

Outsiders? Social Exclusion in Latin America



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Social exclusion is not new in Latin America—but it has changed notably. The faces of the excluded are not always easily recognizable anymore. They may be the same color or age as others who crowd the streets of the region's capitals, but they live very different lives. They are not outsiders per se; but they do not function as part of the mainstream either.

Who are the excluded in Latin America and the Caribbean today? Certainly they include members of traditionally stigmatized groups such as blacks, the indigenous and women. But they also include people who have been left on the sidelines as their societies speed along in the race to modern, globalized economies.

Latin America and the Caribbean have undergone immense societal transformations in the past twenty-five years. The renaissance of democracy during the mid-1980s changed both politics and policies in the region and gave rise to fresh expectations about a future of more modern, more prosperous, and fairer societies.

As sweeping as these changes have been, however, they have yielded mixed results. The region is today more prosperous and modern than it was 25 years ago thanks to macroeconomic stability and the combined impact of economic liberalization (a national decision) and globalization (a global phenomenon). The interventionist and centralized states whose fiscal crisis marked the decade of the 1980s have gone through a “silent revolution” that

has transformed beyond recognition the way they relate to the population. On the other hand, poverty and highly skewed distributions of assets (including human capital) and income are an obstacle on the path to fairer societies in the region. Social exclusion, historically rooted in different forms of stigmatization of groups traditionally identified by race, ethnic origin, or

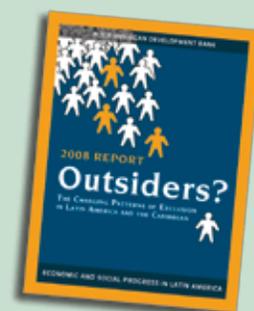
gender, has changed as much as the region itself has changed and is now affecting much more diverse and growing segments of the population, especially those who eke out a living in precarious jobs without any prospect of improvement. Their exclusion does not result from being “outside,” isolated, or left out, but rather from their interactions with more modern and prosperous societies.

These changes in the dynamics of inclusion and exclusion do not lend themselves to simplistic interpretations. There have been advances in the inclusion of some groups, at least in some dimensions, and there have also been regressions that have deepened exclusion. For instance, women have been included in some dimensions (formal political representation and education) but are still segregated in worse jobs than men. Contrastingly, entire sectors of the population have been excluded from formal jobs and their associated social insurance protection by slow growth and unemployment. Then again, the dynamism of civil society and the rise of social movements have made certain

Social exclusion today includes people who have been left on the sidelines as their societies speed along in the race to modern, globalized economies.

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excluded groups (like landless peasants in Brazil, the unemployed in Argentina, and indigenous peoples in Bolivia) important actors in the political arena.

Exclusion and inclusion are complex and dynamic processes that operate in every dimension of social life. Exclusion in one dimension (for instance, lacking identity documents) leads to exclusion in multiple other dimensions (for instance, from opening a savings account or voting in elections). Social exclusion manifests itself in multiple social maladies (poverty, informal employment, political unrest, crime, and lack of access to health and education, to mention just a few), all of which limit the ability of large sectors of the population from participating fruitfully in a market economy and therefore diminish their well-being.

The “outsiders” of yesterday (marginalized, rural, ill-nourished, poor, and isolated) were safely out of sight. Exclusion among these groups has not disappeared. Modern forms of servitude, often bordering on slavery, still thrive in rural areas of the region.

But social exclusion today has become more urban and visible, its victims people who are not “outside,” but whose exclusion results from their disadvantaged interactions with the institutions and resources that enable the mainstream to prosper in a market economy. Peddling candy or cellular minutes or performing circus acts on street corners while the red light stops traffic becomes a source of income when one cannot find a decent, well-paying job. Collecting recyclables from garbage cans, squatting in abandoned buildings, sleeping on the same streets that their more affluent neighbors use to go to work and play are some of the survival strategies of these urban excluded. The inhabitants of poor, crime-ridden areas of the region’s cities,

excluded from the protection of police and the judiciary, create their own forms of organization to contain violence and protect victims, providing, as they do so, a lesson in dignity and compassion.

In the midst of all these multiple deprivations the excluded struggle to make a living with their limited resources. Their daily life is hampered by institutions that are unresponsive to their needs and rights as citizens and by their lack of access to resources as mundane

Social exclusion is at the source of the growing sense of disengagement that affects people throughout the region and creates a fertile ground for populist experiments.

as telephones to receive a call for a job interview, or as dramatic as medical services denied to them by overwhelmed public health facilities. They are left out of the paths towards inclusion that more privileged members of society enjoy, yet they are not outsiders, as their exclusion arises from their participation in social life with limited resources and within rules that are often biased against them.

Exclusion is at the source of the growing sense of disengagement and dissatisfaction that affects the popula-

tion of countries in the region and creates a fertile ground for populist experiments that erode the economic, social, and political institutions of democracy. This disengagement has grown in spite of reasonable progress over the medium term on life expectancy, health, literacy, and other indicators of well-being, as shown by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) in its recent (2007) report on social cohesion. Politicians all along the political spectrum now mention the fight against social exclusion as the main task of development and substantive democratization.

For all the political nuances and overtones with which the term has been used, the notion of social exclusion provides a powerful political rallying cry for anybody who worries about the plight of the worst off in society. However, as normally happens with effective mobilizing notions that mean different things to different groups, there is no clarity regarding what is meant by social exclusion. Even if the ambiguity of the concept of social exclusion is useful as a mobilizing tool, the design and adoption of inclusive policies is hindered by the lack of conceptual clarity about the nature of exclusion and the forces that produce and reproduce it.

This issue of IDEA delves into this concept of social exclusion by drawing from the IDB’s latest Economic and Social Progress Report titled *Outsiders? The Changing Patterns of Exclusion in Latin America and the Caribbean*. It describes some of its manifestations and explores policy implications of this redefined social phenomenon. Understanding who the excluded are and why they are only limited participants in their societies is the first step in tackling this daunting regional challenge.

Cooperation and Welfare: More than a Game

Most analysts agree on the positive links between trust, cooperation and welfare. But how do social heterogeneity, and the social distances associated with exclusion, affect the oiling of these links and the operation of the economic machine? Some argue that variety is the spice of life and offers the additional incentives necessary for a small subgroup to be interested in providing a public good; others claim that diversity muddies the problem-solving waters and makes agreement more difficult. Either way, the importance of addressing this issue can hardly be overestimated, as few individuals have the option of living and working only with persons like themselves. Ultimately, learning to cooperate in a socially diverse environment may be a sine qua non for economic growth and prosperity.

Winners and losers, haves and have-nots, and the included and the excluded can engage in mutually beneficial interactions if the collective action problem is solved.

Vulnerable individuals, for example, must interact with nonexcluded groups and individuals in environments including the workplace, housing, and credit markets. Likewise, heterogeneous groups share common spaces and must make decisions that affect their common interests, even when not everyone wins or loses alike. Riding public transportation, using public parks, participating in debates on a public issue, and voting all represent instances in which members of a society must make decisions that result in varying costs and benefits depending on the actions of other group members.

