1

Introduction

Since the early 1990s, governments in Latin America have been experimenting with innovative approaches to poverty alleviation. The programs that have been created in the region have garnered the attention of scholars and policymakers worldwide. During this wave of social policy reform, the uncelebrated breakthrough in the fight against poverty is that some presidents in the region have adopted programs whose operational guidelines – such as fixed eligibility criteria, monitoring systems, and independent program evaluations – limit governments' ability to manipulate programs for political gain. Yet not all presidents in Latin America have adopted such programs. Why did some governments pursue poverty relief programs insulated from politics, while others pursued manipulable programs, and yet others did not reform their policies at all? What are the implications of this variation for the prospects of eradicating poverty in the region?

This book examines the political processes that led some governments to tie their own hands in crafting antipoverty programs. The degree to which executives limited their discretion had implications for various policy outcomes, including the life span of programs, the extent to which antipoverty policies were used as political instruments, and, ultimately, the degree to which programs improved the lives of the poor.

I argue that while economic crises create the conditions for a new pro-poor social coalition, the governments of young democracies adopt poverty alleviation programs whose operational rules suppress political discretion when they face an antagonistic legislature. Such a decision improves the programs' effectiveness in promoting social development. These policy outcomes, in turn, strengthen democratic systems by eroding clientelism and promoting the

electoral participation of program recipients.[1] Conversely, when governments' interests are aligned with those of legislators, poverty relief programs do not include such provisions, politicians have more opportunities to politicize a program, and efforts to fight poverty are less effective. These policy outcomes are deleterious to democracy because they reinforce clientelism, and thus hinder the ability of poor voters to hold politicians accountable.[2] Economic crises, as well as conflict and compromise between the executive and legislative branches, determine the kinds of poverty relief programs that a government pursues, with direct consequences for the economic and political capabilities of the poor.[3]

That politics help explain governments' efforts to eradicate poverty is a well-accepted idea. Yet our understanding of the mechanisms through which politics matter is incomplete. Scholarly work on the welfare state has provided an extensive analysis of social protection systems, but the emphasis has been disproportionately on pensions and, to a lesser extent, on aggregate spending on education and health. For these two areas of the welfare state, scholars find that as democracy became more consolidated toward the end of the twentieth century, governments in Latin America began to spend more on health and education (Huber et al. 2006, 2008; Kaufman and Segura-Ubiergo 2001; Segura-Ubiergo 2007).[4] And, as power dispersion increased and the left took power, the reform of the pension system became less likely (Brooks 2009; Castiglioni 2005; Huber 1996; Madrid 2003). However, the political processes behind the adoption and design of poverty relief programs (i.e., decisions about

[1] Scholarship defines clientelism in various ways. Some definitions emphasize that individual interests are promoted at the expense of collective interest (Putnam 1993; Sobrado Chavez 2000; Wantchekon 2003). Other definitions focus on the cost imposed on the client: "Political clientelism means the relations that are established between a patron who offers certain services and a client who in exchange for those services (or goods) permits the patron to govern and resolve collective issues without the client's participation" (Sobrado Chavez and Stoller 2002). Along the same lines, other scholars define clientelism as the concession of political rights on the part of the client in exchange for public favors, goods, or services (Fox 1994). Many define clientelism in terms of its consequences; for example, a weak democracy or a polity with little social capital would be considered clientelist. Finally, clientelism is also defined with respect to the procedural nature of the exchange (Kitschelt 2007); in these terms, exchanges that involve corrupt practices are bound to be clientelistic.

[2] For a discussion of the effects of clientelism see Fox 1994; Stokes 2005; Nichter 2008; Hicken 2011.

[3] In the case of the United States, it is well documented that the policies implemented by the government affect the quality of the democratic system (Campbell 2003).

