the Bank's one dollar per day criterion, was 11% of households.¹ Despite this generally high level of poverty within the region, there is significant variation between states. In the late 1990s, the share of Latin American households living in poverty varied from a low of 4 percent in Uruguay to a high of 80 percent in Nicaragua (see Table 1). These differences are not exclusive to income-based poverty, but also exist for indicators of basic-needs poverty. In this vein, ECLAC (2003: 85) estimates that about 29 percent of the Nicaraguan population was undernourished in the late 1990s, while only about two percent of Argentines suffered from the same nutrition problem. In short, variation in the prevalence and intensity of poverty in Latin America is striking and points to an important puzzle: why do countries exhibit such stark differences in their ability to protect citizens from falling into poverty? Put differently, why, despite the similar constraints imposed by globalization, unstable political regimes, and late industrialization, do countries in the region vary in their ability to reduce poverty? This paper seeks to find an answer to this question, paying special attention to the issue of how politics shape a state's ability to reduce poverty.

[Table 1]

Our focus on the role of parties, political regime type, and state-provided social policy stands in contrast to the recent trend in research on the political economy of Latin American poverty, which has placed increasing emphasis on the importance of economic factors. Indeed, since the consolidation of the neoliberal Washington Consensus, economists and policy-makers have stressed that Latin America's high poverty levels are largely the result of sub optimal economic growth (Leipziger 2001). While this discourse took root in the wake of the 1982 debt crisis, it has been consolidated by national and international technocrats, who contend that Latin America's poor economic performance results from decades of "inefficient" economic policy in the form of trade barriers, exchange rate controls, and a large public sector. In this vein, proponents of the Washington Consensus have encouraged Latin American governments to liberalize their markets with the aim of boosting economic growth. This growth in GDP was expected to have automatic spill-over effects, such as increased employment and poverty reduction. In essence, technocrats suggested that with the proper reforms, countries in the region could "grow" themselves out of poverty. In this way, the Washington Consensus painted a picture of Latin American poverty in which politics was of marginal importance, and as such, the policy prescriptions paid little attention to political factors that mediate both the effects of growth on poverty and the effects of economic liberalization on winners and losers.

¹ Figures downloaded on April 5, 2005 from <http://www.eclac.cl/badeinso/Badeinso.asp>

We contend that this neglect of political differences between countries is shortsighted; that differences in political regime type and partisan ideology have a profound effect on cross-national variation in Latin American poverty.² Indeed, while stable and positive economic performance is important for reducing poverty, we hypothesize that it is not sufficient. Rather, we expect that politics, in particular the distribution of partisan power, political regime type, and the structure of the welfare state (whether it invests in human capital) will matter a great deal in determining poverty levels.³

This paper tests our hypotheses about the political determinants of poverty against economic and socio-demographic variables using an unbalanced pooled time series design. The study seeks to fill a hole in the comparative political research on Latin America, which has produced very little consensus about the role of politics in determining poverty levels. The analysis confirms our expectations that politics have a significant and sizable effect on poverty levels in the region. In particular, political regime type, the partisan balance in the legislature, and the average level of education are crucial in determining cross-national variation in poverty. In the next section of the paper we discuss competing theories of the determinants of poverty and spell out our hypotheses. We then provide a description of the data and the estimation technique. In the fourth section we discuss the findings and conclude with suggestions for future research.

II. Poverty in Latin America: Previous Findings and Hypotheses

Economic and Structural Variables

Economic development has often been noted as an important determinant of cross-national differences in poverty. By economic development we mean the process by which countries transition from agriculture-based to industrialized societies and then to post-industrial services based economies. The process of industrialization has a number of positive side effects that translate into lower levels of poverty. First, the most straightforward effect of development on poverty comes by means of increasing income levels. As countries industrialize and labor productivity grows, gross domestic product (GDP) expands and wages increase. Higher wages and growth in GDP improve citizens' living standards, thus lifting some families out of poverty. Further, GDP growth is expected to bring an expansion in the number of jobs, thereby providing more individuals with access to income. In this vein, most studies of Latin American poverty find that per capita GDP has a negative effect on poverty (Psacharopoulos et. al. 1997, Morley 1995, Raczynski 1995, Wodon et al. 2001).⁴

² For examples of studies that analyze the effect of macro-economic variables, labor market conditions, and social structural factors on Latin American poverty levels, see: World Bank 1990, Morley 1995, Psacharopoulos et. al. 1997, Londoño and Székely 1997, Lustig and McLeod 1997, Wodon et. al. 2001.

³ For studies that analyze the effect of social policy design on poverty levels, see: Morley 1995, Raczynski 1995, Wodon et al. 2001, Morán et al. 2003.

⁴ It should be noted that none of the cited authors argues that growth on its own will result in lower levels of poverty. Indeed, many of these studies stress the constraining effect that income inequality has on the ability of growth to reduce poverty levels.

Leipziger (2001) takes this claim further, arguing that Latin America's sluggish GDP growth is the primary cause of the region's high levels of poverty. For these reasons, we too hypothesize that per capita GDP will have a negative effect on poverty levels.

While per capita GDP captures one aspect of economic development, other factors related to industrialization also contribute to a reduction in poverty. As mentioned previously, industrialization entails a movement from agricultural to industrial and service employment, which results in higher wages. Additionally, growth in industrial and service employment generates a demand for new and more specialized skills. In response to this demand, and because children are no longer required to stay at home to work in agriculture, industrialization also coincides with an expansion of national education programs. Thus, in addition to national income, economic development brings higher levels of education and higher levels of industrial employment. We maintain that both of these factors will explain some variation in poverty levels across Latin America.

Numerous studies of Latin American poverty support the assertion that education, as measured by literacy rates and the average years of schooling, is a powerful predictor of poverty (Wodon et al. 2001, Morán 2004, Morán et al. 2004, De Ferranti et al. 2004, Denes 2003, Lustig and McCleod 1997, Amarante 2002). Education increases citizens' ability to escape poverty by upgrading their basic skills, thereby improving an individual's earning potential (Wodon et al. 2001). Recent research on the inter-generational nature of Latin American poverty has found another connection between education levels and the prevalence of poverty. Morán et al. (2003) and Denes (2003) note that children from families with low levels of education are less likely to escape poverty as adults than are children with higher-educated parents. In short, there is significant evidence that suggests that education provides individuals with the opportunity to upgrade human capital, thus decreasing the possibility that they will live in poverty. We, therefore, hypothesize that the average years of education will have a negative effect on poverty levels.

