

# **Poverty Alleviation in Peru: The Search for Sustainable Social Development**

**Franco A. Ucelli**

Department of Government  
The University of Texas at Austin  
Email: juccelli@umiamivm.ir.miami.edu

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## **Abstract**

The main objective of this study is to provide a comprehensive assessment of the poverty alleviation measures adopted by the first Fujimori administration (1990-1995). The report begins with a review of the relevant literature on poverty and poverty alleviation in which poverty is defined, the causes and types of poverty identified, and alternative poverty alleviation strategies synthesized. The next section provides a general picture of the magnitude of poverty in Peru circa 1990. The core of the paper is an evaluation of the success (or lack thereof) of Fujimori's first term in office to ameliorate poverty and contain its spread. Lastly, some priorities for the future are suggested and final conclusions presented.

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### **I. Introduction**

Like most developing nations, Peru is a country plagued with immense contradictions and daunting challenges. Characterized during the past several decades by unstable political institutions and uncertain economic prospects, its political and economic systems have experienced dramatic oscillations between authoritarian and democratic forms of government and protectionist and market-oriented economic strategies. Through it all, two basic features of Peruvian society have endured: the existence of widespread poverty and the unequal distribution of income and non-monetary resources among its citizens.

Although in the second half of the 1980s Peru "faced problems similar to those that caused many countries to undertake adjustment programs" (hyperinflation, negative growth, high unemployment and underemployment, the collapse of real wages, etc.), Peru became notable for being a non-adjusting country (Thomas 1993, 16). By 1990, the lack of action from the part of the García administration (1985-1990) resulted in an unprecedented state of economic disarray and produced a dire need for drastic measures to correct the situation. Presented with very little choice, newly-elected President Alberto Fujimori acted accordingly.

When Fujimori assumed power on July 28, 1990, he inherited an economy on the brink of collapse, a strong guerrilla insurgency that threatened the stability of the new democratic order (1980 marked the return to civilian rule after twelve years of military dictatorship) and a general sense of mass dissatisfaction with traditional political institutions. In this context, he surprised even his closest supporters by contradicting his campaign rhetoric by advocating and effectively implementing a neoliberal approach to economic development. He slashed tariffs and removed other trade distorting features (such as export subsidies and quantitative restrictions on imports). Moreover, the Fujimori administration overhauled the tax structure in an effort to enhance tax collection and increase government revenues, liberalized the investment regime and initiated a privatization program so as to attract foreign capital, and reduced overall government spending in order to attain a fiscal balance. Although these measures began to produce positive macroeconomic results shortly after their implementation, they also epitomized a fundamental paradox of neoliberal programs: they combined a process of economic reactivation and growth with a deterioration in the quality of life of those most vulnerable to austere fiscal policies. In addition, the policies materialized an associated risk inherent in neoliberal programs: they created islands of modernity and prosperity in a sea of poverty and social frustration, a potentially dangerous mix (Guerra García 1995, 75).

Fujimori's decision to implement a radical economic shock program brought him sharp criticism from those aware of its potentially devastating social costs as well as praise from the international financial community. Although as a consequence of his austere measures the hyperinflationary cycle was broken in a relatively short period of time, much like it was anticipated this success story was accompanied by high social costs. Almost immediately after the application of the shock program in 1990 the number of those Peruvians living in poverty effectively doubled (Palmer 1996, 71).

Although a disproportionate share of the social costs of recessionary adjustment policies was borne by those least capable of defending themselves, namely the low-income groups, because the destitute are politically weak they were not the primary target of compensatory policies devised to offset these costs. Rather, it was the more outspoken and organized, if less needy, foes of reform to whom most governments directed public resources available for compensation.

In such a context, a question that often times arises is the following: Because macroeconomic adjustment is unequalizing in the short run, should reforms be retarded for the sake of the poor? The simple answer to this question is no. Delaying indispensable but harsh economic reforms ultimately aggravates matters for the poor. Despite the fact that during the initial phases of macroeconomic adjustment the social costs might be higher than in a situation of non-adjustment, in the long run the process of adjustment is likely to produce more favorable results, even for the poor. Whereas in the case of adjustment there is room for improvement, the postponement of adjustment is made at the expense of increased future costs, solving neither the social nor the economic problems

that beset the country (Infante and Tokman 1992, 10).<sup>1</sup> Moreover, neoliberal reforms provide a propitious setting for the adoption of innovative approaches to protecting the poor that limit the long-term effectiveness of centralized poverty alleviation measures (Graham 1995, 142).

The main objective of this study is to provide a comprehensive assessment of the poverty alleviation measures adopted by the first Fujimori administration (1990-1995). I begin with a review of the relevant literature on poverty and poverty alleviation in which poverty is defined, the causes and types of poverty identified, and alternative poverty alleviation strategies synthesized. The next section provides a general picture of the magnitude of poverty in Peru circa 1990. The core of the paper is an evaluation of the success (or lack thereof) of Fujimori's first term in office to ameliorate poverty and contain its spread. Lastly, some priorities for the future are suggested and final conclusions presented.

## **II. Literature on Poverty and Poverty Alleviation**

As the number of those living in poverty around the world reached alarming levels in the past few decades, scholars became increasingly aware of their social responsibility and launched an urgent search for policy schemes that would allow societies to control, if not eradicate, the spread of this social evil. Much effort went into the conceptualization of the problem, including the formulation of a definition of poverty attentive to the basic features of contemporary times, the determination of its causes, the identification of its types, and the design of strategies to subjugate it. This section of the paper synthesizes some contributions to the literature on poverty and poverty alleviation that hold particular relevance to the case of Peru.

### **Defining Poverty**

Despite the fact that concern for the poor and for ways to reduce poverty has been significant, a precise, consensual definition of poverty that cuts across time and fields of inquiry has been elusive. Adopting one or another definition thus becomes an exercise heavily influenced by the biases and personal preferences of the individual making the selection. Yet because defining the concepts under scrutiny allows us to operate within the same conceptual parameters and share the same scientific language, making such choices becomes necessary.

In this paper, poverty fundamentally refers to the absence of material wealth. Such absence, however, is rarely absolute and the term is typically utilized to describe the much more predominant condition of insufficiency in either the possession of material wealth or in the generation of income required to survive at a minimally acceptable level (Béjar 1995, 54; Rubinow, 1933, 284). This definition, however, is not immune to some interpretative difficulties since no definite, consensual answer exists to the question regarding how much material wealth is required to live above a minimally acceptable level (Rubinow 1933, 284).

