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CHILE, MEXICO, AND PERU

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ABSTRACT

The structural adjustment programs of these three countries, like those of many others throughout the world in recent years, have greatly changed previous balances between the state and the private sector, capital and labor, and domestic versus world market influences on the economy. This article examines some of the consequences of these changes for questions of poverty and income distribution and for questions of autonomy. The Chilean experience is discussed in terms of three different variants, or models, all within the basic open-economy orientation. Of these, the first had particularly negative consequences in the dimensions examined, the second gave more positive results, and the third improved on the second. Mexico and Peru have been following models similar to the first, the most costly, of the variants used in Chile. This path can be seen as the one closest to the full logic of the new orientation but it is also one that is unnecessarily adverse for equality and for autonomy.
Effects of Adjustment Programs on Poverty and on Autonomy:
Chile, Mexico, and Peru*

The adjustment programs of these three countries, like so many others throughout the developing world in the last two decades, have involved such profound structural changes that they might better be described as radically new development strategies. Although initially understood as efforts to stop extreme inflation or correct external deficits, they came to emphasize measures intended to change the balances between the state and the private sector, labor and capital, and domestic versus world markets as determinants of the structures of production, consumption, and finance. They are intended to change the character of development, and have been doing so.

The discussion following is focused on two of the many dimensions of development affected by these programs: questions of poverty and inequality, and questions of national autonomy. Such programs may easily worsen inequality and weaken autonomy. If they did, that would not necessarily contradict their intent. They are meant to remove or greatly lessen restrictions on ways to make profits and to take away any protective barriers limiting

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full participation in world markets. In this perspective, pursuit of equality and autonomy can be seen as threats of interference with market forces, adverse to efficiency and growth. Concern for poverty, in the more generous versions, takes the form of direct social programs meant to help the poor by methods that do not involve interference with markets: to lessen poverty while at the same time pursuing efficiency, through the two separate but complementary channels.

Such social programs can surely help, but even they leave open the possibility that negative effects from the side of market forces may outweigh gains from the social projects. This article emphasizes an alternative that could lessen any negative effects: the possibility that the adjustment programs themselves can be shaped in ways that promote equality and a degree of autonomy without violating concern for macroeconomic balance, efficiency, or growth. Any social programs used with them might then become more effective than they would otherwise have been, because they would not be caught in an uphill fight against market forces.

The consequences of adopting a market-oriented adjustment program depend on the specifics of the program in each country, and how they relate to the economic and social structures of the country in question. The adjustment programs of Chile, Mexico, and Peru have shared many basic characteristics: they have all been intended to favor efficiency, leadership by the private sector rather than the state, and relatively open, unregulated
economies. But within this basic orientation they have varied considerably. Chile has used three different models; Mexico and Peru have combined most aspects of Chile’s first version with social programs similar to its third, but unfortunately without the more positive features of its second.

All three countries went through an initial period of contraction and then recovered to achieve impressive results in terms of lower inflation and renewed growth. But just when the international community concluded that first Chile and then Mexico had achieved successful adjustment, they each fell into severe problems. Chile was considered a success story through the late 1970s, to 1982, but then plunged into an extraordinarily deep depression. Mexico was widely regarded as having accomplished a convincing recovery from its debt crisis, until December 1994, but then in its turn lost control and found almost everything going wrong.

Traumatic episodes need not last forever. Chile recovered from 1984 with a new and more successful program, and the democratic government that took office in 1990 turned it into a relatively egalitarian economic strategy as well. Mexico’s drastic measures in response to its crisis at the end of 1994 may permit fairly rapid recovery in terms of renewed output growth, though poverty has certainly worsened and the negotiations for emergency loans from the United States raised serious questions about effects on the country’s sovereignty. Peru might be able to escape any crisis at all by revising its program in time, but
just as with the others the implications for equality and autonomy will depend on exactly what path is chosen, whether with or without a new crisis.

It is always a treacherous business to draw general lessons from the experiences of particular countries. The more dependable side of these comparisons is that they bring out both individual differences and common effects of the programs used in these three countries. Extension beyond them is more doubtful but the common elements in these models and their consequences may help clarify alternatives within other adjustment programs as well.

Section 1 explains two hypotheses about the key economic factors involved in determining how adjustment programs influence equality and autonomy, the particular meaning of autonomy intended here, and some aspects of the relationships between adjustment and direct social programs. Sections 2 through 4 examine characteristics of the individual adjustment processes in Chile, Mexico, and Peru. Section 5 is an interpretation of regularities and contrasts in these experiences.