In addition to boosting national income and expanding education levels, economic development may have a negative effect on poverty by increasing the availability of industrial employment and thus of jobs with higher average wages than agriculture or services. In Latin America, however, the level of industrialization never matched that of advanced capitalist economies, and data on industrial employment in the region suggest that the number of workers employed in industry began to decline in the 1970s, provoking an increase in unemployment. Unemployment everywhere is a high risk factor for people falling into poverty. One consequence of this growth in unemployment and the shrinkage of the industrial sector in Latin America was a dramatic increase in the size of the informal labor market. Alejandro Portes and Kelly Hoffman (2003) estimate that in 1998 approximately 47.8 percent of the region's economically active population worked in the informal sector. Informal sector workers pay no taxes, but also do not have access to employment-based benefits. Additionally, these laborers often earn lower wages than formal sector employees. In this vein, Verónica Amarante (2002) finds that informal sector employment is an important

predictor of poverty. For all of these reasons, we expect the size of the informal sector to positively (in statistical terms) affect cross-national variation in poverty levels.

In addition to growth in the size of the informal sector, another recent change in Latin American labor markets, namely the increased entry of women into the marketplace, may also influence cross-national differences in poverty. We hypothesize that female labor force participation will have a negative effect on poverty by providing households with a second income source. Moreover, women's increased entry into the labor market provides an income base for single mother households, which are at a high risk of living in poverty.

Research on Latin American political economy has found evidence that other factors, beyond those related to industrialization and development, contribute to cross-national differences in poverty levels. Numerous studies of Latin American poverty suggest that the region's high levels of income inequality, large sums of external debt, volatile exchange rates, and adoption of macroeconomic structural reforms are also important predictors of poverty.

One of the most well known characteristics of many Latin American economies is the high level of income inequality. Indeed, according to a recent World Bank study, Latin America is the most unequal region in the world (De Ferranti et al. 2004). The magnitude of the region's inequality is, in fact, so high that several authors have argued it contributes to an "excess" of poverty (De Janvry and Sadoulet 1995, Londoño and Székely 1997, Berry 1997, Székely 2001). In this vein, Londoño and Székely (1997: 21) estimate that the number of Latin Americans living in poverty would be reduced to a mere three percent if the distribution of income in the region were similar to that of Eastern Europe or South Asia. The authors maintain that while some progress was made toward reducing poverty in Latin America during the 1990s, the prospects for improvement are limited by the nature of income distribution. This is because the region's unequal distribution of income makes it "difficult to translate economic growth into welfare improvements for the whole population" (Londoño and Székely 1997: 34). We agree that high levels of income inequality are likely to limit a country's ability to reduce poverty and hypothesize that inequality will be positively related to poverty levels.

Another characteristic of Latin America's political economy that likely influences poverty levels is the role of borrowing and external debt. The region's debt crisis came to a head in 1983, when after interest rates were increased in lending countries, numerous states defaulted on what had become an unmanageable debt burden. Despite the passing of more than two decades, debt continues to drain the resources of many countries in the region. Some studies have found evidence that the debt crisis contributed to rapid increases in poverty levels during the 1980s (Morley 1995). Since, in most countries, the debt crisis was immediately followed by a period of stabilization and structural adjustment, Morley (1995) notes that it is difficult to be certain of exactly *how* debt contributes to poverty increases because there is a high level of collinearity between debt, general economic crisis, and participation in stabilization and structural adjustment programs.

There are a number of causal mechanisms that might link debt to poverty levels. First, debt may increase poverty simply by reducing a government's available resources through debt service obligations. Indeed, in instances in which the state owes significant sums of money to foreign lenders, it is likely that other expenditures will be scaled back. Thus, the quality of social services and infrastructure, such as clean water, may suffer in the long run. Second, the presence of high external debt may enhance the political clout enjoyed by International Financial Institutions (IFIs) such as the International Monetary Fund (IMF) and the World Bank. This is because in the wake of threatened or real debt defaults, IFIs provided countries with bailout packages. Debt assistance, however, did not come without a price, as IFIs included conditionality agreements with loans. Such agreements sought to encourage the adoption of economic stabilization measures, such as eliminating fiscal deficits, raising interest rates, and devaluing the currency. These austerity policies generated economic contraction, which contributed to further reductions in employment and increased poverty.

The stabilization packages were later followed by requests for broader structural reforms such as privatization, trade liberalization, loosening limits on financial flows, and opening capital accounts (Haggard and Kaufman 1992). The extent to which IFI-inspired structural reforms were regressive, or poverty-enhancing, is debated by scholars of Latin American political economy. Londoño and Székely (1997) and Lustig (1995) argue that such reforms benefited countries by promoting better "growth" environments. Others, such as Berry (1997) and Stallings and Peres (2000), note that reforms contributed to increases in poverty and inequality.

It is possible, therefore, that the impact of debt on poverty could work through two potential channels: by provoking economic contraction or by increasing the policy influence of IFIs. Unfortunately, a quantitative research design does not allow us to trace the precise causal mechanism that links debt and poverty. Regardless of how the relationship works, we hypothesize that external debt will raise poverty levels. Additionally, we assume that structural adjustment policies, such as those promoted by the IMF and World Bank will have an independent, positive impact on cross-national differences in poverty.

Globalization has also been blamed for increased poverty in Latin America. Critics of globalization contend that as it becomes easier to move production to the lowest-cost country, there is a downward pressure on wages, which places more households at risk of falling into poverty. To test for the effects of globalization, we include a measure of trade openness and of inflows of foreign direct investment. Advocates of globalization, in contrast, contend that increased trade and foreign direct investment will stimulate growth, produce jobs, and reduce poverty. Thus, we adopt a non-directional hypothesis.

One other economic variable that may influence poverty levels in Latin America is the prevalence of inflationary incidents. During the 1980s and '90s numerous countries in the region experienced bouts of high inflation. Inflation is particularly detrimental for low-income households because they consume nearly all of

their earnings and have no means of protecting against the diminishing value of their salary. In this vein, Morley (1995) finds that inflation is an important contributor to growth in poverty and indigence. We expect inflation to have a positive effect on cross-national differences in poverty levels.