In regards to the degree of poverty that afflicts an individual or a group, a clear differentiation must be made between human needs and human desires (it is human nature to desire more than is needed). The determination of the degree of poverty must be based upon a distinction between legitimate needs and excessive desires. According to this interpretation, poverty should thus be defined in terms of the divergence between legitimate needs and available resources. Moreover, it should be defined in relative terms, that is to say based upon comparable standards of living (Rubinow 1933, 284-5).

In order to illustrate the need for these stipulations, one need go no further than to take a quick glance at the case of "primitive" societies. Notwithstanding the scarcity of material wealth among indigenous groups, the extent of poverty within them is presumably not great, not only because they are habitually able to satisfy their limited needs with the resources at their disposal, but because the intensity of inequality among their members and the consequent perception of unjust deprivation are less dominant than in more modern societies (Rubinow 1933, 285).

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<sup>1</sup> Zuckerman has noted that "although it is difficult to determine a causal effect on poverty in Peru from the absence of adjusting, its deteriorating nutritional record may well reflect such a relationship" (1989, 11). This may very well be the case if one considers that by 1993, chronic malnutrition among primary and secondary school students afflicted 35 per cent of those in urban areas and an astonishing 67 per cent of those in rural areas (INEI 1994, 325).

Even though social thought and public opinion have advanced a long way since the "religious or fatalistic explanation of wealth as a gift from a deity and of poverty as a visitation, punishment or trial" (Rubinow 1933, 288), the idea of poverty, the interpretations of its causes and the responses to the basic needs of the poor have varied considerably among societies and over time (Timms 1985, 634). As a result, some contemporary definitions have included features that prior definitions ignored. In recent times, for example, poverty has come to be regarded by some as a lack of resources that seriously inhibits or deters participation in those events and relationships that give life purpose. In other words, the concept of poverty has come to be closely associated with that of inequality (Timms 1985, 635). According to this interpretation, the poor suffer from a lack of access (to social services, information, credit) that arises from institutional biases and intensifies problems emanating from insufficient ownership of material wealth and human assets (Ahluwalia 1990, 113). Yet poverty and inequality are not the same thing. In its *World Development Report 1990*, the World Bank makes the following distinction: "Whereas poverty is concerned with the absolute standard of living of a part of society--the poor--inequality refers to relative living standards across the whole society" (World Bank 1990b, 26).

In recent times, there has been a shift from the conviction that poverty is the result of individual shortcomings to the view that it is generated by a shared lower-class culture that results from an imperfect process of socialization that is transmitted through generations. These perceptions of causation, however, conflict with the more unpretentious interpretation that all that is "wrong" about the poor is simply that they do not possess sufficient material wealth (Timms 1985, 635). It is upon the premises of this last interpretation that this paper is composed. From a more empirical perspective, the World Bank recently defined poverty as the inability to attain a minimal standard of living (World Bank 1990b, 26), which it suggested could only be achieved by those people earning at least US\$370 per year (World Bank 1990b, 1). Because of commodity price differences across the world, however, one can regard such a precise dollar amount as an overly ambitious measuring device. A more sensitive definition of *poverty* that accounts for price differentials from country to country is thus one that identifies the poor as those individuals living in a household whose income is less than two times the cost of a basic basket of food. Along the same lines, individuals living in *extreme poverty* are those whose household income is less than the expenditure necessary to buy one basic basket of food.

### **Causes of Poverty**

Whereas the 1960s and 1970s provided grounds for prudent optimism with regard to poverty alleviation in the Third World, in the 1980s welfare and redistributive policies were battered by the adverse macroeconomic conditions that came about in the wake of the oil shocks and the debt crisis (Burki 1990, 1-2).<sup>2</sup> Not surprisingly, a renewed interest in determining the causes of poverty and exploring ways to reduce it emerged within both academic and non-academic circles.

Although it has been difficult to reach consensus on a definition of poverty, agreement among scholars and development practitioners on the factors that determine and sustain poverty has been more closely approximated (Burki 1990, 5). Among those most widely acknowledged, the following are noteworthy.

**Low Economic Growth Rates.** When a country's rate of economic growth is lower than its rate of population growth, per capita income drops. When per capita income falls, the poverty rate increases. Thus the desirability of high levels of economic growth to help eradicate poverty.

Even though there is no conclusive evidence that higher earnings will lead to a more egalitarian distribution of income or to a reduction in the number of people living in poverty, the favorable experience of East and Southeast Asian countries does suggest that growth in per capita income *may* have a contributing role in reducing poverty and equalizing incomes (Burki 1990, 5).

Moreover, it is now increasingly recognized that processes of overall economic growth in several countries have led to meaningful improvements in the living conditions of the poor (Ahluwalia 1990, 111). The evidence

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<sup>2</sup> In Latin America, for example, the incidence of poverty decreased gradually between 1960 and 1980, only to increase once again in the 1980s (Rosenthal 1989, 65-66).

thus appears to suggest that economic growth is a *necessary* prerequisite for overcoming poverty. Whether or not it is a *sufficient* condition, however, seems highly questionable (Burki 1990, 5; Rosenthal 1989, 69).

**Stagnant Productivity.** Income levels and living standards are affected by trends in productivity. In the East and Southeast Asian countries, for example, growth in per capita incomes resulted in substantial part from higher productivity levels (Burki 1990, 5-6). Conversely, lower productivity levels contribute to a slow growth in per capita income and ultimately to higher poverty levels.

Even though in the short-run stabilization efforts involve a loss of productive capacity that adversely affects the well-being of the economy as a whole (Gonzales de Olarte 1993, 61-62), it is in the long-term interest of any country to bring stability and order to its economy and to take the necessary measures to enhance its levels of productivity. To this effect, due to increased competition, technology absorption, economies of scale and investment in productive resources, an export-oriented growth strategy is likely to yield the most sizable productivity dividends (Burki 1990, 6).

**Unemployment and Underemployment.** Unemployment and underemployment stemming from slow economic growth drive people below the poverty line. High growth, on the other hand, aids the cause of poverty alleviation directly through its positive effects on employment generation and increased income levels as well as indirectly by facilitating the financing of targeted programs for the poor (Burki 1990, 6).

In countries with a low per capita income and a high rate of population growth, the most effective way to generate a suitable number of productive job opportunities and hence reduce unemployment and underemployment is to secure a vigorous rate of growth (Rosenthal 1989, 68).<sup>3</sup>

**Low Educational Attainment.** Low educational attainment translates into lack of skills which in turn translates into inadequate job prospects and limited marketability for the individual and ultimately into poverty. Alternatively, the provision of education to the populace contributes to the improvement of standards of living and promotes growth in a generalized fashion. Moreover, education enhances trainability and flexibility by enabling individuals to assimilate progressive ideas and innovative technologies, and is thus one of the most effective instruments in the effort to eradicate poverty and accomplish greater income equality (Burki 1990, 6-7). At the same time, an ample supply of educated and well-trained labor is likely to stimulate the creation and expansion of labor-intensive activities engendering further employment possibilities (Ahluwalia 1990, 122).