1. Key economic factors influencing equality and autonomy

If economists could all agree on the factors determining degrees of equality and autonomy it would be a miracle, and probably a mistake. The causal processes at work are so varied and so complex that they endlessly invite new attempts to understand and explain them. The limited purpose of this section
is to clarify a few key factors which may be affected, favorably or unfavorably, by alternative types of adjustment programs. The main concern is with ways in which the operation of market forces might be guided in order to favor equality and autonomy.

In the first model of adjustment used in Chile and that followed so far in Peru, intervention of any kind was ruled out in principle, as a contradiction of the basic strategy. But reality tends to undermine absolute prescriptions. Even the military government in Chile began in the second stage of its adjustment process to take some measures favoring employment and exports, making markets move in ways they were not doing on their own. The question is, what kinds of measures might help lessen inequality and favor autonomy without violating the constraints of an adjustment program that is fundamentally led by the private sector in an open economy? Following are two hypotheses, not meant to be exclusive but to underline possibilities.

*First hypothesis*: the main economic relationships that work either in favor of or against equality are the balances among the demand for labor, the growth of the labor force, and the growth of human capital.¹ The first key to the possibility of relatively egalitarian development is to follow a labor-intensive growth path. That may take a very long time to change the basic situation in a country with an extreme degree of excess labor, as is the case in Peru. It can have significant effects more rapidly in countries that can, as in Chile now, come close to full employment in good periods. The second key is to stimulate
personal learning and encourage social mobility so that both workers and managers can take advantages of opportunities and raise their incomes through rising productivity. These objectives involve three sets of variables at once: macroeconomic strategy, relative prices, and social choices.

On the macroeconomic side, it surely helps to keep output and employment growing as rapidly as possible within the limits of two critical constraints: that the rate of increase of production and spending is not so fast as to provoke serious inflation, and that it does not raise imports so much faster than exports that continued growth becomes a hostage to rising external debt. On the microeconomic side, it should help to foster labor-intensive lines and techniques of production, and to that end to avoid taxes that raise costs of labor as well as overvalued exchange rates that make imported capital equipment artificially cheap. On the social side, it would help to do everything possible to provide adequate support for public health, education, training, and aids to mobility, so that all groups in the society can be aware of and able to respond to opportunities.

Second hypothesis: many of the lines of policy favorable for reduction of poverty should also favor a reasonably high degree of autonomy, and thereby an enhanced capacity to pursue an egalitarian style of development. Autonomy certainly does not guarantee increased equality--it could go wrong in many ways--but failure to protect some degree of autonomy is almost bound to
undermine any development model otherwise favorable for equality.

The main economic variables favoring autonomy include: (1) technological change, learning, innovation, product quality, and cost reduction; (2) escape from dependence on traditional primary exports, which rarely help stimulate learning and innovation and are subject to wide swings dominated by conditions of external demand; and (3) ability to maintain adequate savings rates so that total spending can be kept in line with capacity to produce, in order to minimize dependence on foreign capital.

The meaning of autonomy intended here is not one of exclusion or separation from the external world but instead one of interaction, in relatively open markets, but guided by two objectives: to avoid any high degree of dependence on external capital, and to stimulate the growth of the kinds of exports most likely to be associated with learning new techniques and raising productivity. Autonomy in this sense would be the direct opposite of retreat behind protection against competitive pressures. It would instead use those pressures to stimulate learning and productivity growth. It should help sustain an egalitarian development program, provided that a country's own internal balance favors such an orientation.

The internal side could fail for many reasons. Autonomy can become meaningless if the capacity of the government to implement coherent policies is undermined by corruption, by resistance of middle and upper income groups to the taxation needed to provide resources for government, or by personal manipulation of the
chief executive or a particular political party. \(^2\) Institutional capacity is a necessary condition of any genuine autonomy. But then again, capacity is not everything. If a government is repressive or is controlled by a minority in its own interests then autonomy could have the perverse effect of protecting such orientations. Its desirability is contingent on the particular case. The presumption that it can be helpful rests on the belief that a good many governments of developing countries have a genuine interest in reducing poverty and inequality, provided that they can do it without economic or political breakdown. Autonomy in the sense intended could help sustain such programs with fewer forced interruptions from the external crises that have been so common in the past.