Social scientists often refer to such

decisions as a game in order to facilitate the study of behavior in these situations and to measure its impact on welfare. The Research Department of the Inter-American Development Bank analyzed the results of four such games to study the interaction between social exclusion and collective action in Latin America. The project used a field experimental approach and involved roughly 3,000 individuals from different backgrounds, socioeconomic levels, age cohorts and both sexes from six cities in the region: Bogota, Buenos Aires, Caracas, Lima, Montevideo and San Jose. As one of the main goals of the study was to observe the effect of social heterogeneity on individuals' decisions, information on the socioeconomic composition of the groups in each particular session was made as salient and clear as possible. Two of these experiments provided particularly telling results and are summarized below:

- **Experiment 1 (Trust Game):**

In this game participants were randomly assigned to pairs, half playing the role of player 1 and the other half player 2. Identities were never revealed, but each player was given information about demographic characteristics of his or her pair: age, gender, education, and an indication of socioeconomic level of the player's neighborhood (high, medium, or low). Both players received an endowment, and player 1 had to decide how much of this endowment to send to player 2. That amount was then tripled on its way from player 1 to player 2. In the other room, player 2 had to decide how much he would return to player 1. Immediately before making his or her decision, each player was asked to pre-

dict the decision that would be made by the other player. After both players had made their decision, player 1's choice was matched with the corresponding response for that amount by player 2, determining the outcome of the game.

This game measures the extent to which an individual trusts another person of similar or different socioeconomic characteristics, and whether the actions and characteristics of that individual affect the response of his or her partner. In short, the game measures trust and reciprocity. Higher offers by the first individual are interpreted as signals of trust, and higher returns from the second individual are taken as signals of reciprocity.

- **Experiment 2 (Voluntary Contributions Mechanism):**

In a second experiment, participants gathered in a single room and participated in a voluntary contributions mechanism (VCM) or public goods game. Each player was given a token that could be kept or invested in a group project. If a player kept the token, he or she earned an amount (e.g., \$10). If the player invested the token in the group project (i.e., if he or she was a "cooperator"), his or her token and the other tokens in the group account each yielded a return of \$1 to every participant in the group. A player who kept the token also received \$1 times the number of tokens in the group account. Before they made their individual (private) decision whether to contribute to the group, the monitor revealed the gender, age, education, and socioeconomic composition of the group. Also, in order to capture expectations, the monitor requested that every participant predict the fraction of group members who would be cooperators.

The public goods or VCM experiment also captures trust, but regarding a group instead of an individual, by measuring willingness to contribute a token to a public good and provide benefits

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the schooling gaps, the greater the foregone welfare.

- **Lack of trust and cooperation directly impacts collective welfare**

Although participants clearly displayed trust and cooperation in the experimental games, they did not do so to the maximum extent possible. Had participants performed at socially optimal levels, they would have increased their gains over actual results by 40% in the trust game and 71% in the VCM game. Clearly, limitations on trust and willingness to cooperate exact a real toll on the social welfare of societies. Why is cooperation less than optimal? Social distance (or specifically, differences in education) is one explanation. That variable alone reduces the size of the resulting social welfare “pie” by approximately 9% of total wealth in the trust game and 15% in the VCM game.

These experiments provide new evidence on group-oriented behavior and the factors that may help or constrain choices that benefit individuals and groups. As in previous research, the present results show that trust and cooperation are highly correlated. Experimental groups with clearly favorable conditions for trusting others were also those whose members were willing to contribute to a public good. Finally, expectations regarding the behavior of others were found to be powerful predictors of actual behavior. This conclusion about expectations is important because if people can predict with some accuracy the behavior of those in the same room based on only limited information, this means that individuals do pay attention and condition their group-oriented behavior to the immediate context and not only on

to all group members. The decision to contribute to the group increases the benefits for all, but not contributing always pays off better for the individual and thus provides an incentive to free-ride. Full cooperation yields greater payments to everyone than if full free-riding occurs, and in this game, more is better: the gains from cooperation increase with the number of players.

Lessons Learned from the Experiments

- **Latin Americans are willing to trust and cooperate**

Contrary to theoretical predictions, only 12% of the individuals who participated as player 1 sent nothing to player 2. The average offer was 44% of the initial endowment, and the median offer (made in 32% of the decisions) was 50% of the initial endowment. Only 9% of players 1 made the best possible decision and sent all their money to player 2. Another 15% of participants sent 75% of the initial endowment.

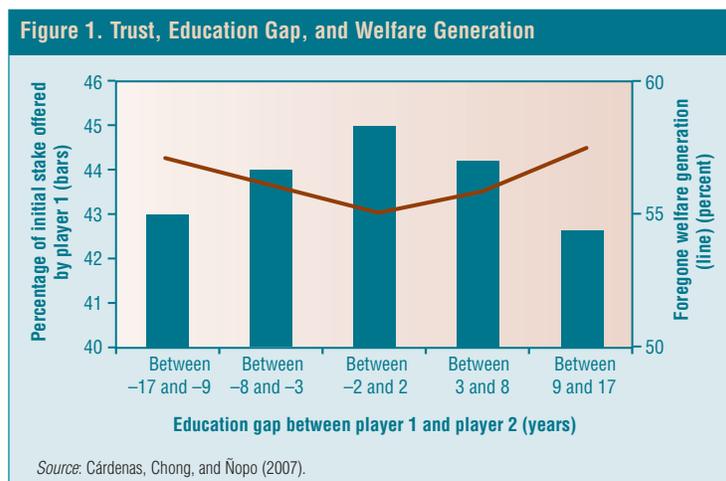
With respect to players 2, reciprocity rather than selfishness was the major driver of behavior. Only 14% of players 2 kept everything that player 1 sent them; half of these gave nothing to player 1 after player 1 offered nothing to them. About 11% of players 2 did not return any amount to those players 1 who had sent them their entire endowment.

Expectations of the other player’s behavior largely explain the amounts sent by player 1 and the reciprocal responses of player 2. Demographically speaking, women sent slightly smaller amounts and

also returned less than men. Education and socioeconomic status do not seem to explain variations in behavior of players 1, but players 2 of low socioeconomic status tended to return less of the amount received than did other players. Approximately one out of every four participants in the VCM game opted to contribute to the public good. The bottom line: individuals did, in fact, cooperate.

- **Even though Latin Americans trust and cooperate, social distances limit the extent of trust and cooperation**

Wider gaps in education between players 1 and players 2 were linked to smaller amounts sent from the former to the latter and in the percentages reciprocally returned. Figure 1 clearly illustrates the point, as the bars on both extremes (corresponding to large education gaps between players, either positive or negative) are shorter than those in the middle (corresponding to smaller education gaps). Figure 1 also presents the average foregone social welfare associated with each group of education gaps, measured as the percentage of the total endowments that a pair of players failed to earn as a result of less than complete trust. The figure suggests that the larger



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Excluding the Needy from Social Programs?

How can you prove you're needy, if you can't even prove who you are? That's the dilemma many individuals face as they try to qualify for social programs in Latin America. The region has moved rapidly to modernize targeting systems and adopt new methods of distributing program benefits, often requiring proof of identity to participate. Unfortunately, however, given the problems of underdocumentation, these efforts have often had the unintended consequence of excluding the most vulnerable from social assistance programs.