Finally, recent studies of Latin American poverty suggest that changes in the demographic structure of countries in the region may influence poverty levels. For example, Gajardo and Milos (2000) find that the decline in Chile's national birth rate had a negative impact on poverty because it reduced the economic strains on families to provide for their children and allowed the state to invest more per pupil (177). Other studies, by contrast, note that there are divergent trends in birth rates among low-income and high-income households. In Uruguay, Kartzman and Filgueira (2001) note that birth rates have decreased among high-income earners, but that the opposite trend has occurred among low-income families. The authors contend that this divergence in birth rates has contributed to higher levels of poverty among children. In light of this contradictory evidence, we control for the effect of the birth rate, but we do not adopt a directional hypothesis regarding its effect on cross-national variation in Latin American poverty levels.

Policy and Politics

Although the effect of politics on poverty levels in Latin America has not been explored in cross-national statistical research, recent small-n studies suggest that politics is important for explaining variation in the region. In this vein, Weyland (1996) finds that fragmentation of the state and problems of bureaucratic politics have slowed attempts to improve social outcomes, such as poverty and inequality in Brazil. He argues that, "while fiscal problems and chronic inflation have clearly hindered redistribution... their effect has been heavily conditioned by political factors" (Weyland 1996: 193). Among other political factors, Weyland maintains that the degree of power dispersion in the state and the weakness of political parties have contributed to the regressive character of Brazilian social policy. Similarly, Huber and Solt (2004) argue that the balance of power between supporters and opponents of neoliberal reforms, and the degree of power concentration in political institutions explains variation in Latin American states' social policy reform paths in the neoliberal era.

For all of these reasons, we argue that politics are important for explaining differences in Latin American poverty levels. In particular, we expect the balance of power between political parties of the left and right to influence cross-national differences in poverty levels. In a study of advanced capitalist democracies, Moller et al. (2003) find that left governments are the most effective at reducing poverty. Most importantly, these governments achieve such reductions using the tax and transfer system. In addition, Moller et al. (2003) note two regulatory mechanisms by which left governments reduce poverty. First, they argue that parties of the left contribute to lower levels of wage inequality. Additionally, the authors note that left parties in advanced industrialized economies improved poverty outcomes by supporting increases in the minimum wage. Growth in the minimum wage improves the living

standards of poor sectors of the population by boosting household income. In Latin America it has been argued that minimum wage policies may have no impact on poverty because a large number of low-income individuals work in the informal sector and thus do not benefit from such legislation (World Bank 1995). Other scholars maintain that increases in the minimum wage may actually contribute to poverty by forcing a contraction of the formal labor market. In contrast to both these assertions, Lustig and McLeod (1997) find that minimum wage growth in Latin America contributes to *lower* levels of poverty.

In addition to wage policy, left-wing parties structure welfare states, both transfers and services, to benefit lower income groups in particular. Specifically, there is evidence that left-wing parties have favored investment in primary and secondary education and effective access to free healthcare for the poor, and this has contributed to lower poverty levels. This emphasis among left parties is evident in both the expansionary phase of Latin American welfare policy and during the contemporary neoliberal era. The policies of Chile's leftist Unidad Popular (UP) offer one example of concrete efforts made by a left party to expand coverage of national health services. Indeed, one of the UP's early reforms sought to provide nutrition services to all pregnant and nursing mothers regardless of their labor market status. The policy was very successful, achieving universal coverage by 1971 (Schkolnik and Salamanca 1997). Between 1971 and 1973 the UP government further extended the nutrition program to cover all school children between 6 and 14 years of age, administering a half liter of milk each day to needy students (Schkolnik and Salamanca 1997). Another example of the pro-poor focus of left parties during the expansionary phase of Latin American social policy development can be observed in the creation of Costa Rica's national healthcare system in the early 1960s. In this instance, the left-leaning PLN party was the crucial actor in generating and approving legislation that universalized access to healthcare.

The emphasis of left-wing parties on universalizing social welfare programs is also evident in the contemporary era. Examples of this include Chile's center-left Concertación governments of the 1990s, which increased social spending particularly for education and health. More recently, Uruguay's left party, the Frente Amplio, created a new social assistance program for informal sector workers so as to bridge the gap in coverage available to this sector. The Brazilian Worker's Party has also demonstrated the commitment of left parties to expanding coverage to underprivileged sectors by increasing the funding for social assistance to families that don't have access to employment-based benefits. In short, although Latin America's left parties were and continue to be quite different from their European counterparts with regard to the strength of programmatic linkages and the character of their base, the parties have consistently demonstrated an interest in structuring the welfare state in a way that benefits the poor. In light of this evidence, we hypothesize that a balance of power that favors the left will have a negative effect on poverty, while the dominance of rightist parties will have a positive effect on variation in poverty levels.

The partisan balance of power is not the only political factor that may affect poverty. Moller et. al (2003) find that overall social spending shapes differences in

poverty levels in advanced industrial democracies. Similarly, research on Latin America suggests that spending patterns and the design of social welfare programs have an impact on poverty (Morán 2003, Morán et. al 2003, Raczynski 1995, Morley 1995). Government welfare efforts to reduce poverty generally fall into two categories: services and transfers. Social services, such as education and healthcare, work to reduce poverty and indigence by improving human capital and creating a more equal distribution of skill levels and life chances. Furthermore, such services are often distributed as rights of citizenship and thus provide better coverage for all sectors of society than transfers.⁵ For the purpose of this paper, we refer to this category of spending as “health and education.” Of course, improvement of human capital requires a record of sustained investment in health and education and will only be effective in reducing poverty over the medium and long run. We, therefore, analyze the cumulative average of spending on these programs.

The second set of policies that states employ to address poverty is the provision of subsidies or transfer payments to needy individuals/households. Often times these benefits are tied to payroll contributions and thus recipients must participate (or have participated in the past) in the formal labor market. For the purpose of this paper, we refer to this type of social spending as “social security and welfare.” Welfare efforts in Latin America have traditionally been transfer-heavy, with the majority of resources allocated to pension spending (Mesa-Lago and Bertranou 1998). As mentioned previously, recent evidence suggests that pension spending and other types of social insurance in Latin America are regressive because only formal sector workers enjoy access to the benefits and because benefits are earnings-related (Huber et al. 2004, De Ferranti et al. 2003). Since just under 50 percent of Latin American workers function in the informal sector, and because wages in the informal sector tend to be lower than those of formal workers, it stands to reason that employment-based transfers will not be an effective mechanism for reducing poverty. In light of this evidence, we hypothesize that the effect of social security and welfare spending on poverty will vary across countries, depending on the size of the informal sector and the composition of spending. By contrast, we expect health and education expenditure to contribute to a reduction in poverty levels.