**High Fertility Rates and Rapid Population Growth.** High fertility levels have a strong bearing on poverty. Rapid population growth reduces the flow of the benefits of economic growth to the poor. It invariably translates into slower growth in per capita income and into a slower rate of improvement in the average standard of living. Population growth also contributes to the expansion of the labor force, with an increase in the number of unskilled workers and a retardation in the acquisition of skills by the impoverished masses (Ahluwalia 1990, 123).

Moreover, high birth rates translate into a high incidence of maternal mortality and morbidity. Mothers in poor health, in turn, are generally unable to dispense the kind of care that children require, thus contributing to their inadequate mental and physical development and limiting their future prospects of conquering poverty. An active population policy that promotes female literacy, primary health care, and birth control practices is therefore essential to help alleviate poverty (Burki 1990, 8-9).

**Environmental Degradation.** Although it has become increasingly fashionable to associate poverty with environmental degradation, it is of crucial importance to recognize that the former is as much a consequence of the latter as the latter is a consequence of the former. As the number of those living in poverty swells beyond the ability of the land to provide for their sustenance, impoverished rural masses migrate to marginal urban areas or to state-owned rural lands. In the case of rural-to-urban migration, cities that lack the infrastructure needed to absorb high numbers of migrant groups are inundated with individuals desperate to find a niche in the urban world with little or no regard for the environmental consequences of their actions. In the case of rural-to-rural migration, on

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<sup>3</sup> The case of Lima exemplifies the extent to which the lack of suitable employment contributes to high levels of poverty. Of Peru's economically active population, 33.7 per cent is concentrated in Lima (INEI 1994, 233). Of these, only 12.7 per cent are adequately employed, 9.9 per cent are unemployed and 77.4 per cent are underemployed (INEI 1994, 235). Not surprisingly, it is estimated that 48.9 per cent of Lima's population lives in poverty (Webb and Fernández Baca de Valdez 1993, 261).

the other hand, the devastation of green areas to make room for cultivation results in detrimental environmental consequences (e.g., dispossessed of tree cover and subsurface growth, the land loses soil and fertility). In either case, the poor not only contribute to the degradation of the environment but bear a disproportionate share of the overall costs associated with it (Burki 1990, 9). With a choice of economic activity and residence severely limited by their precarious economic condition, the poor are forced to settle for less than adequate living arrangements, often times residing in highly polluted industrial areas and/or alongside infected water supplies.

**Political Violence.** Political violence contributes to the expansion and perpetuation of poverty in a number of ways: it forces governments to allocate public resources to the replacement of damaged or destroyed infrastructure rather than to the enhancement of social programs; it increases the operating costs of private enterprises due to higher security expenditures; it discourages private investment; it fosters speculative economic behavior across the board; and it causes individuals to place a higher priority on security concerns than on social issues. All these consequences of political violence combine to hinder the capacity of governments to implement effective poverty alleviation programs.<sup>4</sup>

## Types of Poverty

Although typologies of poverty abound, due to their particular relevance and applicability to the case of Peru, this section focuses on three alternative classifications.

The first typology was advanced by Gerth Rosenthal (1989, 66-67), Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC). It identifies five categories of poverty. The **first** type (I) is the most easily recognizable for it encompasses the segment of the population that possesses little material wealth and formal education and has limited access to social action groups capable of making its demands heard. Members of this first group subsist on the margin of the modern sectors of the economy, passing their condition of chronic poverty from one generation to the next. The **second** type (II) of poverty comprises those individuals who, owing to their age, are not part of the economically active population and consequently lack the minimum resources needed to provide for themselves but who at the same time do not enjoy the benefits of social protection. This category also includes females who have to simultaneously exercise the functions of worker, head of household and single mother. The **third** type (III) includes the sectors of the population that are victims of different forms of discrimination: linguistic, social, racial, etc. The **fourth** type (IV) characterizes those people who possess the skills and competence ordinarily required to secure acceptable employment but who are adversely affected by poor macroeconomic conditions. A major feature of this type of poverty is that it can be easily overcome by recovering adequate rates of economic growth. The **fifth** type (V) consists of individuals who are victims of technological innovation, which makes their skills obsolete and jobs expendable.

The second typology was proposed by Zuckerman (1989, 3), who distinguished among three basic categories of poverty. The first category encompasses the so-called **new poor**, who are retrenched public bureaucrats and private sector employees who lost their jobs as a result of austerity measures and/or shifts in

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<sup>4</sup> In the case of Peru, for example, the damage inflicted during the 1980s to the country's productive infrastructure by the struggle between *Sendero Luminoso* and the *MRTA*, Peru's main terrorist organizations, on one hand, and the Peruvian state on the other, amounted to US\$18 billion. Political violence made Peru one of the riskiest countries in the world for investment, and domestic and foreign private ventures decreased in scope and number. At the same time, the entrepreneurial sector saw the costs of production swell due to increased security costs. Lack of adequate levels of investment and higher operating costs, in turn, had a negative impact on effective demand and employment, resulting in economic recession and unemployment. Moreover, public expenses became distorted due to the high monetary costs of dealing with the consequences of violence (e.g., replacing infrastructure destroyed by terrorist bombings). Lastly, political violence resulted in economic agents placing a higher value on the maintenance of security and on the exercise of authority than on securing higher wages and improving the provision of public services (Gonzales de Olarte 1993, 58-61). In the end, societal pressures for governmental attention to social matters became secondary, taking a back seat to concerns for personal safety and indirectly endorsing the government's lack of impetus to address social needs.

production patterns. The second category is comprised of the **borderline poor**, that is to say by the vulnerable, low income groups that are harshly affected by changes in the availability and prices of essential products, by cutbacks in social spending, and in particular by economic recession and macroeconomic adjustment policies. The last category is made up of the **extreme** or **structural poor** who occupy the bottom of the distributional ladder and are victims of malnutrition, illiteracy, poor health, high infant mortality rates, and short life expectancy.

Lastly, the World Bank (1990, 4) has suggested a simple, albeit useful, classification that includes three distinct groups. The first group comprises the **chronic poor**, whose deep-rooted, impoverished condition is the consequence of multiple deprivations over time, such as poor health, substandard nutrition, and inadequate access to productive assets. The second group encompasses the **new poor**, who, as already noted, are above the poverty line before austerity measures are implemented but who fall into poverty as a result of these policies. The last group includes other **vulnerable groups** that are above the poverty line but are harshly affected by adjustment measures and hence deserve policy consideration.