In a context of scarce resources and concerns about fraud and leakage in social programs, including the capturing of program benefits by people who don't need them, technocrats in Latin America have embraced methodological advances in the delivery of social assistance. Usually, the search for greater accountability has resulted in procedures to verify eligibility for program benefits and monitor the transfer of funds. Rather than providing non-individualized benefits on a geographical basis, program administrators utilize specific information on families and individuals to determine program eligibility and benefit levels. Practically speaking, this means that individuals must produce identity documents in order to participate. For some people, particularly the most disadvantaged, this is a tall order.

How many people lack documentation in Latin America? Among children younger than five in Latin America, UNICEF calculates that approximately 15% lack a registered birth certificate. National estimates of the underregistration of births range from 7% in Peru to

23% in Bolivia and 26% in the Dominican Republic. Although regional numbers for adults are unavailable, in Peru, an estimated 1.5 million adults did not have a national identity card in 2005; in Bolivia and Paraguay the figures are 750,000 and 127,000, respectively. In Ecuador, some 15% of the country's total population is not registered.

From a social equity standpoint, it is even more worrisome that traditionally excluded groups tend to have higher rates of underdocumentation. Throughout the region underregistration of births is higher in rural areas than in urban areas. Children from low socioeconomic backgrounds are less likely to be registered by age 5, and in many countries certain ethnic and racial groups have higher rates of underregistration. Although the birth registration of children does not vary significantly by gender, in some countries rural adult women are less likely to possess national identity documents than rural men.

This underdocumentation means that many of the neediest people in the region lack the documentation they require to be covered by social programs. The emphasis has been on developing screening procedures to reduce "errors of inclusion," that is, the leakage of benefits to nontargeted individuals. However, there is a trade-off: the push to reduce errors of inclusion has magnified errors of exclusion of targeted individuals. Social programs can therefore unintentionally intensify the social exclusion of the undocumented by treating official identification documents as strict requirements for program participation.

Conditional cash transfer programs are struggling with these documentation issues as they forge ahead in adopting

new targeting and benefit distribution technologies in the region. Programs with relatively strict documentation requirements have effectively excluded undocumented populations through screening or verification procedures. Other conditional cash transfer programs, however, have taken a more flexible approach to eligibility requirements, incorporating the acquisition of identity documents into program objectives.

By way of example, the Bono Desarrollo Humano (BDH) program in Ecuador, like many conditional cash transfer programs, uses an information system to target beneficiary households. Ecuador's SELBEN (Beneficiary Identification and Selection System) includes information from a short survey on dwelling characteristics as well as the human capital and earnings potential of family members. The SELBEN database includes the national identification number of all household members and the birth certificate number of all children up to age 16. Families who score in the lowest two quintiles are eligible to participate in a series of targeted programs. However, families cannot be entered into the SELBEN if the head of the family or her spouse does not have a national identity document, effectively excluding them from all social programs that use the SELBEN for targeting, including Ecuador's conditional cash transfer program. The targeting system is only the first filter for inclusion; the conditional cash transfer program itself, the BDH, additionally requires documentation from the head of the family as defined by the program.

The targeting system designed by Brazil in 2002, the Cadastro Único, no longer requires identity documents to be included in the database. However, as in the case of the BDH in Ecuador, in order to enroll in Brazil's conditional cash transfer program, Bolsa Familia, the head of household must provide an official form of identification, such as a social security card, taxpayer identi-

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individual traits of the group members.

Education, used here as a proxy measure of socioeconomic status, helps to explain the trusting and cooperative behavior of Latin Americans for several reasons. First, education in itself is associated with higher levels of trust and trustworthiness. (It did not, however, increase participants' likelihood of contributing in the VCM game.) On the other hand, groups with greater educational heterogeneity were less likely to cooperate. In the trust game, among pairs of players with greater education gaps, player 1 sent less money to player 2. Thus, educational attainment is not always a plus for groups. On the one

hand, schooling can help to develop the cognitive skills required to overcome the limitations of risk aversion and enhance trust. On the other hand, education confers status, and differences in educational level can increase group heterogeneity, social distance, and out-group effects, while diminishing a sense of belonging; these factors can in turn hinder collective action.

Consequently, if gaps in education within a group become a source of social distance, they can create barriers to trust and cooperation. These differences in education, which were linked to the cooperative and trusting behavior of Latin Americans, were in turn

linked to possibilities for social welfare generation. Pairs of players with wider education gaps (in the trust game) and groups of players with higher heterogeneity in education (in the VCM game) generated social outcomes that were smaller than those of their peers with smaller educational discrepancies.

Clearly, the findings of these experiments are more than a "game" and have important policy implications. As extensive research shows, cooperative behavior and group formation leading to social capital buildup and trust are beneficial to societies' economic growth. In this context, policymakers should not lose sight of the fact that inclusive policies will yield not only short-run benefits, but also long-term, more durable results. If anything, the key lesson for policymakers is that inclusion policies

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fication card, or voter card. Reportedly, the lack of documentation among family heads has resulted in a rejection rate of 10% from the program. Traditionally excluded groups have been found to be particularly vulnerable to omission: 16% of residents of Quilombo communities, isolated areas inhabited by descendants of escaped Afro-Brazilian slaves, were found to lack any form of an official identity document, placing them on the path of exclusion from new programs being extended to these areas.

Some countries attempt to limit potential clashes between eligibility rules and underdocumentation by undertaking civil registration campaigns in communities immediately before a program is launched. In Colombia, for example, communities with high rates of underregistration that are scheduled to be included in the conditional cash transfer program, Familias en Acción, are provided with information about

civil registration before the program is launched locally.

Some social programs have incorporated documentation as a program target rather than a prerequisite. The most proactive stances are taken by Chile (Chile Solidario), Argentina (Plan Familias), and Peru (Juntos), where identity documents have become objectives for participating families with members lacking identity cards or birth certificates.

In the first year of its Programa Puente, Chile Solidario issued over 26,000 identity cards to poor families who were undocumented at the start of the program. In the design phase of Plan Familias, pilot surveys in two Argentine municipalities indicated that 15–17% of intended beneficiaries lacked national identity cards, and the program subsequently developed procedures to help families acquire identity documents. In the first year of the Juntos program in Peru, 85% of the 15,000 cases of moth-

ers and children lacking identification were resolved.

The shift to distributing welfare subsidies through financial institutions represents a further modernizing trend that may have magnified exclusion. Banking institutions in Latin America and the Caribbean generally require official documentation for face-to-face transactions or opening individual accounts. While the shift from cash to electronic payments may reduce the possibilities for corruption and crime, these benefits may come at the price of excluding the most vulnerable families in the program.

Surely social programs must keep up with the times and continue to modernize their targeting and delivery systems. However, these efforts are best coupled with reforms to extend coverage. Until countries universalize identification, the rules that govern social programs must carefully address the issues of underdocumentation.

Like Father, Like Son?

Social Mobility and Social Exclusion

To be born poor, is to die poor. That's how many Latin Americans feel, and they may be right. Social mobility in the region is limited and it takes its toll in terms of motivation, effort and, ultimately, output. That Latin America suffers from the worst income inequality in the world has for long been of great concern. That it also suffers from unequal opportunities is disturbing, indeed.