Emphasis on employment conditions and market forces is not meant to suggest in any way that they can be sufficient, that direct social programs are unnecessary or unimportant. They are crucial for the health and nutrition of the extremely poor, and beyond that as channels through which the groups least able to respond to new opportunities can gain education, skills, mobility, and voice. The multilateral development agencies supporting these adjustment programs have done a great deal to promote and help finance social programs to accompany them. Such efforts have helped ease the strains of adjustment in many countries, though perhaps more for those best placed to call attention to their needs than for those most disadvantaged. \(^3\)

The most disadvantaged are those held in long-term extreme
poverty by structural obstacles or personal handicaps that prevent them from responding to opportunities. Some studies of poverty focus on them, using the concept of "chronic poverty." The classification applies two criteria: that these people are below the poverty line in terms of consumption, and that in addition they lack basic requirements for getting out of poverty. Among the basic deficiencies considered are illiteracy of the head of the household, children of primary school age who do not attend school, extremely poor conditions of health or housing, lack of sanitary facilities, and geographical isolation without dependable access to markets. A Peruvian study for 1994 counts nearly a quarter of the population in this category (table 7).

An appealing way to look at the goals of development is that it could and should be a process of opening up human capacities, for those whose lives have been blocked by poverty as for everyone else. Improving employment conditions can surely help. Deteriorating employment conditions can drive many families into needless poverty for many years, as they did in the first adjustment model used in Chile; steadily improving conditions can by the same token help many of them get out of poverty, as they did in the more positive later models used in Chile. But this is just one side of the issue: the side of demand for workers, creating opportunities for those able to respond. The other side, the supply side, remains crucial: raising the human and productive potential of the whole society, and helping those who are initially not able to respond by attacking the obstacles that
2. Aspects of the adjustment process in Chile

Chile has used three significantly different models of adjustment, all within a steady orientation toward an open economy under careful monetary and fiscal control. Its high degree of success in recent years would have been impossible in the absence of important changes away from some of the policies used in the first stage.

The progression of adjustment programs used in Chile can be summarized in terms of the military government’s original model (A), changed to the more effective model (B) after the first version led to crisis, and then to the equally effective and at the same time more socially oriented version (C) adopted by the democratic government from 1990.

Model A, the program used from 1975 to 1982, left markets other than labor and foreign exchange almost entirely unregulated. Labor legislation was changed to weaken unions and give employers greater control over working conditions; real wages were cut in half between 1972 and 1974 but subsequently protected by indexing wages to the rate of inflation. The exchange rate was not left to be determined by market forces: after repeated devaluations in the first years, it came to be fixed instead, from 1979, as an anchor against inflation.

Model B retained many features of model A but allowed for
somewhat more intervention to promote specific sectors or new exports, temporary increases in tariff rates during conditions of depression, heavy subsidies to the financial sector by using the central bank to take over bad loans and provide special financing for debts denominated in dollars, much lower real interest rates, and--most importantly--active use of devaluation to promote a competitive international position. Model C follows B in most respects but has added new social programs both to provide direct extra-market help to the poor and to increase their human capital and earnings potential. It has also included revision of labor laws to lessen the anti-labor emphasis introduced in model A.  

Chile's model A succeeded in reducing inflation greatly, and permitted several years of fairly good economic growth. But even before it led to crisis, it worsened poverty, inequality, and external dependence.

Under model A, comparing 1978 to levels a decade earlier, consumption by households in the highest fifth of the income distribution in Gran Santiago increased moderately, but consumption by the poorest 40 percent of households fell by nearly a third (table 1).  

Consistent with this fall in the living standard of low income households in Santiago, poverty on the national level clearly increased, though exactly how much it increased is difficult to say with full confidence. The standard reference estimate for 1970 is a poverty headcount of 17 percent.  If that were directly comparable to estimates for 1980, it would mean that the proportion of Chilean households in
poverty almost doubled under model A. But it is not directly comparable because the minimal food basket used to define the poverty line in 1970 was changed subsequently to include more protein and fewer calories, at higher total cost. For comparison with later figures, the estimate of 17 percent is too low. How much too low? Discussions with Oscar Altimir and Arturo León Batista at the Economic Commission for Latin America suggest that it should be raised by about 3 to 5 percentage points, giving an estimate of 20 to 22 percent.\[10\] From this base, the proportion of Chilean households in poverty increased to 32 percent by 1980.