A final political factor that may influence poverty levels is political regime type. Several studies have found that democracy is good for the poor (Sen 1999, Przeworski et al. 2000). Ross (2005), however, argues that democracies do not exhibit less poverty than authoritarian regimes if one considers non-income poverty and corrects for the sampling bias generated by missing data from authoritarian governments. Despite Ross’ evidence, we contend that democracies offer better protection against poverty than non-democracies in the Latin American region. First, democratic leaders are more responsive to the needs of their population because they can be held accountable for their actions. Second, with the exception of Cuba, which is not included in our analysis, the alternative to democratic regimes in Latin America

⁵ It should be noted that education is the most universally-provided social service in Latin America. Health services are less universalistic, but even in systems where private insurance has been introduced, many states administer some form of public healthcare.

have been authoritarian regimes of the right, not of the left. For these reasons, we hypothesize that democracy will have a negative effect on poverty levels. The effect, however, will be strongest in situations of sustained democratic rule and thus we measure the cumulative value of the variable. Table two summarizes the variables analyzed in this analysis and our expectations about their effect on poverty levels.

[Table 2]

Measures of Independent and Dependent Variables

The dependent variable in this study is the percentage of households living below the international poverty line of two purchasing power parity dollars per day (see Table 2). The data are compiled by ECLAC and are available through the online database (Badesino). We have chosen to use the international measure of poverty because it permits unbiased cross-national comparisons (World Bank 1990, Londoño and Székely 1997, Psacharopoulos et. al. 1997). Due to this feature, the majority of cross-national research on poverty in Latin America has employed the two purchasing power parity dollars per day definition of poverty. By using this measure, therefore, the findings of our analysis can be compared with previous research.

While the uniform poverty line does facilitate cross-national comparison, some scholars have noted that the definition is static and may not consider important differences in consumption patterns and prices between countries (Minujin, Vandemoortele, and Delamonica 2002; Boltvinik no year). Another limitation of the measure is that it assesses only income-related poverty, which does not necessarily correspond to the provision of basic needs. Ross (2005) argues that income-based measures of poverty focus on citizens' access to private goods, which can be misleading because "governments help the poor by providing public goods like better access to health care and schooling, or smoother food prices – all without affecting their income" (7). Due to data limitations, this analysis will only consider income-based poverty. We recognize that this decision may result in imprecise estimates of overall poverty, but we contend that our findings provide an important first step in understanding the relationship between politics and poverty.

This study analyzes the impact of policy (measured as social spending) on poverty outcomes. The measures of social spending as a percentage of GDP are compiled from several sources. The series for social security and welfare spending comes from two IMF volumes. In the Government Finance Statistics Yearbook (GFS) the IMF disaggregates central government spending into combined spending on social security and welfare and into combined spending on health and education.⁶ GDP is reported in the International Financial Statistics Yearbook. Both spending and GDP are reported in current local currency units. The fact that these figures include only outlays by the central government is not a problem for social security and welfare

⁶ Kaufman and Segura (2001) use the same measure and source as one of their specifications of social spending. Health spending includes those health expenditures which are provided as parts of social security and educational programs, such as health care provided as part of old age social security schemes. They use the IMF series for both social security and health and education spending.

expenditures, as these programs in general are uniform across the nation and centrally financed.⁷ Social assistance programs provided by subnational units are not large enough to make a difference. This is confirmed by the fact that the data series from the IMF and our other sources are very highly correlated (.92 to .96).

For health and education expenditures, however, the exclusion of state and local spending is a major problem. Several countries administer health and education programs at sub-national levels; some have done it for a long time, in others trends towards decentralization began in the 1980s or 1990s. To deal with this problem, we compared data series from four different sources: ECLAC (<http://www.ECLAC.cl/badeinso/SistemasDisponibles.asp>), Cominetti (1996), ECLAC's *Social Panorama* (various years), and the IMF sources cited above. The correlations for the IMF and ECLAC series, the only two series with large numbers of observations are .85 for education and .64 for health. The *Social Panorama* series cover state and local spending where it is significant except in Mexico (ECLAC 2004: 179). Comparing the ECLAC series and the *Social Panorama* (available only for years from 1990 on) series, it is apparent that the ECLAC series also cover state and local spending. Thus, we use ECLAC for countries in which state and local spending is significant. For the remaining countries, we use the longer time series when ECLAC and IMF are consistent with each other, which is the case in all but a few countries. In most cases, the ECLAC series is longer. We filled in missing values from the other three series provided they are consistent with the ECLAC or IMF series. In the few cases in which there are discrepancies between ECLAC and IMF (other than those with significant state and local spending as noted above), we chose the series which was most consistent with Cominetti and *Social Panorama*. When the *Social Panorama* and ECLAC series overlapped and appeared similar but not identical we used the *Social Panorama* data because they are more recent and we have more information on exactly what they cover. We would also expect ECLAC to update the *Social Panorama* series. The only case in which we did not use *Social Panorama* data over ECLAC data is Mexico's health spending (1990-2000). *Social Panorama* notes that its series for Mexico does not include local spending and thus systematically underestimates spending (2004: 179). Since the ECLAC series is consistently higher, we opted for the ECLAC series.

For the purpose of this paper, we have operationalized health and education spending as cumulative averages for the period 1970 to the year of observation, while measuring social security and welfare spending on a year-to-year basis. We argue that this operationalization provides a better theoretical model of the impact of social spending on poverty because returns on investments in human capital are most discernable over long time horizons. This is because it takes several years for government spending on education and health to have an impact on poverty since the investments require that children move through the system, upgrading skills and enjoying better healthcare. In addition to the long-term nature of the effect, investment

⁷ Indeed, the bulk of spending in this combined category goes to social security. The IMF sources report the two types of expenditures separately for 179 country years only; in these observations, social security accounts for 83% of the spending.

in health and education will be strongest in countries that maintain spending for long periods of time. In other words, a high level of health and education spending in one year will not be as effective at reducing poverty as moderately high spending over a long period of time. It makes sense, therefore, to analyze the cumulative average of health and education spending rather than considering the impact of one year's spending levels on poverty reduction in the following year. In the case of pensions and other transfer programs, however, the effect of spending is immediate because the policies involve a cash payment to individuals, and as such, it makes theoretical sense to analyze the impact of social security and welfare spending on a yearly (and non-cumulative) basis. The two spending measures are available for 104 of the 113 country years.