Social mobility—or the lack thereof—occupies a unique place in the discussion of social exclusion. Whereas most measures of social exclusion depend on readily observed indices of well-being at discrete points in time, social mobility involves largely intangible but undeniably powerful factors such as the memories, hopes, and expectations of individuals and families over time. Two societies with similar income distributions, for example, can have different welfare levels depending on the degree of social mobility; poverty and other manifestations of social exclusion are more bearable when individuals have a reasonable expectation of improving their own circumstanc-

es—or those of their children. With this understanding, the economic analysis of social mobility aims to track the evolution of income distributions over time, considering individuals over the course of a lifetime (intragenerational mobility) and families over generations (intergenerational social mobility).

Although data on intergenerational social mobility are widely available only for developed countries, research on the basis of available data in Brazil, Chile, and Peru suggests that social mobility in Latin America and the Caribbean is lower than in developed countries, including those with the lowest levels of mobility, the United States and the United Kingdom. Estimates for these three countries, as well as for developed countries, are presented in Figure 2.

Levels of mobility in societies in the region vary among income groups. Whereas the middle-income groups enjoy higher levels of upward and downward social mobility, the richest and poorest groups display far less mobility. Lack of upward mobility among the poorest populations, which may be associated with poverty traps,

is particularly prevalent among excluded groups (such as Afrodescendants in Brazil) and in poorer regions. Such social immobility can be associated with exclusion from basic services and markets, due to geographical isolation, segregation, or labor market discrimination. In addition, because investment in children depends upon family resources, the credit constraints of poorer families reinforce immobility.

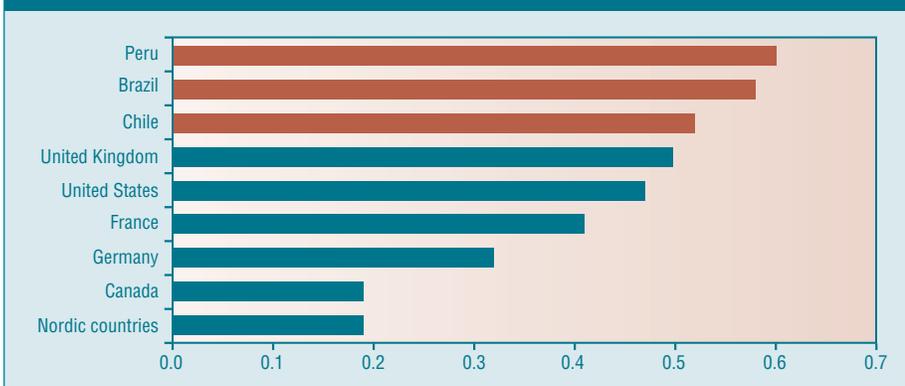
Lack of downward mobility among the richest segment of the population is likewise associated with certain traits, such as membership in a historically privileged racial or ethnic group (such as whites in Brazil) and residence in more-developed regions.

The richest part of the population also enjoys greater access to better-paying jobs thanks to greater access to higher education and social connections. The lack of mobility at the tails of the income distribution may reflect two sources of exclusion: the lack of opportunity for the children of the poor to acquire better skills and improve their employment prospects and the reproduction of socioeconomic privileges among the children of the well-off. Interestingly, in Brazil at least it is more likely that a poor person will become richer than that a rich person will become poorer.

The inability to enter the upper classes is usually linked to a lack of higher education opportunities or to segmentation in labor markets. Institutions such as credit markets, government loan guarantee programs, and public schooling are important in determining a society's degree of income mobility. Research on Latin America shows that 62% of sons whose fathers'

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Figure 2. Intergenerational Income Elasticities for a Sample of Developed and Latin American and Caribbean Countries



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wages are below the median end up in the same wage group as their fathers and that this fraction is much lower (53%) for sons whose fathers' wages are above the median. This is consistent with the borrowing constraints theory, since rich families are less likely to be financially constrained in investing in their children.

Other studies have identified further constraints on intergenerational mobility. About 20% of income inequality in Brazil and Chile is due to inequality of initial circumstances such as parental schooling, parents' occupation, and race. When the labor market opportunities of sons are compared to their fathers in urban Peru, it is found that, despite increases in migration and the expansion of formal education, persistent economic and cultural relations have neutralized the hoped-for increase in mobility.

Perceptions of social mobility and meritocracy are fundamental for the long-run prospects of economies and societies. Rational individuals have little incentive to work hard and invest in human and physical capital if they do not believe they have good chances of moving upward in society. Individuals who feel trapped with no prospect for improvement have fewer disincentives to engage in dysfunctional and anti-social behavior, since they have little or nothing to lose. At the same time, without investment in human capital and hard work, these individuals have no chance of moving upward, which means that the poor will remain poor.

Latin Americans are generally pessimistic about their prospects for mobility and do not believe their societies are meritocratic. An analysis of the Latino-barometer opinion survey of 17 countries in the region reveals that 74.1% of individuals surveyed in 2000 indicated

that opportunities to overcome poverty are unequal, and 63.6% thought that poverty is not a consequence of lack of hard work. Conversely, 71.5% of the survey sample attributed success to personal connections. In terms of perceptions of

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past and future mobility, Latin Americans believe that the past generation (i.e., their parents) was somewhat better off than the current generation. But there is still hope. There are expectations among Latin Americans of upward social mobility for the future generation.

The measurement of social mobility in Latin America and the Caribbean is still in its infancy, but what is known so

far presents a troubling scenario. Aside from limited progress in some countries and among some groups, most individuals in the region are unlikely to see significant improvements in their income or social position, or that of their children, regardless of effort or ability. Incentives to work, acquire skills, or refrain from socially undesirable behavior are seriously constrained when there is no clear path out of social exclusion. Conversely, Latin America's upper crust displays little downward mobility, again regardless of (lack of) effort or ability. Consequently, they are unlikely to engage in innovation or risk taking that leads to economic growth and other forms of social dynamism and may be more concerned with maintaining their status than furthering the public good.

Policymakers thus face an array of challenges. The first is to design policies and programs, and possibly to undertake legal reforms, that will equip individuals to participate in both the benefits and responsibilities of society. Improvements in educational quality and access, health care and nutrition, and access to credit represent only a few possible areas for improvement. Second, labor institutions, social security systems, and macroeconomic conditions must ensure that effort, talent, and socially desirable behavior are rewarded both immediately and across generations.

Third, policymakers would be ill-advised to address insufficient social mobility with short-term redistributions of wealth that, though initially popular, may ultimately do little to improve the socioeconomic status of recipients in the long term. Policies must emphasize equality of opportunities through the development of human and social capital rather than short-term attempts to equalize outcomes.

Main Messages

The main messages of *Outsiders? The Changing Patterns of Exclusion in Latin America and the Caribbean* are summarized below.

Exclusion is a dynamic, changing process that interacts with social, cultural, economic, and political societal changes.

Exclusion is neither the consequence of dysfunctional economic policies nor a fringe phenomenon that growth and modernization are going to eliminate. The changing patterns of exclusion and inclusion in the region are part of the deep social, cultural, economic, and political transformations that democratization, economic stabilization, and integration with the world economy have brought to Latin American and Caribbean societies.