Table 1. Types of Poverty

	Chronic/ Structural Poor	Vulnerable/ Borderline Poor	New Poor
Rosenthal (1989)	Groups with little material wealth and formal education (I) & victims of discrimination (III)	Single mothers and their children & elderly citizens who lack social protection (II)	Skilled workers victims of adverse economic conditions (IV) and technological innovation (V)
Zuckerman (1989)	Groups at the bottom of the distributional ladder that are victims of poor health, high infant mortality rates, short life expectancy, illiteracy and malnutrition	Groups very harshly affected by changes in the supply of basic products, cutbacks in social spending, economic recession and periods of adjustment	Retrenched bureaucrats and private sector employees who lost their jobs due to austerity measures and/or shifts in production patterns
World Bank (1990)	Groups whose deep-rooted, impoverished conditions are the result of multiple deprivations over time	Groups that are above the poverty line but that are harshly affected by adjustment measures	Groups that are above the poverty line before austerity measures but fall into poverty as a consequence of such policies

### Approaches to Poverty Alleviation

Enormous differences in both the intensity and types of poverty make it virtually impossible to conceive of a universal cure to this social iniquity. Hence the need to recognize that the eradication of poverty is not an objective that can be isolated from the economic, social, cultural, political and institutional contexts that circumscribe it (Rosenthal 1989, 65). As there is no single antidote to poverty, policy solutions must be designed and implemented within the specific political and institutional settings that characterize each society. Consequently, it must be recognized that "addressing the needs of the poorest citizens is a political as well as a social issue" and that "only to the extent that they succeed in reducing poverty and making income distribution more equal will countries be able to sustain recent structural reforms" (Burki and Edwards 1995, 8).

After careful scrutiny, social scientists have concluded that poverty abatement strategies cannot be simply regarded as schemes that can be safely left to economic growth and trickle-down processes alone. On the contrary,

it is now widely acknowledged that poverty alleviation must be treated as a specific goal which development programs must be purposefully designed to accomplish (Ahluwalia 1990, 111-112).

In a given country, there are essentially three actors involved in the planning and execution of poverty alleviation programs: the central government, local non-governmental organizations (NGOs), and multilateral international organizations. Whereas the government can alleviate the worst aspects of poverty by redirecting social expenditure to the neediest groups, NGOs can mobilize resources beyond state constraints, complement and enhance governmental programs with their own and articulate the needs and demands of the poor. Multilateral organizations, on the other hand, can provide advice on alternative social policy and resource reallocation schemes, facilitate policy analysis and public expenditure reviews, and undertake lending activities that include agreements on fiscal measures that support poverty alleviation (Psacharopoulos 1990, 18). As noted by Rosenthal in his analysis of the role of both the public and private sector actors involved in the poverty alleviation process, "unless each side agrees, by mutual consent, to set limits on the other, the end result will be either a bureaucratic, inefficient authoritarianism or, on the other hand, the prevalence of the most undiluted forms of economic Darwinism, at the expense of the less privileged strata of these societies" (Rosenthal 1989, 70-71).

Having made these qualifications, three broad strategies to tackle poverty merit attention.

1. According to Ahluwalia (1990), the conditions adversely affecting the income levels of the poor point to two alternative tactics that can help alleviate poverty. The first is a "direct approach" based upon the belief that since the poor lack land, employment, capital, and credit, poverty alleviation schemes should fill these gaps through direct government intervention in the form of targeted programs aimed at increasing the income of identified impoverished groups. Two types of schemes that exemplify this approach are special wage employment programs and financial assistance programs designed to generate additional income for the poor through self-employment. The second or "indirect approach" to poverty alleviation focuses upon the poverty-reducing potential of economic growth. However, rather than advocating the "passive reliance on 'trickle down' processes alone," the indirect approach emphasizes the need to make "a conscious attempt to identify the total policy framework which is most likely to ensure that growth takes place in a manner which also ensures significant progress in poverty alleviation" (Ahluwalia 1990, 114).

Whereas the direct approach focuses directly upon the existing production occupations of the poor, the indirect approach concentrates on identifying strategies that "will influence the total operation of the economy to strengthen the poverty reducing impact of growth" (Ahluwalia 1990, 114).

2. Psacharopoulos (1990, 17) identifies three crucial means to tackle poverty:

- a. *Stimulate macroeconomic growth.* Due to its positive effects on employment generation and to the consequent increase in public resources that can be allocated to social programs, strong macroeconomic growth is the most effective means to confront poverty in the long run.
- b. *Implement programs that improve the income-generating prospects of the poor.* Such programs can increase the stock or productivity of the poor's material assets (e.g., through land reform or irrigation projects) and enhance their human capital (through education and training).
- c. *Implement social programs targeted at the poor.* Such programs should involve direct governmental action designed to improve the living conditions and life expectancy of the poor through the provision of adequate nutrition, primary health care, sanitation, etc. In this regard, the fundamental challenges that any government must confront imply finding proper ways to maximize the flow of benefits to their intended recipients (by preventing the leakage of such benefits to undeserving groups) and keeping administrative efficiency high and attendant costs low.

3. Demery and Addison (1987) suggest five broad measures to assist the poor during periods of structural adjustment:

- a. Increase the access of the poor to productive assets, such as land and credit.
- b. Raise the return on the productive assets held by the poor through higher levels of investment in economic and social infrastructure.
- c. Improve the employment opportunities of the poor through higher wages,<sup>5</sup> better access to jobs, and emergency work programs designed to generate primary income.

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<sup>5</sup> It should be noted, however, that certain measures to increase wages (such as minimum wage legislation) may interfere with the overall objectives of the adjustment effort (Demery and Addison 1987, 4).



- d. Ensure the access of the poor to education and health care so as to raise their human capital stock and increase their productivity and incomes in the long-run.
- e. Supplement the resources of the poor with targeted transfers of scarce resources to the individuals who need them most.<sup>6</sup>

*Table 2. Strategies to Tackle Poverty*

Ahluwalia (1990)	<ol style="list-style-type: none"> <li>1. direct approach: special wage employment programs and financial assistance programs</li> <li>2. indirect approach: focus upon poverty reducing potential of economic growth</li> </ol>
Psacharopoulos (1990)	<ol style="list-style-type: none"> <li>1. stimulate macroeconomic growth</li> <li>2. implement programs that improve the income-generating prospects of the poor (land reform, education and training)</li> <li>3. implement social programs targeted at the poor (direct governmental action to improve their living conditions)</li> </ol>
Demery and Addison (1987)	<ol style="list-style-type: none"> <li>1. increase the poor's access to productive assets (land, credit)</li> <li>2. raise the return on productive assets held by the poor</li> <li>3. improve the employment opportunities of the poor</li> <li>4. insure the poor's access to education and health so as to raise their human capital stock</li> <li>5. supplement the poor's resources with targeted transfers of scarce resources</li> </ol>

According to the experts, what then are the principal components of a successful anti-poverty strategy? Chief among them is an explicit effort to spur growth, closely followed by the implementation of employment-creating, income-generating and human capital stock-raising programs targeted at the poor. Such programs should include (but are not limited to) measures that improve the poor's access to productive assets and increase the return on those they already hold, enhance their existing living conditions by way of targeted transfers of scarce resources, and increase their access to health care and educational opportunities.