Our party codings are an extension of Coppedge's (1997) project that surveyed country experts to classify all political parties that contested elections for the lower house or constituent assemblies in 11 Latin American states. Coppedge's codings date back to 1912 and the classification scheme contains two primary dimensions and additional sub-categories. The first dimension in Coppedge's (1997) coding scheme divides parties along the left-right ideological spectrum. The placement of each party on this cleavage is established by considering the social and economic policy positions of the party. Coppedge (1997) sought to capture the party's ideology and class appeals through an analysis of issue position and the prioritization of growth and redistribution. Coppedge then further divides the left-right spectrum into five sub-categories: left, center-left, center, center-right, and right. The second dimension that Coppedge considers in his coding is the religious-secular divide between parties. Coppedge also includes three non-classifiable categories in his coding scheme: personalist, other, and unknown.

We extend Coppedge's work, adopting the coding scheme to classify all parties that contested lower-house elections for the country-years in their sample (Huber et. al. 2005).⁸ For country-years that overlapped with Coppedge's work, the authors used his codings with one exception. While Coppedge classified the Peronists of Argentina as "other" for all years, Huber et. al (2005) coded the party as secular center-left for the period 1945 to 1973; secular center for the period of 1974 to 1989; and secular center-right from 1990 through the present.⁹

After classifying each party in the sample, Huber et al. (2005) summed the proportion of the seats held by each party category for every country-year in the analysis.¹⁰ For this analysis, we combined the religious and secular parties occupying the same position on the left-right dimension into five categories: Right, center right,

⁸ Unlike Coppedge (1997), Huber and et al. (2005) did not use expert surveys. Instead, two members of our team independently consulted numerous primary and reference materials in order to code each political party. Then, on parties for which there was a disagreement, the entire research team convened to make a final decision.

⁹ To be certain that this recoding did not drive our results we ran all of our models without Argentina and the results hold.

¹⁰ Our procedure of tallying seat shares differs from Coppedge (1997), who tallied vote shares. We make this choice on the grounds that seat shares are more consequential for policy than vote shares.

center, center left, and left.¹¹ For each democratic year, the left-right composition of the lower house was summarized by a scale of the legislative partisan balance of power, calculated according to the following formula:

$$\text{Legislative partisan balance} = 0*r + .5*cr + 1*c + 1.5*cl + 2*l$$

Where r, cr, c, cl, and l are the proportion of seats in the lower house held by right, center right, center, center left, and left parties respectively. For non-democratic years, all categories are scored as zero because parties had no influence during periods of authoritarian rule. To model the impact of partisanship on poverty, we cumulate the lower house legislative partisan balance score. We maintain that this is important because the impact of partisanship on poverty will be strongest in settings where parties enjoyed sustained periods of legislative influence. This fact has been well demonstrated by Huber and Stephens' (2001) study of advanced capitalist welfare states. For these reasons, we argue that partisanship must be measured as a cumulative effect. To measure this, we cumulate the lower house legislative partisan balance score from 1945 to the year of observation for all countries in the sample.

The final political variable included in our models is the cumulative years of democracy. Our measure of democracy is taken from Rueschemeyer, Stephens, and Stephens (1992) coding of Latin American and Caribbean political regimes. The authors code colonies as "0", authoritarian regimes as "1," bureaucratic authoritarian regimes as "2," restricted democracy as "3," and full democracy as "4." We then collapsed these categories into a trichotomous measure of non-democracies (code as 0), restricted democracies (coded as .5), and full democracies (coded as 1) and cumulated each country's score for the years 1945-2001.

Our models also include various socio-structural and economic variables that have been found to be important predictors of poverty in previous studies. We use GDP in per capita purchasing-power-parity dollars as a measure for overall economic development. The variable is taken from the Penn World Tables (Heston et al. 2001). Our measures of inflation, debt, trade, and foreign direct investment are all taken from the World Bank (2003). We also analyze the impact of ethnic diversity on poverty levels. It has been argued that ethnic diversity is linked historically to the dominance of landowners engaged in labor intensive agriculture. These landowners were an obstacle both to industrialization and to democratization, thus helping to perpetuate poverty both directly and indirectly. Finally, we consider the effect of the average years of education on poverty outcomes. This variable is compiled from the Barro and Lee (2000) dataset and provides the average years of total schooling for the full population. Where values were missing, we interpolated and extrapolated observations.

¹¹ Religious parties are much less frequent and influential in Latin America and the Caribbean than in advanced industrial countries. Moreover, they are not as ideologically distinctive as Western European Christian democratic parties. Thus, as expected, we did not get significant results when we separated out the religious dimension.

The models in this paper also include variables that assess changes in the region's labor market structure. The measure of employment in industry is compiled by the International Labor Organization and is the percentage of the workforce in industry. Where observations were missing, we took values from the World Bank (2003) and ECLAC's (various years) *Statistical Yearbook of Latin America and the Caribbean*. All remaining values were then interpolated. Our measure of female labor force participation is also compiled from data available from the World Bank (2003) and ECLAC (various years). Where observations were missing, we interpolated and extrapolated the value.

The data on informal sector employment are compiled from several ILO publications. The observations are primarily taken from the *Panorama Laboral* and include all non-agricultural informal workers. Where values were missing, we interpolated and extrapolated observations.

Our measure of income inequality is the Gini index and is taken from the United Nations' University World Income Inequality Database, WIID (UNU-Wider 2005). WIID was compiled using several national sources. To facilitate comparison, each observation is coded for its quality, area of coverage, income sharing unit, unit of analysis, and its equivalence scale. When selecting observations from the WIID, we eliminated all observations with the lowest quality rating and those with earnings and/or market income as income concept. Further, where WIID provided multiple observations per year, we selected values based on the quality rating. Where observations of the same quality overlapped, we kept the value with the best income definition. If there were still multiple observations per year, our final decision-making rules were: (a) to keep observations in which the individual is the unit of analysis and (b) keep the equivalence scale with adjustment. Finally, if all of these variables were identical, we took the average of the Gini values for the year in question.