Exclusion affects changing and more diverse groups of the population

Stigmatization of and discrimination against groups easily identifiable by observable characteristics such as ethnicity, race, gender, or disability have been the traditional sources of exclusion in the region. Modern forces of exclusion, largely economic and social in origin, are currently affecting more diverse and visible groups within the population defined not by their ethnic or racial identity, but by the processes (such as unemployment or lack of access to land) that produce and reproduce their exclusion.

Exclusion is a multidimensional phenomenon, and those multiple dimensions are interrelated.

Material deprivation is one of the

salient outcomes of exclusion but is just one aspect of the deprivations suffered by the excluded. Material deprivation is highly correlated with other types of deprivation (lack of access to justice and high-quality education, disengagement from political participation, and reduced feelings of safety resulting from higher crime, among others), and each of these aspects of deprivation interacts with the others (as, for example, when legitimate business or employment opportunities are very scarce in a crime-ridden neighborhood), augmenting the limitations on the functionings of the excluded.

Exclusion reduces social capital and welfare for the entire population.

Trust and cooperation are reduced by social distance. The larger the social distance (measured by differences in income or education) within a group, the less individuals in the group cooperate with one another. This lack of cooperation diminishes the welfare of the whole group (not just the disadvantaged).

Historically, inclusion processes have been driven by an active social and political leadership.

History shows that inclusion drives (such as the civil rights movement in the United States in the 1960s or Malaysia's New Economic Policy in the 1980s) have been accomplished through the interaction between an active civil society and its organizations and a sympathetic political leadership. Inclusion does not happen "naturally" as a consequence of economic growth or institutional modernization but requires decisive social and political leadership.

Inclusion is not just about changing outcomes, but crucially about changing the processes that produce and reproduce exclusionary outcomes.

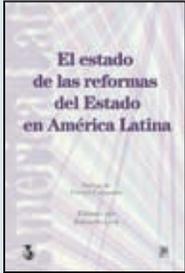
Inclusive policies represent a significant transformation in the way resources are apportioned, political institutions are governed, and opportunities are accessed. Inclusion aims to achieve equality of access and opportunities for the excluded by bringing them into the social, institutional, and political structures that make decisions regarding access and opportunities. Inclusive policies are thus not merely a matter of creating new ministries or designing new programs; rather, they are about changes in the way social, economic, and political decisions are made.

Inclusive public policies involve more than changes in the protection of rights of excluded groups.

Changes at the normative level are needed to protect and advance the rights of excluded groups. But the institutional framework needs to overcome embedded discrimination and stigmatization of excluded groups that have arisen from and continue as a result of these institutions' own past practices. In order to make normative changes effective, institutions must change the ways in which they operate, hire employees, and enforce laws and regulations. This, in turn, materializes as changes in the implementation of programs and policies, which hopefully produce more inclusive outcomes that feed back into the process, thereby strengthening the position of excluded groups to induce changes at the normative, institutional, and policy levels.

New Publications

BOOKS



El estado de las reformas del Estado en América Latina, (The State of State Reforms in Latin America)
Eduardo Lora, ed.,
Mayol Ediciones,
Inter-American

Development Bank and the World Bank through the Latin American Development Forum Series. 2007. Also available in English.

Latin America suffered a profound state crisis in the 1980s, which prompted not only the wave of macroeconomic and deregulation reforms known as the Washington Consensus, but also a wide variety of institutional or 'second generation' reforms. *The State of State Reform in Latin America* reviews and assesses the outcomes of these less studied institutional reforms.

RESEARCH DEPARTMENT WORKING PAPERS

Minority Enrollments at Public Universities of Diverse Selectivity Levels under Different Admission Regimes: The Case of Texas (WP-617)

Mariana Alfonso and
Juan Carlos Calcagno

This study describes how minority enrollment probabilities respond to changes in admission policies in Texas from affirmative-action to merit-only programs and then to percentage plans when the demographics of applicants is also shifting. The findings suggest that eliminating affirmative action shifts minority enrollments from selective institutions to less selective ones. And although the Top 10% plan has helped boost minority enrollment probabilities at selective colleges, once greater minority shares among high-school grad-

uates are taken into account, the Top 10% plan can no longer be related to improvements in minority representation at selective universities.

Investment Climate and Employment Growth: The Impact of Access to Finance, Corruption and Regulations Across Firms (WP-626)

Reyes Aterido,
Mary Hallward-Driemeier and
Carmen Pagés-Serra

Using firm level data on 70,000 enterprises in 107 countries, this paper finds important effects of access to finance, business regulations, corruption, and to a lesser extent, infrastructure bottlenecks in explaining patterns of job creation at the firm level. The paper focuses on how the impact of the investment climate varies across sizes of firms. The results suggest strong composition effects: A weak business environment shifts downward the size distribution of firms. With significant differences between firms with less than 10 employees and SMEs, these results indicate significant reforms are needed to spur micro firms to grow into the ranks of the SMEs.

What Do Latin Americans Think of the IDB? (WP-621)

Marina Bassi

Using the Latinobarómetro survey, this paper examines Latin Americans' perceptions of the IDB, the World Bank and the IMF. The study analyzes how people's knowledge and evaluation of these multilateral organizations are affected by the demographic and socioeconomic characteristics of the respondents, the country where they live, the financial position of the IDB in that country, macroeconomic conditions and interviewees' political orientation and attitudes towards democracy and free markets. The results indicate both good and bad news for the IDB. Negatively, it is the least-known of the three

international organizations; but positively, it is the best rated among those familiar with them.

What Do You Think of the IDB? Conclusions from an Opinion Survey of Latin American Leaders about Multilateral Organizations (WP-622)

Marina Bassi

This document analyzes the results of a Web-based survey conducted by the Research Department to assess how the IDB is viewed by political and corporate leaders in the region. In general, the IDB has a better image than the other multilateral organizations. Its main comparative advantage is in the design of social service projects (education, health and social security). The IDB also is clearly perceived to outperform its peers in public sector modernization and infrastructure projects. The IDB's weakest areas relate to its efficiency (lengthy loan approvals) and efforts to help discipline macroeconomic and other policies. Respondents believe that all international organizations should expand their technical assistance and knowledge activities not tied to projects or loans.

Social Exclusion and Violence in Latin America and the Caribbean (WP-613)

Heather Berkman

This paper examines how social exclusion contributes to violence in Latin America. Socially excluded communities cannot depend on the institutions designed to protect them, and violence becomes an instrument to achieve justice, security, and economic gain. When conventional methods of obtaining higher social status, income, and influence are limited, some resort to violent acts. This paper discusses how social exclusion and violence interact in a vicious circle that leaves the socially excluded in a very hostile environment where the borders between legal and ille-

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gal are often blurred. Use of violence by this minority affects the lives of the majority of excluded people that do not resort to violence. This paper also examines the relationship between violence and youth gangs and street children.

Informality and Productivity in the Labor Market: Peru 1986–2001 (WP-609)

*Alberto Chong,
José Galdo and
Jaime Saavedra-Chanduví*

Peru has one of the highest informality rates in Latin America, with almost 60% of the urban labor force working at the margins of labor legislation or in micro-enterprises that lack basic labor market standards. This paper identifies two factors that can explain the variation in informality rates in the 1990s. First, Peru experienced a steady increase in employment allocation in traditionally “informal” sectors—in particular, retail trade and transport. Second, there was a sharp increase in nonwage labor costs, despite a reduction in the average productivity of the economy. The paper also illustrates the negative correlation between productivity and informality by evaluating the PROJOVEN youth training program.