[4] Scholars agree that democratization increased expenditures on health and education in Latin America, but they disagree about the effect of the regime transition on the lives of the poor. For example, Dion (2010) notes that following democratization, welfare for the growing numbers of unorganized poor people increased in Mexico. Weyland (1996), however, argues that organizational obstacles, such as clientelism, populism, and state fragmentation, have impeded redistribution toward the poor in many new democracies. Ross (2006) further argues that although democracies spend more on education and health than nondemocracies, higher expenditures do not translate into wealth improvements for the poor. He provides evidence that democracy has little effect on infant mortality rates.

program benefits, eligibility criteria, operational rules, etc.), remain elusive, perhaps because antipoverty programs are "late-comers to the social-policy mix" in most countries in Latin America (Haggard and Kaufman 2008, 3).[5]

The central contribution of this book is an explanation of the politics of conditional cash transfer programs (CCTs), one of the most prominent types of antipoverty programs in operation in Latin America and one of the most significant social policy innovations of recent decades. As described in detail in Chapter 2, this type of poverty relief program is built on the idea that targeted cash transfers to poor households, usually paid to the mother or primary caregiver, fight poverty more effectively than income transfers to the poor through subsidies for food, transportation, electricity, and the like. The size of the cash transfer varies, "ranging from 4 percent of household consumption in Honduras to about 20 percent in Mexico" (Adato and Hoddinott 2010, 11).[6] Yet the most innovative component of CCTs is that, to break the intergenerational transmission of poverty, cash transfers are contingent on investments by poor people themselves in their children's nutrition, health, and education. CCTs promote human capital accumulation by making cash transfers conditional on regular school attendance and visits to public health centers, in which children receive vaccinations and regular checkups, and mothers attend health and nutrition training workshops (Adato and Hoddinott 2010). Thus, a well-designed CCT allows a poor family to keep children in school rather than sending them to work, and reduces future poverty by making it likely that relatively more of the welfare gains accrue to children (Ravallion 2006a).

Right- and left-leaning governments alike have found reasons to adopt this social policy innovation. Indeed, CCTs are so attractive to politicians that even left-leaning presidents such as Luiz Inácio Lula Da Silva in Brazil and Alan García in Peru continued the operation of CCT programs inherited from right-leaning governments. As of early 2012, seventeen countries in Latin America had adopted a CCT.[7] Collectively, these programs reach 27 million of the poorest households in the region. On the basis of the success of CCTs in Latin

[5] Mesa-Lago's (1989) pioneering work on the welfare state in Latin America notes that social insurance programs have been in place in many countries in the region since the nineteenth century to protect civil servants and members of the armed forces, and since the beginning of the twentieth century to protect groups of workers in strategic sectors. Yet the development of social assistance programs has for the most part lagged behind.

[6] In many CCTs, cash transfers are determined by the number of children in the household, their age and gender. And, the size of the cash transfer per child is calculated by estimating the costs of sending the child to school, including the forgone income if the child attends school instead of working.

[7] All CCTs began as small-scale programs. For example, initially in Mexico *Progresa* covered 300,000 households and in Brazil small regional cash transfers were developed. Coverage has expanded in most countries, however, there is considerable variation. In terms of absolute coverage, CCTs range from 11 million families (Brazil), to 215,000 (Chile), to pilot programs with a few thousand families (Nicaragua). In terms of relative coverage, CCTs range from about 40 percent of the population (Ecuador), to approximately 20 percent (Brazil, Mexico) (Fiszbein and Schady 2009).

America, governments in Bangladesh, Burkina Faso, Cambodia, Indonesia, Kenya, Macedonia, Nigeria, Pakistan, Philippines, Turkey, and Yemen now use cash transfers as their main policy instrument for social assistance (Fiszbein and Schady 2009). International organizations such as the World Bank and the International Monetary Fund endorse and sponsor CCTs throughout the developing world.

CCTs appeal to governments on the right because they target resources to poor children, who are generally perceived as a particularly deserving group. CCTs are also cost-effective and market-compatible. Compared to pensions, which typically entail large budgetary costs, CCTs are relatively inexpensive, often costing less than 1 percent of GDP.[8] Compared to generalized subsidies, in-kind food subsidies, and price controls, CCTs limit the capture of resources by the nonpoor, generate minimal market distortions, and avoid long-term welfare dependence by restricting program eligibility to poor households with school-age children.