Based on our previous analysis of the determinants of income distribution in Latin America and the Caribbean (Huber et al. 2005), we then regressed the WIID Gini data on the variables contained in our best predictive model and four dichotomous indicators for the differences in survey methodology. Three of these indicators, expenditure or consumption based survey, household or individual based survey, and gross income were significant. We used the metric coefficient for these dichotomous indicators to correct the methodological differences in the surveys; adding 11.42 to Ginis calculated from expenditure based surveys, adding 3.6 to Ginis calculated from surveys using household rather than individual, and subtracting 2.7 for Ginis based on gross income.

Estimation Technique

We use an unbalanced panel data set with 113 observations from 18 Latin American countries, including Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, Venezuela. Poverty figures were only available for varying time periods in each country. There are a minimum of two and a maximum of 9 observations per country. The data span the period 1968 to 2000.

A central problem in estimating regression models from panel data is that the assumption of independence of errors across observations is unlikely to be satisfied. As a result OLS produces incorrect standard errors for the regression coefficients (Greene 1993). There are several strategies to deal with correlated errors in panel data. One approach assumes serially correlated errors within each unit (country) obeying a unit specific autoregressive process (which may optionally be constrained to be the same across units). This approach requires what Stimson (1985) calls temporally dominated time-series of cross-sections, i.e., data structures consisting of relatively few units observed over many equally spaced time points (Beck and Katz 1995:635-4; Beck 2001). Since the average number of time points (6) is much smaller than the number of units (19), our data set precludes this approach.

Another approach is to estimate a random effect model (REM) in which the error term contains a unit-specific component that differs across units but is constant over time for a given unit. Such an error structure would arise if unmeasured unit-specific causes, such as systematic measurement differences or other overlooked aspects of the social and cultural makeup of a country, affect the dependent variable in the same way at each point in time over the period of the data. The stable unit specific component implies that observations for the same unit at different time points are all correlated by the same amount, ρ . The REM strategy is feasible with our data; one attractive feature of REM is that it allows estimating the value of ρ . However, REM requires relatively strong assumptions, such as equal correlations among errors within units.

Because it is not substantively essential in this study to measure ρ , we adopt an alternative estimation strategy that addresses the correlation problem while requiring a minimum of assumptions on the behavior of the errors. We combine OLS estimation of the regression coefficients, which provides consistent estimates of the regression coefficients, with the use of a *robust-cluster* estimator of the standard errors. The standard (i.e., non-cluster) Huber-White or "sandwich" robust estimator of the variance matrix of parameter estimates was discovered independently by P. Huber (1967), White (1980) and others (see Long and Ervin 2000 for a detailed description). It provides correct standard errors in the presence of any pattern of heteroskedasticity (i.e., unequal variances of the error terms) but not in the presence of correlated errors (i.e., nonzero off-diagonal elements in the covariance matrix of the errors). The robust-cluster variance estimator is a variant of the Huber-White robust estimator that remains valid (i.e., provides correct coverage) in the presence of *any* pattern of correlations among errors *within* units, including serial correlation and correlation due to unit-specific components (Rogers 1993; see also Sribney 1998; StataCorp 1999: 256-260). Thus, the robust-cluster standard errors are unaffected by the presence of unmeasured stable country-specific factors causing correlation among errors of observations for the same country, or for that matter any other form of within-unit error correlation.

The robust-cluster estimator of the standard errors is only impervious to correlations of errors *within* clusters. It requires errors to be uncorrelated *between* clusters. The latter assumption might be violated if unmeasured factors affect the

dependent variable in all units at the same point in time. Global economic fluctuations, such as the debt crisis period in Latin America in the 1980s, could produce such contemporaneous effects. To evaluate the potential impact of such unmeasured period specific factors we re-estimated the models with indicator variables for the debt crisis (1983-89) and for the 1990s (1990-2000); the baseline category corresponds to 1970-82. We hypothesize that poverty will increase in the debt crisis years and adopt a non-directional hypothesis with regard to the differences between the pre and post debt crisis years. These period dummies were not significant so they were dropped from the analysis. In order to check for robustness, the models were also estimated with panel corrected standard errors (PCSE) and OLS. The results were substantially the same using these alternative techniques. The robust cluster estimates proved to be the most conservative.

A final estimation difficulty is the problem of endogeneity given that poverty has been hypothesized to be a cause of weak democracies (e.g. see Rueschemeyer, Stephens, and Stephens 1992). This problem is partly addressed by the fact that our cumulative measure of democracy is a measure of democratic history and it is not possible for current poverty to cause past political history. Nevertheless, since it is likely that current poverty is correlated to past poverty, we cannot reject the proposition that our coefficients may somewhat overestimate the effect of democracy on poverty. However, given the effect of legislative balance of power, we have support for our theoretical view that democracy does reduce poverty over the medium and long run by making the emergence of parties to the left of center possible.

Strength of democracy and the legislative partisan balance variable were very highly correlated ($r=.92$) and could not be entered into the same regression because of multicollinearity.

As noted above, there were missing data for a number of variables. This made it impossible to enter all of the variables in a single equation. Thus, after forming a baseline, we enter the variables for which we have limited observations one at a time.

Results

The results of our analyses are presented in Table 3. Model 1 is our baseline model and includes all of our economic variables of interest and controls.¹² The subsequent models presented in Table 3 build on our baseline, testing a battery of socio-demographic, political and policy-related variables. Model 2 adds the birth rate to the baseline model. Model 3 adds democracy; model 4 legislative partisan balance; model 5 democracy and social spending; and model 6 income inequality.

Interestingly, per capita GDP does not have a significant impact on poverty levels. The absence of a significant effect of GDP is important, as it suggests that

¹² Due to data limitations, we do not include employment in industry and unemployment in this baseline model. If we include these two measures, we lose 18 observations. Unemployment is not significant but industrial employment is significant in the predicted direction. If we include industrial employment in the other models in Table 3, the results remain the same.

economic development on its own is not sufficient for raising citizens out of poverty. The fact that countries cannot grow their way out of poverty problematizes the current developmental approach of IFIs, such as the IMF and World Bank, which have focused on promoting growth regardless of the social cost. In contrast to this logic, our findings suggest that even optimal growth conditions may not provide a safeguard against poverty if they are not coupled with protective social policies. Indeed, in a test of the impact of per capita GDP on poverty that excludes the variable “average years of education,” GDP falls just short of significance and carries the correct sign (see model 1 in Table 1 of appendix). This suggests that the level of economic development is important for determining national differences in poverty, but only to the extent that higher levels of GDP are translated into greater endowments of human capital. In other words, GDP growth is only an effective tool for improving the lives of the poor if it is accompanied by policies to ensure the expansion of education.