### **III. Magnitude of Poverty in Peru circa 1990**

Peru's economic history has been dominated by a persistent feature: great wealth has been produced, but only by a small portion of the population and for the benefit of even a more limited group. Until the 1970s, a large segment of the populace was left largely untouched by development, having to secure its livelihood from subsistence agriculture and having little interaction with the money economy. Meaningful economic development occurred along the coast and at some secluded mining enclaves in the Andes, but virtually nowhere else. The country's severe topography and perverse climate made transport and communications exceptionally difficult and expensive, further limiting the effects that development at one place had on other regions of the country. At the same time, much modern development was carried out by foreign corporations, with the attendant effect that a considerable portion of the dividends of economic activity were not reinvested in domestic productive infrastructure. Inasmuch as this pattern of development proved capable of achieving a respectable level of economic growth, it also led to wide discrepancies in productivity levels, employment opportunities, income distribution and welfare between the modern and traditional sectors of the economy, the coast and the rest of the country, and the rural and urban populations (World Bank 1973, 1-2).

In the past twenty years, however, due to the globalization of technological progress and the adverse domestic and international economic conditions that forced rural residents to migrate to urban centers, only a small portion of the

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<sup>6</sup> Transfers may also be perceived as going against the basic goals of adjustment programs unless they are able to increase productivity or generate some other long-term benefit (Thomas 1993, 21).

population has continued to rely on subsistence agriculture and an ever increasing number of people has come to depend on the money economy. Moreover, improvements in the scale and scope of communications have decreased the relevance of Peru's severe topography. All in all, the country has gradually become more integrated. And although some features of the past have undergone important changes, others have stubbornly endured: poverty and income inequalities remain rampant, access to employment and social welfare is severely limited, and the urban coast (Lima in particular) continues to dominate the economic, social and political life of the country.

*Table 3. Selected Social Indicators*

	1970	1975	1980	1985	1990	1992
Population in Millions	13.2	15.2	17.3	19.4	21.6	22.5
Percentage Rural	42.6	38.6	35.5	32.6	29.8	29.0
Crude Birth Rate per 1000	40.8	37.2	34.6	32.1	27.7	30.0
Crude Death Rate per 1000	13.9	12.1	11.1	9.6	8.0	8.0
Infant Mortality per 1000 Live Births	116.4	102.2	101.4	92.4	54.0	77.0
Life Expectancy at Birth	53.9	56.4	57.9	60.3	63.3	63.6

*Sources:* Data for 1970, 1980 and 1985 from IDB 1991, 22; data for 1975 and 1990 from IDB 1994, 23; data for 1992 from UNDP 1994, 132, 148, 150 and 174.

Unfavorable developments in the international economic system combined with inappropriate domestic policy responses to make the decade of the 1980s in Peru one that most would not care to remember. Although several social indicators matched positive international trends (Table 3), others such as the percentage of the population living in poverty experienced an unprecedented negative upward shift (Table 4). In the early 1990s, with almost six out of ten Peruvians living in poverty, the situation appeared hopeless: drastic conditions desperately called for radical measures to put a halt to the spread of poverty and to find ways to ameliorate it.

*Table 4. Percentage of the Population Living in Poverty*

	Early 1980s	Mid/Late 1980s	1991
Poverty*	46.0	52.0	58.8
Extreme Poverty**	21.0	25.0	24.6

*Sources:* Data for the 1980s from Burki and Edwards 1995, 8; data for 1991 from Béjar 1995, 55.

\* Poverty is defined as household income that is less than two times the cost of a basic basket of food.

\*\* Extreme poverty is defined as household income that is less than the cost of a basic basket of food.

Yet despite the urgency to control the spread of poverty, this was not the only socio-economic phenomenon in critical need of attention going into the 1990s. An analysis of changes in the distribution of income in Peru's urban sectors (which in 1990 accounted for 80 per cent of GNP), for example, illustrated the

necessity to implement redistributive mechanisms to guarantee that even in the context of renewed economic growth the poor would be able to partake in the benefits of that growth (see Table 5). Between 1980 and 1986 the share of GDP<sup>7</sup> earned by non-poor urban sectors fell from 76 to 67 per cent. The share going to non-poor urban workers dropped from 27 to 25 per cent; the return to capital (i.e., the share going to profit earners) showed an even larger fall from 49 to 42 per cent of GDP. By 1990, however, although the share of non-poor urban GDP as a whole had only decreased by one per cent from its 1986 level (from 67 to 66 per cent), the income share going to non-poor urban workers experienced a significant drop (from 25 to 19 per cent), with income going to profit earners increasing from 42 to 47 per cent of total income. The share of GDP going to the urban poor, on the other hand, experienced some relative improvement, increasing from 10 per cent in 1980 to 13 per cent in 1986 to 14 per cent in 1990. Not surprisingly, this improvement was at the expense of non-poor workers rather than profit earners, whose share of income strengthened during the second half of the 1980s. The data thus confirm a trend that has characterized Peru during most of its independent history: income distribution continues to be highly skewed, with the income share of the lowest 40 per cent of the population accounting for only 14.1 per cent of the total between 1980 and 1991 (UNDP 1994, 164) and the poorest 50 per cent of the population earning a per capita income of only US\$116 (Psacharopoulos 1990, 17). Throughout the 1980s, the ratio of the income of the highest 20 per cent of the population to the lowest 20 per cent was 10.5 (UNDP 1994, 164).

Table 5. Distribution of Income in Urban Sectors (Percentages)

	1980	1986	1990
GDP	100.00	100.00	100.0
Net Remittances Abroad	4.0	8.0	5.0
GNP	96.0	92.0	95.0
Non-Agricultural GNP	86.0	80.0	80.0
Income of Poor Sectors*	10.0	13.0	14.0
Income of Non-Poor Sectors	76.0	67.0	66.0
-- Workers	27.0	25.0	19.0
-- Profit Earners**	49.0	42.0	47.0

Source: Infante and Tokman 1992, 19.

\* Poor sectors are those in which household income is less than two times the cost of a basic basket of food.

\*\* Net remittances abroad are subtracted.