Table 2 gives estimates for the distribution of consumption in Gran Santiago and for the distribution of income in the country as a whole. The figures for consumption, derived from studies carried out to revise the cost of living index, are more dependable than those for income: the latter involve inescapably uncertain corrections, notably for under-reporting of incomes.\[11\] Given the necessary role of judgment in making such corrections, different agencies can report different results from the same survey information. For 1987, ECLAC reports that the lowest 40 percent of households received 13.9 percent of total income while Labán and Larraín report 10.7 percent; for 1992 ECLAC reports 14.6 percent while the Planning Commission estimates 13.6 percent.\[12\] Joseph Ramos tried an alternative approach, calculating income distribution in terms of the ratio of labor income to national income for the period 1970-83: this method brought out increased inequality too, though even this path led
to two markedly different indexes. What remains common to these diverse estimates is that income distribution became markedly more unequal through the period of model A and the first years of model B, but then began to turn toward lower inequality.

The estimates given in table 2 for the distribution of consumption in Gran Santiago show a sharp decrease in the share of the lowest 40 percent of households under model A, from 19.4 percent in 1968 to 14.5 percent by 1978. The measures of income distribution also show an increase in inequality, though less pronounced than that for consumption. The greater decrease in consumption shares of the lowest 40 percent of households in Santiago, as compared to the decrease in income shares nationwide, may be explained partly by a steeper increase in poverty for urban than for rural households. It may also be due in part to the fact that, when incomes fall, the poor are more directly forced to cut their consumption than middle and upper income groups are.

Of the many factors responsible for increasing poverty under model A, the most direct and systematic was a great increase in unemployment. The rate of open unemployment in Santiago had averaged 6 percent in the 1960s. Under model A, it averaged 16 percent even for the relatively prosperous years 1975-81, then jumped to an average of 28 percent in the depression of 1982-83 (table 3). Econometric tests of the factors determining changes in the income share of the lowest 40 percent of households bring out clearly the significant, and dominant, role of changes in
15

The depression starting in 1982 was directly related to the way that model A led to a loss of autonomy, in the sense of overdependence on external capital. In the first years of the military government's economic strategy, external deficits had been greatly reduced by a combination of monetary and fiscal restraint with active devaluation to restrain imports and raise exports. But the priority given to stopping inflation led to decisions first to slow down devaluation and then, in 1979, to fix the exchange rate. With the exchange rate fixed in nominal terms, the financial sector deregulated, and domestic interest rates much higher than foreign, the private sector began to borrow heavily abroad. Although inflation slowed down greatly it did not stop: the real exchange rate appreciated and the current account deficit rose rapidly, financed by the borrowing (table 3). Expressed in terms of the deficit for non-factor goods and services, it grew close to 8 percent of GDP for 1980-81.

Internally, deregulation of the financial sector under model A led to a great deal of manipulation. A series of scandals and threatened bankruptcies broke out in 1981. External creditors, suddenly worried, abruptly stopped lending. With external credit cut off, the financial system collapsed and the economy plunged into deep depression.16 In the two dimensions of most concern here, model A proved to be a failure: many of the Chilean people paid a high price in terms of increasing poverty, and the economy proved deeply vulnerable to changes in the supply of external unemployment.
Chile’s second adjustment program, model B, began as an attempt to recover from the depression of 1982-83 and continued to the end of the military government in 1990. It was still a distinctly conservative model but a more promotional version: the government began to take responsibility for promoting production, employment, and exports, not just for restraining inflation. The new approach proved to be more successful in terms of aggregate growth and lessened external dependence, and in its last years achieved a reduction of poverty and inequality as well. The percentage of Chilean households below the poverty line increased at first—it went up from 32 percent in 1980 to 38 in 1987—but it then came part way back down to 35 percent by 1990 (table 1). The share of income going to the highest 20 percent of households remained practically the same in 1990 as in 1979-81, but the share of the lowest 40 increased, from 11.1 to 13.3 percent (table 2).