These results underscore the immense importance of education levels for protecting citizens from poverty. Indeed, one of the most robust findings presented in table 3 is that the population’s average years of education has a depressing effect on poverty levels. The coefficient is highly significant in all models and has a sizable effect, with a one standard deviation increase in education resulting in an 11.6 percent decrease in poverty.¹³ This finding supports the argument that improvements in human capital are essential for reducing poverty.

Models 3-7 test for the effect of political variables while controlling for the baseline economic and socio-demographic predictors. The results of the combined analyses confirm our expectation that politics are crucial for determining cross-national variation in Latin American poverty. In particular, regime type and the balance of power between parties of the left, center, and right are significant determinants of poverty levels. Much to our surprise, social spending was insignificant in predicting poverty levels. The absence of a significant effect of social spending, however, should not be interpreted to mean that social programs do not matter. Indeed, the strong and significant effect of average years of education on poverty levels reveals that investment in human capital is vital for reducing poverty. In fact, if years of education are dropped from model 5, education and health spending becomes significant, thus indicating that education spending does influence poverty but only to the extent that it actually raises the average level of education. This result is presented in Table 1 of the appendix.

As demonstrated in model 4, the cumulative measure of left-right legislative partisan balance is a significant predictor of lower poverty levels in Latin America. In addition to its significance, the magnitude of the effect of the partisan power balance is notable. Indeed, a one standard deviation increase in legislative partisan balance produces a 4.9 percentage point reduction in poverty.¹⁴ The significant effect of the relative strength of parties of the right, center and left is a particularly interesting finding for Latin America, where parties are often noted for their weak and

¹³ This is calculated using the coefficient in model 1.

¹⁴ This is calculated using the coefficient in model 4.

personalistic organization style.¹⁵ In this vein, it is often assumed that the prevalence of clientelistic exchanges between politicians and voters in Latin America has undermined the ability of leaders to engage in programmatic politics. Evidence presented here, however, suggests that there are important differences between Latin American parties of the left, center and right. The evidence further suggests that, despite pressures to conform to the neoliberal economic model, left parties continue to exhibit differences from their rightist counterparts with regard to the character of social policy formation.

Regime type is also an important determinant of poverty, suggesting that contrary to Ross' findings, democracy is good for the poor.¹⁶ A one standard deviation increase in the cumulative years of democracy results in a 4.9 percent reduction in poverty.¹⁷ The importance of regime type for predicting poverty levels may provide some insight into the high levels of poverty that exist in Latin America as compared to advanced industrial democracies. The result also provides optimism for political observers of Latin America, suggesting that as democracy deepens throughout the region, poverty levels should also decline.

Interestingly, while ethnic diversity was a positive and significant predictor of poverty when included in the baseline model, the variable loses significance when regime type and legislative partisan balance are added. This suggests that we are dealing with an indirect effect, in so far as ethnic diversity historically has made the establishment of democracy and thus the growth of left-wing parties more difficult.

Finally, the results of Model 6 reveal that income inequality does have a significant and positive effect on poverty levels. The result holds even when outlier values of the Gini index are dropped from the models. The impact of income inequality is not, however, significant when tested against cumulative years of democracy or legislative partisan balance. This fact suggests that the effect of democracy and left party government on poverty works in part by means of its influence on distribution. This fact confirms our initial expectation that Latin American poverty is closely tied to distributional problems and thus must be addressed not only through improved economic growth, but also through state policies to improve distribution. Since democracies and left parties have historically structured welfare programs to favor re-distribution, it is no surprise that the two variables prove to be significant and negative determinants of cross-national differences in poverty levels across Latin America.

¹⁵ This finding holds with an alternative measure of party influence; cumulative left and center left party strength and cumulative center party strength. In a regression substituting these two variables for the legislative partisan balance variable, both center party and left-center left party were negative and significant, as predicted. The finding also holds if we cumulate the legislative partisan balance variable for shorter periods of time. We tested for the effect of the variable when cumulated in five, ten, and fifteen year periods and the variable was consistently a significant and negative predictor of poverty levels.

¹⁶ We tested for the effect of democracy when cumulated in five, ten, and fifteen year periods and the variable was consistently a significant and negative predictor of poverty levels.

¹⁷ This is calculated using the coefficient in model 3.

Results from the initial baseline model confirm our expectations about the impact of informal sector employment and debt burden. The size of the informal sector had a positive and significant effect on poverty in all but one of the models. Interestingly, the model in which the informal sector was not significant contained the Gini coefficient. The lacking significance of informal sector employment when tested against income inequality suggests that the informal sector contributes to poverty by increasing inequality. Also in line with our expectations, the national debt burden was a significant and positive predictor of poverty levels.¹⁸

[Table 3]

Conclusion

This study sheds new light on the issue of cross-national variation in poverty in Latin America. The findings underscore the significant impact of partisan power and regime type in shaping differences in poverty levels. The analysis also points to the importance of education for lifting citizens out of poverty. These results have important implications for both politicians and scholars of Latin American political economy. First, with respect to policy-makers, our study suggests that politicians and IFI technocrats must be wary of social policy reforms that might sacrifice citizens' access to education. Indeed, one of the primary means of reducing poverty involves increasing the level of education among the population. Thus, cut-backs in these programs could have disastrous effects for the well-being of the region. The findings also highlight the need to reform the delivery of transfer programs in Latin America so as to improve access for the poor. As they are now structured, transfer programs are not allocated in a way to reduce poverty effectively. Additionally, this study reveals that solutions to the poverty problem that focus exclusively on creating a "pro-growth" environment will not be successful. Evidence presented here indicates that countries cannot simply "grow themselves out of poverty." Rather, these findings suggest that countries must, at least in part, "re-distribute" themselves out of poverty. Thus, policy-makers interested in reducing poverty cannot lose track of the importance of re-distributive social policy while striving to increase economic growth.