Aggravating matters for the poor, during the 1980s social expenditures as a percentage of total GDP decreased from 4.6 per cent in 1980 to 2.7 per cent in 1990, with Peru's long-term social debt<sup>8</sup> as a percentage of

<sup>7</sup> GNP (gross national product) is the total monetary value of a nation's output of goods and services during a year. It differs from GDP insofar as GDP (gross domestic product) omits net earnings from the rest of the world but includes payments to nonresidents for services provided domestically.

$$\text{GDP} = \text{GNP} - \text{earnings from abroad} + \text{net remittances abroad}$$

<sup>8</sup> Long-term social debt (or social debt stock) refers to the amount of resources needed to eradicate the level of poverty existing prior to a period of adjustment (Infante and Tokman 1992, 1).

GDP increasing from 26.7 per cent in 1980 to 31.7 per cent in 1986 to 41 per cent in 1990 (Infante and Tokman 1992, 19).

Interestingly, not only is the overall distribution of income in Peru extremely uneven, but so is the regional distribution of poverty. Whereas chronic malnutrition (a direct effect of poverty) in some departments afflicts only 20 per cent of the population, in some others, such as Huancavelica, Peru's poorest department in terms of unsatisfied basic needs (INEI 1994, 594), malnutrition afflicts more than 70 per cent (Béjar 1995, 55).

Incomes in the urban sectors are usually higher than those in rural areas, where poverty is generally endemic. In the 1980s, only 44 per cent of the population of the country lived in rural areas. Yet 70 per cent of the poorest 30 per cent and 83 per cent of the poorest 10 per cent of the population resided in those areas. Among the very poor, a large majority of heads of households were occupied in agriculture (73.9 per cent of the poorest 10 per cent and 62.9 per cent of the poorest 30 per cent), as compared with 30.2 per cent among the richest 70 per cent (Thomas 1993, 16). Between 1988 and 1991, while 77 per cent of the urban population had access to safe water and sanitation, only 10 per cent of the rural population had access to safe water and 20 per cent to sanitation (UNDP 1994, 148). By the early 1990s, almost 70 per cent of the rural population lived in poverty, as compared to less than 50 per cent among Lima residents (Table 6). Due to a wider range of employment opportunities in the industrial and service sectors, however, incomes within urban centers display greater disparities than those in rural areas. As they lack job security, marketable skills and a minimally acceptable earning potential, individuals engaged in informal economic activities (so dominant in the larger cities) are the most probable victims of poverty (Burki 1990, 4-5).

Table 6. Poverty and Extreme Poverty by Region, 1991 (Percentages)

	Lima	Urban Coast	Urban Sierra	Rural Sierra
Extreme Poverty*	10.0	22.2	18.5	47.1
Poverty*	38.9	32.8	28.9	20.8
Non-Poor	51.1	45.0	52.6	32.1

Source: Webb and Fernández Baca de Valdez 1993, 261.

\* For definitions of poverty and extreme poverty see Table 4.

In terms of the regional distribution of "chronic" poverty and "new" poverty, whereas in 1991 more than 43 per cent of the chronic poor lived in the rural Sierra, less than 3 per cent of the new poor lived in that region (see Table 7). Conversely, while 26 per cent of the chronic poor lived in Lima, more than 52 per cent of the new poor lived in the capital city. With regard to people living in absolute poverty, between 1980 and 1990 they accounted for 32 per cent of the total population (UNDP 1994, 164).

Table 7. Regional Distribution of Chronic Poverty and New Poverty, 1991

	Total	Lima	Urban Coast	Urban Sierra	Rural Sierra
Total	100.0	41.05	18.82	19.81	20.32
Chronic Poor*	100.0	26.09	15.16	15.46	43.29
New Poor*	100.0	52.35	24.73	20.19	2.73

Source: Webb and Fernández Baca de Valdez 1993, 262.

\* For definitions of chronic poverty and new poverty refer to section on types of poverty.

#### IV. Poverty Alleviation during Fujimori's First Administration (1990-1995)

When Fujimori assumed power in 1990, he inherited an economy on the brink of catastrophe and a set of social policies that had proven not only ineffective but also severely detrimental for the poor. Total social expenditure in 1990 was only 27 per cent of what it had been in 1986 (INEI 1994, 593).

In her 1995 study of Peru's Programa de Apoyo al Ingreso Temporal (PAIT), a safety-net program implemented during the García administration (1985-1990), Graham concluded that if poorly executed, poverty alleviation programs can potentially alienate their expected beneficiaries, doing more harm than good to those who more desperately need assistance. Essentially, PAIT was a public-works employment program set in motion in Lima's shanty towns. While PAIT provided much needed income support and infrastructural assistance, its implementation was conspicuously top-down and partisan, displaying high levels of clientelism in the hiring and constant political manipulation of impoverished workers. Ultimately, the widespread perception that PAIT was a political tool of García's APRA party severely undermined the program's public image. Most damaging, however, was the program's extreme centralism and top-down execution, which disrupted, duplicated, and subverted the efforts of the community-level, self-help organizations upon which a large segment of Peru's poor depend for their subsistence. Its effects thus ran directly opposite to the grassroots empowerment and institutional capacity-building that are essential to poverty abatement (Graham 1995, 149-150). The PAIT thus epitomizes the serious damage that poverty alleviation programs can produce if they are manipulated for partisan purposes or if they contradict the ongoing activities of independent local groups (Graham 1995, 154).

Although Fujimori had the benefit of García's misconceived and misguided social policies to build upon, the evidence suggests that far from learning from his antecessor's mistakes he duplicated many of them. When Fujimori's new government announced its harsh economic reforms, it proclaimed its utmost support for a so-called Emergency Social Program (Programa de Estabilización Social, or PES) that would help reduce the detrimental effects that adjustment policies would have on the poor. The PES program was designed to dispense aid on three different fronts: food, health care and job creation (mainly for temporary labor). Of the three, aid was initially directed mainly to the first. Yet from the beginning it became evident that the government's financial support for the PES was more rhetorical than real. For the August-December 1990 five month period, for example, the government's appropriation for PES was US\$ 415 million (or US\$ 83 million per month). The funds actually spent, however, only totalled US\$ 66.7 million (or US\$ 13.34 million per month), that is to say the equivalent of less than one fifth of the original budget ([Peru Solidarity Forum] 1991, 4).

*Table 8. Emergency Social Program (PES) (August/December 1990; Millions of US\$)*

	Food	Health Care	Job Creation	Total
Funds Programmed	295.0	52.0	68.0	415.0
Funds Spent	55.8	4.2	6.7	66.7

*Source:* [Peru Solidarity Forum] 1991, 4.