From the perspective of left-leaning governments, CCTs are appealing because they are instruments of redistribution and social inclusion. In contrast to in-kind food subsidies, which are difficult to deliver to rural areas with extensive population dispersion, mountainous terrain, and poor roads, cash transfers have no expiration dates and entail no storage costs. Moreover, CCTs express solidarity with vulnerable families, and they respect poor families' decisions on how to spend the additional income they offer. Thus, CCTs transform a social assistance program into a program that allows poor households to decide how to overcome their condition.

Beyond ideologically driven reasons, CCTs are appealing because they provide a direct link to poor citizens. Such a link is of value both to politicians who are interested in improving the lot of poor people and to those who are interested in using the targeted resources to amass political support (Weyland 1999). Thus, compared to other welfare state policies, which are ideologically charged, CCTs appeal to larger group of politicians. Moreover, in contrast to the expansion of welfare programs in Latin America from 1950 to 1980, which generally took the form of entitlement legislations (Haggard and Kaufman 2008), CCTs do not have the status of entitlements.[9] This means that CCTs' coverage and level of benefits depend on a yearly approved budget, and not the other way around, as is the case for entitlements (Romer 1996). Therefore, CCTs are relatively easier to modify compared to other welfare state policies.

[8] CCTs are cost-effective despite the high initial fixed costs associated with their design. See Caldés, Coady, and Maluccio (2010) for a cost-benefit analysis that takes into account the costs of transferring the money to beneficiaries, as well as the costs of activities associated with other program design attributes, such as targeting and monitoring of conditionalities

[9] The few exceptions are Ecuador's *Bono de Desarrollo Humano*, and the short-lived *Proyecto 300* in Uruguay.

The proliferation of cash transfer programs in Latin America has coincided with a period during which poverty and inequality have decreased, for the first time in decades. From 1992 to 2009, the fraction of the total population in Latin America living on less than US$2.50 a day decreased from 28 to 16 percent. Over the same period, the fraction of the population living on less than US$4 a day decreased from 44 to 30 percent.[10] Between 2000 and 2007, inequality in Latin America declined as well: in 12 countries in the region, the Gini coefficient decreased an average of 1.1 percent a year (Lopez-Calva and Lustig 2010).[11] These trends fuel enthusiasm for CCTs as instruments to tackle poverty. However, most CCTs have been politically controversial at one time or another, and many have been accused of fostering clientelism.

Despite the apparent policy convergence, CCTs vary in ways that matter both for their welfare consequences and for our theoretical understanding of them. Chief among the attributes that vary across CCTs in Latin America is program design – specifically, the degree to which operational rules limit politicians' ability to manipulate program resources for political gain. At one extreme is the pioneering Mexican cash transfer program, *Oportunidades* (initially called *Progresa*), which uses a combination of geographical targeting and proxy means testing to identify eligible households. Program operations are standardized, and a centralized bureaucracy is in charge of administering the program, but the disbursement of the cash transfers is outsourced to banks. To ensure that an incumbent party cannot use the program to boost its electoral support, expansion of the program is prohibited during the six months before a presidential election. One of the most scrutinized social policies in the country, the program is subject to independent evaluation. The International Food Policy Research Institute evaluated *Oportunidades* during the early years of its operation and found that transfers were well targeted to poor households, beneficiaries were meeting conditions of school attendance and visits to health centers, and the program was having a positive effect on the lives of poor people.

At the other extreme is the Bolivian cash transfer program, *Bono Juancito Pinto*, which began operations in 2006. This program initially offered a cash transfer to students enrolled in first to fifth grades in public primary schools. The operational rules of the program limit to some degree the ability of the executive to interfere directly in the operations of the transfer. For example, to circumvent the politicized bureaucracies that are in charge of other social programs, the program requires that the armed forces deliver the cash transfer. However, the executive retains substantial discretion over the program. The

[10] Socio-Economic Database of Latin America and the Caribbean, CEDLAS and The World Bank 2005.

[11] Gini coefficient or Gini index is an economic measure of inequality in income distribution that ranges between 0 and 1. A value of zero would indicate perfect equality in income distribution. As inequality increases, the Gini coefficient also increases. Between 2000 and 2007, inequality decreased most in Brazil, Ecuador, and Paraguay and increased in Costa Rica, Honduras, Nicaragua, and Uruguay (Lopez-Calva and Lustig 2010).

operational rules of *Bono Juancito Pinto* do not include mechanisms to monitor or evaluate program operations in a systematic way (Morales 2010), and there are no limitations on when program expansion and benefits increases can occur. In 2008, when President Evo Morales proposed and won a recall referendum, the coverage of the program expanded by almost 40 percent – the largest expansion the program has seen.