The need for a dual (human capital/pro-growth) approach is particularly important in Latin America, where the "Washington Consensus" encouraged countries to cut back social spending in the name of generating "pro-growth" conditions (Williamson 2000). Indeed, the so-called "second generation reforms," which focus on social policy provisions, came about only after the social costs of economic stabilization and structural adjustment had become evident in the region. This study reveals that Latin America would have benefited from policies that pursued social protection in conjunction with pro-growth macroeconomic policy. The results of our analysis also have implications for scholars of Latin American political economy. First and foremost, the analysis underscores the need to "bring politics back in" to research

¹⁸ We also tested for the effect of market liberalizing reforms and found that they are positively related to the level of poverty. The Morley index is significant even when tested against regime type and legislative partisan balance. However, we lose about half of our observations and thus do not present the results.

on the region's poverty problem. It is telling that despite Latin America's infamously weak party systems and an abundance of personalistic leaders, these models demonstrate that politics and parties continue to matter a great deal. The importance of politics is clear, as the introduction of these variables boosts the amount of explained variance from .63 to .69; a notable improvement. Specifically, the legislative partisan balance in the political system over the long run has a substantial effect on the level of poverty, as does the history of democratic governance. This is not the first research on Latin American political economy that finds politics to be important. Weyland (1996), Murillo (2002), and Huber, Mustillo, and Stephens (2004) all present evidence in support of systematic political effects in economic and social policy-making. Theories of Latin American political economy must not, therefore, discount the importance of parties and regime type in promoting or inhibiting equitable social outcomes.

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Table 1: Poverty Rates in Latin America and the Caribbean
Late 1990s to 2001

Argentina	17
Bolivia	34
Brazil	24
Chile	10
Colombia	23
Costa Rica	9
Dominican Republic	12
Ecuador	41
El Salvador	58
Guatemala	38
Honduras	44
Jamaica	13
Mexico	26
Nicaragua	80
Panama	18
Paraguay	30
Peru	38
Uruguay	4
Venezuela	31
Unweighted mean	29

Cell entries are the percentage of households that live

Table 2. Variable Descriptions, Data Sources and Hypothesized Effects for the Analyses of Poverty Levels in Latin America

Variable	Description	Hypothesized impact:
Dependent Variables		
Poverty	Percentage of households that live below the \$2 per day poverty line. ^a	
Independent Variables		
<i>Economic, Socio-Demographic, and Structural factors</i>		
GDP (per capita)	Per capita GDP in thousands of 1995 purchasing power parity dollars. ^b	-
Inflation	Annual inflation in consumer prices (percent). ^b	+
Informal Sector	Percentage of workers classified as informal of non-agricultural labor force. ^d	+
Debt	External debt as a percentage of GDP. ^b	+
Female Labor Force Participation	Percentage of working-aged women who participate in the formal labor force. ^{a, b}	-
Trade	Total exports and imports as a percent of GDP. ^b	+/-
Foreign Direct Investment Inflows	Net inflows of foreign direct investment as a percent of gross capital formation. ^b	+/-
Birth Rate	The number of births occurring during the year, per 1,000 population. ^b	+/-
Gini	Estimated Gini index. ^e	+
Ethnic Diversity	The share of the population that is indigenous. ^g	+
<i>Politics & Policies</i>		
Years of Education	Average years of total education. ^c	-
Health & Education Spending	Health and education spending as a percent of GDP. Value is the cumulative average of spending on these programs. ^f	-
Social Security & Welfare Spending	Social security and welfare spending as a percent of GDP. ^f	+/-
Democracy	Cumulative years of democracy from 1945 to the year of the observation. ^f	-
Legislative Partisan Balance	Cumulative index of ideological center of gravity in the lower house from 1945 to the year of the observation (see text). ^f	-

Sources: ^aUnited Nations Economic Commission on Latin America and the Caribbean (CEPAL) (various years); ^bWorld Bank (2003); ^cBarro & Lee (2000); ^dInternational Labour Organization (various years); ^eUN Wider Inequality Dataset (2005) [estimates made by authors]; ^fHuber et al. (2005); ^gDe Ferranti et al.

Table 3: Determinants of Poverty (Coefficients from OLS Regressions with Robust-Cluster Standard Errors)

	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>	<i>Model 6</i>
<i>Economic, Socio-demographic & Structural Factors</i>						
GDP per capita	1.631	2.574	2.011	1.801	2.388	1.569
Inflation	-.002 ^	-.002 ^	-.002 ^	-.002 ^	-.002	-.002 ^
Informal Sector	.543 **	.672 *	.467 ***	.477 **	.490 *	.290
Debt (% GDP)	.082 ***	.106	.072 ***	.077 ***	.059 ***	.066 ***
Female LF participation	-.480	-.376	-.260	-.129	-.175	-.014
Trade	.055	.050	.074	.075	.065	.062
FDI inflows	.109	-.029	.166 *	.162 *	.137	.006
Ethnic Diversity	.178 *	.165	.142	.125	.145	.170 *
Birth Rate		.491				
Gini						.778 **
<i>Politics & Policy</i>						
Years of Education	-8.354 ***	-8.389 **	-8.180 ***	-8.143 ***	-9.150 ***	-7.879 ***
Democracy			-.396 ***		-.449 ***	
Legislative Partisan Balance				-.356 **		
Health & Education					.871	
Social Security & Welfare					.007	
Constant	39.734 **	14.458	38.285 **	35.210 *	35.702 *	-5.759
R ²	.63	.63	.69	.69	.68	.61
N	104	59	104	104	98	80

*** p<.001, ** p<.01, * p<.05, ^ = significant in opposite direction of hypothesis. One-tailed test except trade and fdi inflows

Appendix Table 1: Determinants of Poverty (Coefficients from OLS Regressions with Robust-Cluster Standard Errors)

	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>
<i>Economic, Socio-demographic, & Structural Factors</i>			
GDP per capita	2.567	2.595	2.421
Inflation	-0.003	-0.001	-0.001
Years of Education		-9.046 ***	-8.532 ***
Informal Sector	0.057	0.299 *	0.279
Debt (% GDP)	0.075 ***	0.062 ***	0.068 ***
Female LF participation	0.198	0.293	0.353
Trade	0.004	0.105	0.091
FDI inflows	0.019	0.19	0.188
Gini		-0.171	0.012
Ethnic Diversity	0.037	0.155 **	0.131 *
<i>Politics & Policy</i>			
Democracy		-0.508 **	
Legislative Partisan Balance			-0.411 *
Health & Education	-2.485 *		
Social Security & Welfare	-0.669		
Constant	43.132	36.499	25.081
R ²	0.47	0.68	0.68
N	98	80	80

*** p<.001, ** p<.01, * p<.05, ^ = significant in opposite direction of hypothesis. One-tailed test except trade and fdi inflows