Of the many changes that characterized and contributed to this more positive second adjustment program, those concerning interest rates and exchange rates were perhaps the most significant. As in practically all countries undergoing adjustment programs similar to model A, when interest rates and the financial system were deregulated under conditions of tight monetary restraint, domestic rates rose to extremely high levels. In Chile, they began to come down as inflation fell in the late 1970s but then shot up above 30 percent again when signs of
profound financial trouble appeared in 1981. The Central Bank resorted temporarily to "indicative" interest rate ceilings, while implementing a series of actions to take over bad debts and relieve pressure on the financial system. In the worst of the crisis, the government took direct control of the banks. As the crisis eased, real interest rates came down to more reasonable levels: from above 30 percent in 1981 and 1982 they fell to 11 percent in 1984 and 8 percent in 1985. They have not since gone back up to the preceding extremes. That change helped to lessen pressures for external borrowing while also lessening the regressive impact inherent in the extraordinarily high levels of interest rates under model A.

The most important change in model B was that the government abandoned its costly policy of fixing the exchange rate to stop inflation. That strategy was reversed by aggressive devaluation to make the Chilean economy more competitive, and led to an impressive rise in exports. In addition to promotional use of the exchange rate, the government introduced direct measures to promote non-traditional exports, tax advantages and rebates of import duties to exporters. On the import side, tariffs were raised from a common level of 10 percent to 35 percent during the depression, then gradually lowered back down as the economy recovered. The competitive position of Chilean producers was also helped, though real wages were hurt, by ending the system of indexing wages to preceding changes in the cost of living. Real wages fell greatly from 1983 through 1985.
The new policy orientation began to increase exports so rapidly that the net export surplus for non-factor goods and services increased as output and demand recovered from the depression (table 3). The new orientation toward growth led by exports pulled up employment at the same time as it reduced dependence on capital inflows. Unemployment had been so high that wages continued to fall at first, despite the recovery, but they too began to increase from 1985 on. In these years, poverty and inequality began at last to decrease, thanks to the combination of increasing employment with increasing wages.

The new model C introduced by the democratic government from 1990 is based on model B but with the addition of large scale social reform projects. The programs provide both direct welfare support and a wide range of actions to raise the productive potential of the poor, including a selective drive to improve the quality of schools attended by children of the poor, greatly increased worker training for new skills, and an autonomous fund-FOSIS, the Fund for Solidarity and Social Investment—to finance community development programs in areas of poverty. It has been a strong drive to increase human investment directed toward the people who need it most.

In contrast to the way in which the military government had imposed its policies, the democratic government has emphasized negotiation. This procedure has been particularly striking for changes in labor legislation, minimum wages, and the financing of social expenditures. Three-way negotiations among the government,
labor, and business groups amended the systematically anti-labor legislation of the military period to allow more scope for forming unions and collective bargaining, to provide some restraint on the right of firms to fire workers without stated cause, and to increase periods of coverage for severance payments. At the same time, government and labor accepted the position of employers that they needed to keep more control over conditions of work, and over conditions of discharging employees, than they had prior to the upheavals of the 1970s.  

For the social programs of model C, the government similarly used negotiations with the private sector to provide the financing needed without creating any fiscal deficit. The business sector accepted an increase in taxes on profits for this specific purpose, under agreement that the financing would not be used for expansion of other government activities. The increase in taxes on profits did not discourage investment: it continued to rise, along with output, exports, and employment.  

An old problem re-emerged from 1990 on: increasing capital inflows created pressures toward appreciation of the real exchange rate. Combined with continuing growth of output and demand, the appreciation led in 1993 to a major rise in the current account deficit (table 3). It would have been easy to finance a continuing deficit from the capital inflows but that would have meant returning, at least in some degree, to the kind of external dependence characteristic of model A. The democratic government chose instead to apply a variety of specific controls
and taxes to limit the capital inflow, and slowed down growth slightly: the more autonomous track of models B and C, not A.

Model C in its first years achieved striking reductions of poverty, though not of inequality. Between 1990 and 1994 the incidence of poverty was cut by nearly a third, from 35 to 24 percent, and that of absolute poverty by half, from 14 to 7 percent (table 1). But the income share of the lowest 40 percent fell slightly, from 13.3 percent in 1990 to 13.1 in 1994. That may have been related to the rise of unemployment in 1994, as a result of the spending restraints used to limit the external deficit. The two goals of autonomy and reduction of inequality go together for the longrun, but the capital inflow brought them into conflict in the immediate period. Still, the income share of the poorest 40 poorest remained well above its level under model A, and the poverty headcount continued to decrease.