The emergence of CCTs and the variation in the programs' design present an opportunity to revisit important questions: when do politicians govern for the benefit of the poor and when do they not? And when do politicians tie their own hands in crafting social policies?

THE STUDY OF CCT PROGRAMS

Existing theories of the welfare state do not account for the development of CCT – and, of course, they were not intended to do so. Take, for example, the power resource theory, which argues that differences in welfare regimes can be traced back to the balance of power between labor and capital. The stronger unions are, the argument goes, the more powerful are social democratic and labor parties. In turn, left-leaning governments spend more in the public sector and pursue policies that benefit the working class (Esping-Andersen 1985; Korpi and Shalev 1979; Skocpol and Amenta 1986). Although the power of labor and the ideological orientation of governments explain the expansions of old-age and disability pensions in Latin America (Dion 2010; Huber 1996; Huber et al. 2008; Segura-Ubiergo 2007),[12] they do not by themselves account for CCT proliferation, because both right- and left-leaning governments have implemented this type of poverty relief program.

The context of CCTs is different from the context in which Latin American governments first developed their social protection schemes, or from the contexts of Western Europe and the United States that motivated the power resource theory. When CCTs emerged, governments were dealing with the aftermath of the debt crisis of the 1980s and their economies had begun a process of deindustrialization, which consisted on a contraction in manufacturing and agricultural employment (Carnes and Mares 2010). Fiscal constraints obstructed the expansion of the welfare state, even among left-leaning governments (Huber et al. 2008). And deindustrialization split labor between workers in the formal sector of the economy who have access to the welfare state and workers in the informal sector with little access to health and education services (Edwards 1995). Welfare state insiders and outsiders differ in their

[12] By the time CCTs were adopted, most countries had old-age and disability pensions, but only a few had universal coverage. Huber (1996) explains that the development of social insurance in Latin America closely mirrored the balance of power in society. In most countries, social insurance covered first the military, civil servants, and the judiciary. Coverage was next extended to strategic sectors of the middle and upper working classes, and only then was coverage extended to selected other sectors of the working class.

preferences about public spending (Rueda 2005). Thus, the relation between left-leaning governments and pro-poor policies in contemporary Latin America is not straightforward.

Iversen and Cusak (2000) argue that deindustrialization led to an unambiguous increase in the demand for public spending among countries in the Organisation for Economic Co-operation and Development (OECD), and thus an increase in the size of the welfare state. In their account, left-wing governments were particularly prone to increase public spending when electoral turnout was high. However, Huber, Mustillo, and Stephens (2008) show that partisanship "does not matter for the overall amount of social expenditures" (431) in Latin America from 1970 to 2000.

If it was not ideology, what motivated some governments and not others to adopt a CCT? Why did some governments design programs with more exacting operational guidelines than others? A common argument in Latin America postulates that state bureaucrats – technocrats, to be more precise – determine the origin, characteristics, and evolution of public policies. State-centered explanations assume that bureaucrats can, and often do, act independently of underlying socioeconomic forces (Geddes 1994). The notion of bureaucratic supremacy has a long tradition. For example, Guillermo O'Donnell's (1973) classic work on bureaucratic authoritarianism attributed the democratic collapse in the region to coalitions between civilians and military bureaucrats that successfully circumvented politicians. Cleaves (1974) also argued that bureaucrats blocked policy reforms proposed by both leftist and right-wing governments. More generally, bureaucrats often appear to implement policies without the support of dominant interest groups.[13] That a bureaucracy is powerful, however, does not necessarily mean that it is insulated from political interests.[14]

At first glance, CCT programs seem to be the result of bureaucratic supremacy for three reasons. First, CCTs confer benefits on poor people, who have rarely demanded policy concessions from the state in a successful way. Second, economists have dominated the study of CCTs[15]; thus we know more about the effects of CCTs on economic and human capital outcomes than about their politics. Finally, most of the few insightful studies of CCTs' politics focus on a single country (Díaz-Cayeros et al. 2007; Hunter and Borges 2011; Maldonado Trujillo 2012; Zucco 2013). Among these studies, the pioneering