On the Determinants and Effects of Political Influence (WP-616)

*Alberto Chong and
Mark Gradstein*

This paper uses a large cross-country survey of business firms to assess their influence on government policies. It is found that influence is associated with larger, government-owned firms that have a high degree of ownership concentration. In contrast, foreign ownership matters little. It is also found that the extent to which government policies and legislation are viewed as impeding firm growth decreases with political influence and, independently, with a country's level of institutional quality.

Privatized Firms, Rule of Law and Labor Outcomes in Emerging Markets (WP-608)

Alberto Chong and Gianmarco León

This paper takes advantage of a recent large firm-level dataset to compare labor indicators of privatized, private, and public firms around the world, particularly wages, benefits, labor composition, education and training, unionization, and quality of management. While labor productivity increases after privatization, the ratio of permanent workers to temporary workers also increases. Convergence depends to some degree on the quality of institutions, namely, the rule of law. Not only is this true for the ratio of permanent workers to temporary workers, but also for education of the workforce, and for the manager's years of experience. On the other hand, the rule of law appears to be less important in labor productivity and training.

Discrimination in Latin America: An Elephant in the Room? (WP-614)

Alberto Chong and Hugo Ñopo

This paper surveys evidence on discrimination in Latin America and shows that there is a widespread perception of discrimination, especially against the poor, the uneducated and those who lack connections. The channels through which discrimination occurs may be built on the basis of economic factors. Recent experimental evidence suggests little room for discriminatory practices in the region. This puzzle, where individuals perceive discrimination is in the air, but few act discriminatorily, is consistent with an explanation about stereotyping that vanishes when information flows operate well.

Traditional Excluding Forces: A Review of the Quantitative Literature on the Economic Situation of Indigenous Peoples, Afro-Descendants, and People Living with Disability (WP-619)

*Nestor Gandelman,
Hugo Ñopo and
Laura Ripani*

Unequal income distribution in Latin America is linked to unequal distributions of assets and differential access to markets and services. These circumstances must be understood in terms of traditional fragmenting forces; the sectors that experience unfavorable outcomes are also recognized by characteristics such as ethnicity, race, gender and physical disability. This paper reviews the general literature on social exclusion and surveys more specific topics: i) relative deprivation (in land and housing, physical infrastructure, health and income); ii) labor market issues, including access to labor markets, informality, segregation and discrimination; iii) political representation, social protection and violence; and iv) avenues for further research.

Occupational Training to Reduce Gender Segregation: The Impacts of ProJoven (WP-623)

*Hugo Ñopo,
Miguel Robles and
Jaime Saavedra-Chanduví*

This paper discusses program evaluation for ProJoven, the Peruvian youth labor training program, and shows substantial differences in its impact for males and females. Eighteen months after participation in the program, female employment improves by about 15% (for males it falls by 11%), gender occupational segregation declines by 30%, and females' income improves by 93% (while males' earnings increase by 11%). Nonetheless, gender equality promotion represents only 1.5% of ProJoven's budget. These results suggest that labor-training programs that promote equal gender participation have disproportionately positive effects on women trainees in a labor market with substantial gender differences.

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The Institutional Determinants of Political Transactions (WP-580)

Carlos Scartascini

This document looks at a number of the key actors, institutions, and arenas in the policymaking process with the aim of examining their roles, incentives, and capabilities in making public policy, by drawing from an extensive literature in political science and political economy. Each of the actors is looked at individually but connected to the other actors by linking the impact of political institutions on their incentives to the features of the policymaking game. Hopefully, this document will provide researchers with the tools necessary to continue analyzing policymaking processes not only for Latin American countries but also for other parts of the world.

RESEARCH NETWORK WORKING PAPERS

Discrimination and Social Networks: Popularity among High School Students in Argentina (R-539)

Julio Elías, Víctor Elías and Lucas Ronconi

The objective of this paper is to better understand peer popularity during adolescence and detect discrimination. High school students in Argentina select and rank 10 classmates with whom they would like to form a team. It is found that physically attractive students and high academic performers are highly ranked by their peers, but only in coed schools, suggesting it is primarily driven by mating. Other traits, such as skin color, nationality and parental socioeconomic background do not affect peer popularity, although ethnic origin and parental education are statistically significant in some cases. It appears that the unequal treatment based on race, wealth and nationality found in other social environments in Argentina is

not observed among adolescents attending school.

The Role of Social Networks in the Economic Opportunities of Bolivian Women (R-540)

Dante Contreras, Diana Kruger, Marcelo Ochoa and Daniela Zapata

This paper explores the role of social networks in determining the participation of Bolivian women in income-generating activities. Results suggest that social networks are an effective channel for women to gain access to salaried jobs, which are of higher quality than self-employed jobs. In contrast, their male counterparts find a positive but statistically insignificant effect from social networks. When considering the gender of the contact, women in urban areas benefit from other women being employed, while in rural areas women benefit from the presence of more employed male workers.

Provision of Public Services and Welfare of the Poor: Learning from an Incomplete Electricity Privatization Process in Rural Peru (R-526)

Lorena Alcazar, Eduardo Nakasone and Máximo Torero

The incomplete privatization of the electric sector in Peru provides a unique scenario for evaluating the impact of public versus private provision. The results in this paper suggest that management of electricity firms by the private sector significantly improves the quality of electricity service. These improvements in quality and supply of electricity yield some efficiency gains in terms of the time allocation of the working labor force that can be directly linked to the use of electricity. Rural households under private provision of electricity had more opportunities to work in non-farm activities, which fetch higher salaries, demand fewer work hours and leave more time for leisure pursuits.

Stay Public or Go Private? A Comparative Analysis of Water Services between Quito and Guayaquil (R-538)

Orazio Bellettini, Paul Carrillo and Elizabeth Coombs

This paper computes several indicators of water coverage, quality, and prices in Ecuador's two largest cities: Quito and Guayaquil—both before and after the privatization of water services in Guayaquil. The type of data sources used make it possible to specifically control for income and, thus, to evaluate changes in water provision, particularly among the poor. These indicators provide useful information about how certain water-related services have changed over time and facilitate evaluating the performance of each company. However, such estimates cannot be used to identify the causal effects of the privatization of water provision.

OTHER PUBLICATIONS

The Effect of Local Labor Market Conditions in the 1990s on the Likelihood of Community College Students' Persistence and Attainment.

Gregory Kienzl, Mariana Alfonso and Tatiana Melguizo. Research in Higher Education, 48(7), 751–774.

This study analyzes the influence of local labor market conditions on the year-to-year persistence and attainment decisions of students attending community colleges during the 1990s. The findings suggest that the enrollment and attainment decisions of these first-time community college students were not made purely as a response to changes in tuition costs; instead, they reflect a more interconnected process whereby changes in tuition, local labor market conditions, and

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the relative change in both are considered. For those who are sensitive to these relative costs, the likelihood of dropping out is increased.

The Geography of Monetary Poverty in Bolivia. The Lessons of Poverty Maps.

Omar Arias and Marcos Robles.
Chapter 4 in *More than a Pretty Picture: Using Poverty Maps to Design Better Policies and Interventions*. Edited by Aline Coudouel and Tara Bedi. The World Bank, 2007.