A broader look at government spending during the early 1990s clearly reflects the way in which the Fujimori administration prioritized its spending. In addition to the strong austere pro-adjustment behavior working against social programs, it quickly became evident that re-insertion into the international financial system received from the onset the highest priority. Accordingly, servicing the foreign debt took precedence over all other socio-economic considerations. Whereas in 1990 only 2.6 per cent of GNP was devoted to social spending, 7.4 per cent (almost three times as much) went to service the debt. By 1994, notwithstanding the fact that debt servicing as a percentage of GNP had fallen to 3.1, social expenditure had only increased to 2.8 per cent (Béjar 1995, 56). It should be noted, however, that even though social expenditure as a percentage of GNP did not increase significantly during this period, social spending as a proportion of the central government budget did show signs of improvement, increasing from 16.6 per cent in 1990 to 20 per cent in 1994 (Béjar 1995, 57-59). In 1995, social

spending as a percentage of the central government budget increased to 30.4 per cent (Béjar 1995, 57-59), with funds allocated to poverty alleviation programs per se accounting for 6.9 per cent of the budget (Béjar 1995, 60). That same year, total social expenditure as a percentage of GDP experienced a significant increase to 7.8 per cent. Whether the positive changes witnessed in 1995 were politically motivated (i.e., the manipulation of state resources to influence electoral outcomes) or were the beginning of a new page in the history of social expenditures in Peru remains to be seen.

Table 9. Social Expenditure

	1980	1989	1982-1990	1991	1994	1995
Social Expenditure (Millions of Soles)	--	--	--	--	201	598
Social Expenditure/GDP	4.6	3.6	2.6	2.0	2.8	7.8
Per Capita Social Expenditure (US\$)	—	--	12.0	12.7	--	166

Sources: Data for 1980 and 1990 from Béjar 1995, 56, with the exception of per capita social spending in 1990 which is from Howard 1995, 5; data for 1982-1989 from Cominetti 1994, 58; data for 1991 and 1995 from *El Peruano* 1995, A3; data on social expenditure/GDP for 1994 from Béjar 1995, 56; data on social expenditure in millions of soles for 1994 from *El Peruano* 1995, A3.

A second notable development in social spending between 1990 and 1995 was its marked shift in focus. Even though traditionally education, health and housing programs had been the principal beneficiaries of this spending, the Fujimori administration channeled resources directly to specific groups living in poverty whose outspoken representatives were successful in taking their demands to the relevant authorities, thus revealing the short-term emphasis of the government's social policy objectives.

Table 10. Patterns of Real per Capita Social Expenditure (1985 Dollars; 1980/1981 = 100)

	1982/1989	1990/1991
Education	92.0	77.6
Health	88.1	75.8
Housing	32.6	7.4

Source: Cominetti 1994, 58.

Although the paramount problem of Fujimori's Emergency Social Program was its insufficient financial resources stemming in part from the program's secondary status in Fujimori's economic agenda, its inefficient administration undoubtedly constituted another impediment to its success. Despite the fact that the program was established in August 1990, due to its lack of appropriate organization it was unable to initiate its activities as rapidly as the urgent situation required ([Peru Solidarity Forum] 1991, 4-5). In fact, no explicit strategy took shape until a year later when the National Fund for Social Compensation and Development (Foncodes) began operating with funding from the Peruvian government, the Inter-American Development Bank (IDB) and the World Bank, and even then only as a response to pressure exerted by foreign donors concerned about the immense social costs of economic adjustment. The setting in motion of a compensation fund in Peru, however, did not guarantee that

substantive efforts to assist the poor would be made and that tangible improvements in their standard of living would be achieved, as Foncodes's mixed record over the 1990-1995 period painfully illustrates (Graham 1995, 150).

A third obstacle to the success of poverty alleviation measures has been their highly centralized nature. Ideally, the design and implementation of poverty-reducing policies is the result of the concerted efforts of central, regional and local governments, decentralized, semi-autonomous public institutions, private enterprises and grassroots organizations. In the Peru of the 1990s, however, the formulation and execution of social policy and the control over social expenditure have been highly concentrated in the Ministry of the Presidency, which has not only rapidly grown to become a so-called "super ministry" but has taken over and duplicated many of the responsibilities of other public sector institutions and has concentrated a high share of the government's budget. In 1994, for example, eight line ministries (Education, Health, Labor, Agriculture, Industry, Transport, Energy and Fisheries) had a combined budget lower than that of the Ministry of the Presidency (2.646 and 2.648 billion new soles, respectively) (Béjar 1995, 58). This situation has undermined the credibility and reduced the administrative capacity of individual line ministries to perform the functions for which they were established. Moreover, even though numerous private assistance and development organizations have been working for many years to improve the living conditions of the poor, the Fujimori administration has displayed little initiative to coordinate its own actions with those of these institutions so as to avoid duplication and enhance the overall provision of much needed social services (Béjar 1995, 58).

In addition to the lack of domestic financial resources, Foncodes's weak administrative capacity and the excessive centralization of poverty alleviation resources, the absence of a presidential commitment to separate social policy from politics has alienated many non-governmental organizations and community groups. Moreover, as Foncodes's safety-net program became increasingly perceived by the majority of the population as an inconsequential component of macro-economic reform, the credibility of the Fujimori administration's declared commitment to mitigate the shocks of economic adjustment was severely questioned. Any remaining hope of correcting this situation was effectively lost in mid-1994 when Fujimori himself started to use Foncodes as a political tool in his campaign for reelection, much like García had done in the late 1980s with the PAIT. As has been noted, in Peru "the ability of safety-net programs to help reduce poverty and build democratic institutions has been curtailed by governments bent on retaining political control over the programs" (Graham 1995, 150). For all intents and purposes, Fujimori's first administration sadly epitomized this trend.

The combination of insufficient financial resources, weak administrative capacity, centralization and halfhearted political commitment that characterized poverty alleviation efforts during Fujimori's first administration forced the victims of adjustment to take matters into their own hands and create and strengthen collective organizations capable of meeting their most urgent needs. Despite being constrained by a severe lack of funds, in many of the shanty towns that engulf the major cities, in mining camps throughout the Sierra and even in remote areas of the countryside, exceptional instances of community solidarity and support emerged in the shape of soup kitchens, common pots, "Glass of Milk" committees, etc. ([Peru Solidarity Forum] 1991, 5). Yet even though all these initiatives are highly commendable, one must not overlook the fact that they were in many instances the only survival strategy at the disposal of the poor, considering that Fujimori's August 1990 economic shock alone pushed as many as five million people below the poverty line, forcing them to become members of what was identified above as the new poor (Béjar 1995, 55). The overwhelming increase in the number of new poor, in turn, had repercussions that affected society across the board generally, and the chronic poor in particular. For example, the years between 1990 and 1995 witnessed an unconventional migratory pattern whereby large numbers of students formerly attending private schools enrolled in public ones, with a portion of students previously matriculated in public institutions dropping out of school altogether. Moreover, patients that used to opt for private clinics were forced to check into state hospitals, displacing those who could not afford medical treatment due to insufficient financial resources (Béjar 1995, 59).