[13] Geddes (1994) points out: "In Latin America most governments began to implement industrialization policies that systematically disadvantaged the producers of primary product exports at a time when agriculture and mining remained economically dominant. The more recent history of the region offers numerous additional examples of policy changes that have injured powerful economic groups. No one believes that these groups are weak or without influence, but those who propose a focus on the state point out that they have not proven to be insurmountable obstacles to governments bent on pursuing policies that disadvantage them" (3).

[14] See, for example, Snyder (2001) for an account of how political rather than technocratic interests were determinants of policy outcomes after the transition toward neo-liberalism in Mexico.

[15] For a thorough review of this literature, see Fiszbein and Schady (2009).

Mexican and Brazilian CCTs have deservedly garnered most of the attention. Yet, as I show in this book, the Mexico and Brazil CCTs have operational systems that presuppose a certain degree of bureaucratic expertise, but other CCTs in the region lack such demanding operational systems. Therefore, the extent to which bureaucrats implement CCTs in a professional and insulated way is an outcome to be explained.

Another possible answer to why some governments adopted CCTs and some chose programs with more exacting rules than others relates to state capacity. Díaz-Cayeros and Magaloni (2009) show that countries with greater bureaucratic capacities (as measured by the rate of immunization against measles) are more likely to adopt a CCT program. They argue that "the more capable a state is, the more likely it should be to create a program involving the kinds of administrative burdens that cash transfers require" (12). This insight provides an important building block for understanding the conditions under which CCTs are adopted. However, bureaucratic capacity is endogenous to the political process (Geddes 1991). Thus capacity, like bureaucratic insulation, is an outcome to be explained.

Finally, policy diffusion could explain the proliferation of CCTs. Because later CCT adopters had the experience from earlier adopters, governments in the region could learn from or emulate each other.[16] Furthermore, the World Bank, the Inter-American Development Bank, and other international agencies have actively promoted CCTs,[17] contributing to their broad diffusion.

On the other hand, policy diffusion does not fully account for previous waves of social policy reform. As Weyland (2006) explains in his study of the spread of the pension privatization model: "Even in the era of globalization, national sovereignty persists and gives countries – including weak underdeveloped countries – significant room for maneuver. Due to to this autonomy, nations retain a considerable margin of choice in deciding whether to adopt a foreign model or not" (4). Furthermore, Brooks (2007) argues that the adoption of policies that are easily enacted and reversible is not governed by policy diffusion processes. Because CCTs are inexpensive – at least, compared to pensions – and are not constitutionally granted entitlements, cross-national peer effects may not apply. I will show that policy diffusion is relevant, but it is not the most important determinant of governments' decisions about the adoption and design of CCTs.

Domestic politics shape policies even in sectors in which "technical complexity heightened the influence of financial markets and expertise" (Murillo 2009, 3). Therefore, to understand the politics of CCTs, we need to better understand the domestic constraints under which state officials operated.

[16] For a description of the mechanisms of policy diffusion, see Shipan and Volden (2008).

[17] In fact, in response to the food and financial crises of the late 2000s, the World Bank lent $2.4 billion to finance the initiation or expansion of CCT programs around the world (World Bank 2009).

THE ARGUMENT IN BRIEF

The argument I develop in this book is that a combination of economic crises and domestic political considerations explains why some governments chose to implement a CCT with stringent operational rules and forgo their own discretion to tackle poverty, some chose to implement CCTs without such operational rules, and yet others chose not to implement a CCT at all. In addition, I show that the same factors that explain policy adoption had consequences for policy outcomes and the political lives of the poor.

The Causes of CCTs

An economic crisis may, through its welfare losses, persuade societies to enact major policy changes that would be unacceptable otherwise (Drazen and Grilli 1990; Hirschman 1985). Yet Latin American countries have experienced economic crises throughout their modern history. Why were the economic crises that preceded the emergence of CCTs different? There were three reasons.