This chapter documents the Bolivian experience in developing and using monetary poverty maps. It focuses on the impact of the consumption poverty maps developed by the World Bank and the Bolivian government in 2003 on the design and targeting of public policies in the country. It describes the context and development of the consumption poverty maps, the methodology behind them, the main results that highlight their policy relevance to Bolivia, and the main lessons that may enhance the policy potential of monetary poverty maps.

What Determines Foreign Aid? The Donors' Perspective.

Alberto Chong and Mark Gradstein.
Journal of Development Economics. Available online Aug. 24, 2007.

This paper examines the factors affecting support for foreign aid among voters in donor countries. The theoretical model suggests that government efficiency is an important factor in this regard, and ties individual income to aid support through the elasticity of substitution. The paper finds that two factors are positively related to an individual's willingness to support foreign aid: satisfaction with own government performance and individual relative income. Furthermore, aid is negatively tied to inequality, corruption and taxes.

Current Account Deficits in Africa: Stylized Facts and Basic Determinants

Cesar Calderon,
Alberto Chong, and
Luisa Zanforlin.
Economic Development and Cultural Change, vol 56, 1: 191–222.

This article analyzes the behavior of current account deficits in Africa. The findings are that deficits are (i) not very persistent; (ii) positively linked with domestic growth; (iii) strongly linked with public (and private) savings, suggesting that fiscal consolidation in IMF-supported programs may be relatively effective; (iv) linked with aid flows, so as to close the external gap; and (v) linked with currency depreciation and the terms of trade.

Selection and Reporting Bias in Household Surveys of Child Labor: Evidence from Tanzania

Jessica A. Holmes,
Yohanne N. Kidolezi,
Hugo Ñopo and
Paul M. Sommers.
African Development Review, Vol. 19 Issue 2, pp. 368–378, September 2007.

This paper compares the demographic and labor market characteristics of working street children obtained from the 2000 Tanzanian Integrated Labor Force Survey, a government-sponsored household survey, with the results of a 2004 survey conducted in Mwanza in northern Tanzania. The comparisons help reveal the potential biases when child labor studies rely on household samples; specifically, children in the non-household based survey work longer hours, have lower educational attainment and suffer worse health outcomes. This suggests that studies based on national household surveys may significantly underestimate both the extent and the consequences of child labor.

La investigación sobre el mercado laboral peruano: instituciones, capacitación y grupos desfavorecidos.

(Research on the Peruvian Labor Market: Institutions, Training and underprivileged Groups)

Juan José Díaz, Miguel Jaramillo and Hugo Ñopo.

In Investigación, Políticas y Desarrollo en el Perú. Lima. GRADE, 2007.

This research focuses on three main issues: the institutional framework of the labor market and its link with the formal and informal norms and rules that determine the behavior of agents in the labor market and the results of that market: employment, income, productivity, and informality; the structure of the training market, its regulation and its connections to the labor market, and; questions about the most vulnerable groups in the labor market, what makes them particularly vulnerable and which public policies can help improve their plight. The focus is specifically on gender and race.

Brecha salarial por género en el Perú durante 1986–2000. Evidencia a partir del método de comparaciones emparejadas

(The Gender Wage Gap in Peru 1986–2000. Evidence from a Matching Comparisons Approach)
Hugo Ñopo. In Martinelli, Cesar (Ed.). *Economía Dinámica, Economía Aplicada y Teoría De Juegos. Ensayos En Homenaje A Ramón García-Cobián*. Fondo Editorial PUCP. Lima, Peru, 2007.

This paper describes the evolution of gender wage gaps in Peru from 1986 to 2000. The results show a reduction in the differences in participation and employment attributable to gender; however, there is also a cyclical evolution in the gender gap in terms of salary per hour. The combined effect of participation, employment and salary per hour also shows a reduction throughout the 15-year period.



Look Who's Talking

This section of the newsletter spotlights presentations or events sponsored by RES in recent months.

Consulta de San José: Early Childhood Development, Prudent Fiscal Management and Infrastructure Top Ranking of Cost-Effective Solutions to Latin America's Problems

Oct. 25, 2007

San José, Costa Rica

If Latin American and Caribbean governments had \$10 billion to solve their most urgent problems, how should they spend it?

Nine renowned economists, along with graduate students from countries throughout the region, on October 25, 2007, released prioritized lists of 44 programs in response to this hypothetical question. The economists listed early childhood development programs, prudent fiscal rules and increased investment in physical infrastructure as the three policies that would offer the greatest development impact per dollar spent. By contrast, over 30 graduate students gave top billing to nutrition programs for preschool children, conditional cash transfers for education, and increased access to healthcare.

The proposals were the result of the Consulta de San José, an unprecedented decision-making exercise organized by the Research Department of the Inter-American Development Bank, the Copenhagen Consensus Center, and Costa Rica's INCAE business school. Based on a methodology originally applied at the Copenhagen Consensus of 2004, the Consulta de San José consisted of three days of structured presentations and debates on 44 possible solutions to problems in 10 specific areas. Each participant prioritized the solutions based on his or her assessment of their costs and benefits based on the data available in the literature.

The original 10 challenges were selected through a survey of Latin Ameri-

can and Caribbean professionals, including policymakers, academics, business representatives, journalists, and researchers, among others. The 10 problem areas highlighted in this survey were education, violence and crime, poverty and inequality, fiscal policy, democracy, infrastructure, forests and biodiversity, employment, public institutions and health. For each challenge, a top academic in the field wrote a "Solution Paper" offering a number of potential solutions, with relevant costs and benefits to each. In addition, an "Alternative View" author presented his or her opinion on the Solution Paper, in some cases offering additional solutions to the challenge.

The two final rankings of the solutions to these 10 challenges, which represent a median of the individual rankings for both the economists and the students, were released at a press conference that featured comments by IDB President Luis Alberto Moreno, Copenhagen Consensus Center Director Bjorn Lomborg, INCAE President Arturo Condo, and Costa Rica Vice President Laura Chinchilla.

"Our resources are not sufficient to solve all our problems at the same time, so we have to prioritize solutions," Moreno said. "This exercise—and the debate it generates—is an excellent opportunity to discuss how our societies can get more welfare for their money."

Moreno underscored that the rankings should not be seen either as a rigid prescription for policymakers or official recommendations of the IDB. "The region's countries face very diverse problems, and no one formula can be applied universally," he said. "That is why we think this sort of debate should be repeated at the national level throughout the region."

Academic experts at the Consulta de San José included Nobel Laureate in Economics Finn E. Kydland, Chilean Finance Minister Andrés Velasco, former United Nations Under Secretary General José

Antonio Ocampo, Harvard University professor Ricardo Hausmann, former Director of the United Nations Development Program's Poverty Group Nora Lustig, and Nancy Birdsall, president of the Center for Global Development in Washington, D.C.

The author of the Solution Paper on Poverty and Inequality, Sebastian Galiani, commented on the selection of his solution, "Early childhood development," noting that "these projects aim to improve the physical, intellectual and social development of children early in their life, generally from ages 0 to 6. There is a wide range of interventions that belong to this category. We now know that the most effective of these interventions are those targeted toward younger and disadvantaged children, which are of longer duration, higher quality, higher intensity and are integrated with family support, health, nutrition, or educational systems and services. In particular, one intervention we studied in much detail for the proposal was pre-primary education. It turned out to be particularly cost-effective."