Reacting to the rapid spread of poverty and the desperate situation of the destitute, it did not take long for many analysts to assert that the most serious deficiency of Fujimori's economic reform program was the lack of an adequate social program that would provide relief to those sectors upon which the burden of reform would fall more heavily (Gonzales de Olarte 1993, 66).

In its own defense, Fujimori's government released official figures to support its contention that the total number of people living in poverty has significantly declined during its term in office. According to these figures, the number of people living in poverty decreased from 12 million in 1991 to 10 million in 1994, that is to say from 54 to 47 per cent of the population (*El Peruano* 1995). Yet despite the fact that even between 1990 and 1992, the most economically devastating period of Fujimori's first term, several social indicators showed signs of improvement (the birth rate decreased from 27.7 to 26.8 per cent, the death rate from 8.0 to 7.4 per cent and the infant mortality rate from 54.0 to 52.0 [IDB 1994, 23]), all these improvements owe a great deal of gratitude to a more favorable international economic environment over which Fujimori had little control.

Upon reelection for a second term (1995-2000), Fujimori declared that poverty alleviation would acquire foremost importance in the years to come and immediately pledged that 40 per cent of Peru's 1996 central government budget of 20 billion new soles would be devoted to social spending (*Actualidad económica* 1995, 5). Whether or not this enhanced rhetorical commitment to poverty alleviation will produce much needed positive results remains to be seen. One thing that is true, however, is that because the process of reducing poverty does not occur overnight, in order to guarantee that successive administrations will have a stake in the successful implementation of any poverty alleviation programs initiated by Fujimori, these programs must effectively become an integral part of the administrations' overall macroeconomic programs.

## V. Priorities for the Future<sup>9</sup>

If in fact the second Fujimori administration is now seriously committed to combatting poverty, several of the shortcomings that inhibited the success of his first administration's social policies will have to be corrected.

**Insufficient public funding.** The limited availability of resources has compelled many governments to reduce their social spending. Yet, because of their degree of impoverishment, shifting public resources by a few percentage points of government spending to enhance the incomes of the poorest segments of the population can have a striking impact on poverty alleviation. Thus the need for an uncompromising political as well as financial commitment to poverty reduction.

**Misdirection of public expenditure.** A dominant feature of Latin American economies is their distorted allocation of resources. Public expenditure on poverty alleviation, for example, has increasingly focused upon the older members of society (i.e., through social security payments) rather than upon the most vulnerable group, the very young. Moreover, expenditures in health care have been geared toward urban hospitals rather than rural clinics, and expenditures in education toward tertiary rather than primary schooling, even though most of the benefits of these services go to middle- and upper-income groups (Thomas 1993, 28). In order to amend this situation, public expenditure must be reallocated from tertiary to primary education, from urban to rural health care, and from social security to child nutrition assistance.

**Lack of priorities.** Often times, policies to combat poverty are overly ambitious: they try to assist too many people with severely constrained resources in a very short period of time. Changing this misguided policy requires that targets be carefully distinguished and realistically restricted. Only after this has been accomplished will the sustainability of the poverty alleviation measures be guaranteed. In determining the speed at which pre-existing, ineffective social policies should be modified or replaced, it is frequently argued that swift and broad reforms can create exceptional political opportunities for governments to redirect public resources to formerly marginalized groups. Slow or narrow reforms, on the other hand, allow the opposition to consolidate and exercise considerable pressure on the reform-minded government (Graham 1995, 144). As for the nature of the new social program, demand-based policies that require community involvement are the most conducive to the kind of self-sustaining projects that are essential to long-lived poverty alleviation efforts (Graham 1995, 155).

**Centralization of poverty action.** Even though centrally executed schemes may be fairly well suited to abate the immediate social costs of macroeconomic adjustment by assisting the poorest groups more quickly and on

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<sup>9</sup> This section is based upon Psacharopoulos's (1990) analysis of the issues that currently dominate poverty alleviation efforts in the developing world.



a larger scale (Graham 1995, 155), as the poor are widely scattered throughout the national territory, trying to attend to their needs over prolonged periods of time by action at the central government alone is a virtual impossibility. Thus the need to encourage the involvement of local governments and non-governmental organizations. To this effect, institutional autonomy at the local level in the formulation and implementation of poverty alleviation policies allows for speedy action and a minimum of bureaucratic red tape, thereby diminishing administrative costs and contributing to the efficient reallocation of public resources to the poor. Extra-institutional policy-making, on the other hand, provides no guarantee of permanence. If a poverty alleviation program is intended to be nothing more than a short-term measure during a period of adjustment or recovery, institutional autonomy represents only a minor concern. If its fundamental purpose is to become a long-term constituent of a broader social policy scheme, however, it is usually essential to institutionalize it (Graham 1995, 155).

## VI. Conclusion

Historically, an inequitable income distribution and a high incidence of poverty have been distinct features of Peru's socio-economic landscape. From the perspective of the poor, prospects of overcoming adverse socio-economic conditions, equalizing incomes and reducing poverty depend upon the formulation and implementation of effective public policies in the context of an appropriate institutional environment. With Peru's policy-making process and institutional autonomy subordinated to political interests under current governmental arrangements, the likelihood of experiencing substantial, long-lasting improvements in these areas in the near future appears remote at best.

Even though Fujimori has gradually increased the levels of social spending, the amount of resources allocated to offset the detrimental effects of his austerity measures and of pre-existing inauspicious economic conditions remains insufficient given the magnitude and intensity of poverty that afflicts the majority of Peruvians. Furthermore, the excessive centralization of social spending in the Ministry of the Presidency continues to undermine the democratic principle of citizen participation and to hinder administrative capacity and institutional development. At the same time, a strengthened commitment to poverty alleviation that goes beyond the calculated distribution of government resources as a mechanism for securing political support has yet to materialize. Despite the hardships inflicted by its unyielding policies, Fujimori's economic program seems to have fared fairly well politically: Fujimori remains relatively popular (though his popularity rating has recently slipped), was re-elected for a second term in office by a huge electoral margin and the downward trend in inflation has been recognized as an important political achievement (Gonzales de Olarte 1993, 74). The time has come, however, to translate such political fortitude into socially sensitive public policies that put the well-being of the population above personalistic political considerations.

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