First, the economic downturn was distinct in its severity and duration. During the 1980s, most countries in the region experienced economic stagnation, decline in real per capita income, and raging inflation. Economic crises were so severe that the decade became known as the "lost decade" (Grindle 1996). In a fiscal crisis resulting from high debt and the halting of credit from industrialized countries, governments implemented stringent macroeconomic reforms that embraced fiscal prudence and monetary restraint. Many also restructured their economies, opened their markets to trade and foreign investment, privatized state-owned firms, and deregulated important sectors of their economy (Fraga 2004; Stokes 2001). As a consequence, the living conditions of many Latin Americans deteriorated.[18] Guillermo O'Donnell noted the gravity of the situation:

> The social situation in Latin America is a scandal. In 1990, about 46 percent of Latin Americans lived in poverty. Close to half of these are indigents who lack the means to satisfy very basic human needs. Today there are more poor than in the early 1970s: a total, in 1990, of 195 million, 76 million more than in 1970. These appalling numbers include 93 million indigents, 28 million more than in 1970. The problem is not just poverty . . . The rich are richer, the poor and indigent have increased, and the middle sectors have split between those who have successfully navigated economic crises and stabilization plans and those who have fallen into poverty or are lingering close to the poverty line (1996, 1).

Second, during this period, the number of self-employed, seasonally employed, and underemployed people, as well as people working in the service

[18] According to the Human Development Report, per capita GDP declined from $1,965 (in 1987 U.S. dollars) in 1980 to $1,793 in 1990 (Garland 2000). In the early 1990s, more than 10 million children under the age of five were malnourished.

sector, increased considerably, while the number of people living as subsistence farmers in the rural areas declined. Thus, a substantial portion of the labor force in Latin America became part of the informal economy. Indeed, workers excluded from mainstream institutions of the welfare state became a majority in many countries.[19]

Third, most governments dealing with the aftermath of the lost decade were young democracies (Stokes 2001).[20] Keeler (1993) argues that large-scale public dissatisfaction stemming from an economic crisis creates a sense of urgency for action that particularly affects democratic governments. The expectation that the costs of inaction are high influences the position of both incumbent governments and their opposition regarding policy reform.

The importance of economic crises in shaping governments' policy responses to fight poverty in the 1990s has not gone unnoticed. There is a consensus that Latin American welfare states were insufficiently developed (Mesa-Lago 1997). Spending on health and education was regressive (Edwards 1995),[21] and the few social assistance programs in operation disproportionately benefited nonpoor people and residents of large and relatively wealthy cities (Tendler 2000).[22] Therefore, if democratic governments wanted to improve the lot of poor people, they had to innovate (Mesa-Lago 1997; Weyland 1999). In Mexico, as Díaz-Cayeros, Estévez, and Magaloni (2007) argue, an economic crisis weakened the ruling coalition and generated demands from within the incumbent party to limit presidential authority over the social sector.

I do not assume that all politicians want to help the poor. Rather, I argue that economic crises motivate governments to take action and impose a cost on politicians who propose a clientelist response to the crisis when other politicians reject such a response. Similarly, economic crises impose a cost on politicians who reject a nonclientelist response when other politicians propose it. These costs are grounded on changes triggered by economic crises in the society at large. As Carnes and Mares (2010) put it: "An increase in the economic insecurity of wage earners in the formal sector contributed to the formation of coalitions between this group and the poor" in favor of policies with a higher pro-poor bias (108). Once economic crises create the conditions for a new pro-poor social coalition, whether governments craft pro-poor policies with stringent operational guidelines depends on the resistance, and the costs

[19] The country with the highest rates of informality in the region was Bolivia, where more than 70 percent of the labor force was excluded from social security benefits, and the country with the lowest rate of informality was Uruguay, with close to 40 percent (Socio-Economic Database for Latin America and the Caribbean, CEDLAS and The World Bank, various years).

[20] Starting in the 1990s, democracy replaced previous systems of government in several countries in the region, and democratic regimes have persisted with few interruptions (Stokes 2001).

[21] Governments subsidized curative medicine more heavily than preventive care and higher education instead of primary education.

[22] See Social Funds and Poverty Reduction: Making Social Funds Work for Poor People, DESA, 2003.