Miguel Braun, the author of the fiscal solution paper, commented that "education and health in general, and early childhood development in particular are key to ensure social justice, equality of opportunity and poverty reduction. I am glad this issue was selected by the expert panel, accompanied by the need to implement credible and enforceable fiscal rules that can contribute to prudent fiscal management, a cornerstone of any serious social policy."

Top 10 proposals in ranking produced by economists

1. Early childhood development
2. Fiscal rules
3. Increase investment in infrastructure, including maintenance

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4. Policy and program evaluation agency
5. Conditional cash transfers
6. Universal health insurance: basic package
7. Nutrition programs for preschool children
8. Crime prevention through environmental design
9. Replace taxes on formal employment with other taxes
10. Adopt policies and services to reduce transaction costs for trade

Top 10 proposals in ranking produced by students

1. Nutrition programs for preschool students
2. Nutrition programs for poor children
3. Conditional cash transfer programs for education
4. Increase access to healthcare
5. Improve efficiency and equity of public spending and taxes
6. Conditional cash transfer programs to combat poverty
7. Efficiently spend at least 3-6% of GDP on infrastructure
8. Increase the level of political party and party system institutionalization
9. Improve performance and cut corruption in regulation, taxation, and government procurement
10. Adopt policies and services to facilitate trade

Towards the Productive Transformation of Latin America (Camino a la transformación productiva en América Latina)

Luis Miguel Castilla
Sept. 4, 2007

Greater diversification and productivity gains are the key elements in a growth strategy for Latin America proposed by the Andean Development Corporation (known by its Spanish acronym, CAF). At

a policy seminar on Sept. 4, 2007, CAF Chief Economist Luis Miguel Castilla presented to the IDB the 2006 Report on Economics and Development. This latest edition of the CAF flagship report is entitled *Towards the Productive Transformation of Latin America (Camino a la transformación productiva en América Latina)* and offers suggestions for boosting the region's relative importance in the international economy.

Why has the region's economic performance been so lackluster despite the pro-export public policies that reign in most countries? According to the CAF, the reason rests in the relatively few products Latin America exports, most of them raw materials and basic goods subject to wide fluctuations in international prices. The key to success lies in diversifying export baskets and incorporating more value added and technology in products. Diversification means not simply developing new sectors but developing new activities within a single sector. This kind of diversification within sectors can be done in clusters.

These changes in the productive structure demand a joint public-private effort to promote innovation, research, and productive links that foster greater productivity. Pro-export public policies are necessary, but insufficient, to achieve this productive transformation. The State must play an important role in correcting market failures that often stifle innovation, and in strengthening the institutional mechanisms that facilitate the collective action of firms that participate in productive clusters.

The CAF also advocates attracting more quality foreign direct investment (FDI) that can bring productivity gains. In order to take advantage of FDI, local economies must be able to absorb new organizational processes and technologies. Other elements of the strategy include a regulatory framework that encourages private initiatives and facilitates the inser-

tion of local producers in global markets, open channels of communication with the private sector, incentives for research and development, and improved educational systems to build a well-trained labor force.

In his comments on the CAF book, RES economist Ernesto Stein highlighted the pendular swing in development policies, with a resurgence of interest in industrial policy following the hands-off attitude prevalent during the Washington Consensus period. He agreed that a productive transformation is a complex affair that requires action on multiple fronts in an integral approach in which the State plays an important role as a complement to the private sector.

More specifically, he addressed the issue of the links between greater productivity and greater diversification. He seconded the CAF endorsement of greater productivity but expressed doubts over a focus on diversification for diversification's sake. Moreover, he does not find the evidence presented in the CAF document that diversification generates productivity gains to be entirely convincing. In fact, he recalled that conventional wisdom—as far back as Adam Smith—has advocated specialization as an avenue to increased productivity. While acknowledging that there is some evidence of an association between diversification and development, this association is not necessarily causality.

Underscoring the importance of this subject, Stein referred to the current Latin American Research Network study on the Emergence of New Successful Export Activities. The objective of this study is to contribute to an understanding of the drivers of export growth, in particular, the elements that affect the discovery of new export-oriented activities and their diffusion in the economy. From only slightly different angles, both the CAF and the IDB are barking up the same tree in their search for ways to accelerate growth and development in Latin America.

Network News

www.iadb.org/res/researchnetwork

These two books are products of an innovative Latin American Research Network project, “The Preparation of Basic Textbooks in Latin America and the Caribbean.” The purpose of this project was to fill the gap in domestically written textbooks in a region where economics is taught largely with foreign texts.



Economía en el Trópico
(Economics in the Tropics)
Edgar Robles, Gilberto Arce and Eduardo Lizano
Editorial Thomson, 2007.
(Available in Spanish only)
[http://libreriaucr.com/catalogo/index.php?main_page=product](http://libreriaucr.com/catalogo/index.php?main_page=product_info&cPath=8&products_id=5946)

[info&cPath=8&products_id=5946](http://libreriaucr.com/catalogo/index.php?main_page=product_info&cPath=8&products_id=5946)

Economía en el Trópico develops basic economic principals through the eyes of Marta, a student who divides her time between school, leisure and work. Throughout the book, the concepts are developed intuitively, making this an ideal book for learning about economics in a clear and simple way without the use of sophisticated instruments. Since the book is structured by topics, it is an excellent complement to an economics course for students who have had no prior training in theory.



Macroeconomía y Petróleo
(Macroeconomics and oil)
Osmel Manzano, Rodolfo Méndez, José Pineda and Germán Ríos
(Available in Spanish only)
Pearson Prentice Hall, 2007.
http://phcatalog.pearson.com/home.cfm?site_id=6&n=1

This book is based on universally recognized principles and theories of modern macroeconomics and presented with a scientific yet artistic hand—without unnecessary complexities. This basis is then framed within the Venezuelan context, which means, among other things, considering the peculiarities of an economy dependent on petroleum.

This issue of *IDEA* was coordinated by Gustavo Márquez and is based on the 2008 Economic and Social Progress Report titled **Outsiders? The Changing Patterns of Exclusion in Latin America and the Caribbean.**

Eduardo Lora Rita Funaro
General Coordinator Managing Editor

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WELCOME TO RES

Santiago Levy Algazi, a Mexican economist, became the Chief Economist and General Manager of the Research Department on Aug. 1, 2007. His impressive credentials include five years as General Director of the Mexican Social Security Institute and six years as Deputy Minister at the Ministry of Finance and Public Credit where he was the architect of the renowned social program Progres-Oportunidades. Mr. Levy holds a Ph.D. in economics and a Masters in political economy from Boston University and he was a post-doctoral fellow at Cambridge University. He has published extensively on issues ranging from poverty and competitiveness to foreign exchange policy, microeconomics and energy.

Luis Catao, a Brazilian, joins the Research Department as a Senior Research Economist. He comes to RES from the IMF, where he also served as a senior economist in its Research Department. He holds a MPhil and PhD in economics from the University of Cambridge and a BSc in Electrical Engineering from Rio de Janeiro. He has several published articles in learned international journals and books and his area of expertise is macro/international finance.