Oscar Altimir has calculated that the Gini coefficient of income concentration for 1992 remained 23 percent higher than in 1968, and concluded that the neoclassic economic model is inherently unfavorable to equality. "Income inequalities are clearly wider than before structural adjustment and are not being reduced by sustained growth."23 That interpretation is clearly right for Chile’s first version of the neoclassic model, but the estimates reported in table 2 would suggest that the worsening stopped in the late 1980s, as Chile under model B began to approach full employment. Two conclusions seem jointly valid. One is that sustained growth of employment has not in any sense been
futile: the improvements since 1985 give a distinctly better picture than the deterioration under model A. The second is that about one-fourth of Chilean households remain in poverty despite the improvement of employment conditions. The lack of concern for the human capital of the poor in the long years of the military government has left a heavy burden; Chile still needs continued and strengthened social reforms if it is ever to be overcome.

3. Mexico’s adjustment and relapse

Mexico’s gradual adjustment to its debt crisis of 1982 came to be regarded as highly successful from 1987 on, until it hit a spectacular crisis in December 1994. Jeffrey Sachs and others have explained the crash in terms of particular political strains and monetary misjudgments in Mexico in 1994. That explanation captures many relevant factors but seems to exclude a more fundamental consideration: it was an almost exact repetition of Chile’s crisis of 1982 for reasons intrinsic to this particular adjustment strategy. This strategy was in essential respects a Mexican version of Chile’s model A.

In the first years of Mexico’s adjustment to its debt crisis, its program centered on strict fiscal and monetary restraint combined with aggressive promotion of exports through both direct promotional measures and devaluation. Industrial exports, helped for many years by imaginative extra-market measures, responded strongly to the sharp devaluations in
the first years of adjustment. Liberalization of imports and privatization began in 1985, making the program similar to Chile's model B. But the inflationary impacts of repeated devaluations led the government to go backward, at the end of 1987, closer to Chile's model A.

The mechanics of Mexico's new orientation looked different: the basic change was introduced in an "Economic Solidarity Pact." It centered on three-party negotiations under which business agreed to restrain prices, labor accepted restraint on wages, and the government agreed to limit further devaluation. By this different path, Mexico began to follow model A in that it combined liberalization with appreciation of the currency in real terms. That combination led, as it had in Chile, to a rising current account deficit. The deficit averaged $4 billion for 1988-89, climbed to $24 billion for 1992-93, and reached $29 billion in 1994 (table 4). Measured at constant prices of 1990, the deficit for non-factor goods and services reached 10 percent of GDP in 1994. Model A, as in Chile, was not favorable for escape from dependence on foreign capital. But then, escape was the last thing the Mexican government wanted: the capital was seen as a necessary source of growth, not as a threat.

A deficit on current account can indeed increase the resources for investment beyond the limits of domestic saving, making possible a higher rate of growth. But it also implies the need for rapid readjustment--almost invariably for sudden contraction--if anything happens to disrupt the flow. Something
always does, something always will, interrupt the flow. Adjustment need not be particularly drastic if the current account deficit has been 2 or 3 percent of GDP; it becomes more difficult when the economy has to adjust downward in a very short time to live with the end of a deficit more on the order of 8 to 10 percent. The Mexican strategy set up a difficult problem well before 1994.

Explanations that emphasize bad fortune and mismanagement during 1994, rather than the nature of the country's development model, have plenty of ammunition. From the outside, the Federal Reserve's change to a policy of raising interest rates in the United States reduced incentives to continue lending to Mexico. On the inside, new evidence of political strains made every one nervous: first the peasant revolt in Chiapas in January and then, in March, the assassination of the leading party's presidential candidate. From March, the capital inflow practically stopped. The problem then became what to do about the current account deficit. The government could have raised interest rates sharply, or raised the fiscal surplus to cut demand, or devalued the currency, or combined doses of all three. In classic style, it chose "none of the above." It simply began to use up international reserves to pay for a continuing, uncorrected, deficit. By December the reserves had fallen well below scheduled debt obligations. As that became known, capital flew out, from Mexicans and non-Mexicans alike. The currency crashed, growth stopped, and the rate of inflation increased. An emergency
program adopted in early 1995 then began to cut down both production and employment.

As in Chile, Mexico's adjustment program weakened employment conditions and increased poverty and inequality even prior to the crisis, though not to the same degree. Data for open unemployment in Mexico are not such as to inspire much confidence: reported unemployment remained almost unbelievably low—less than 4 percent every year from 1985 through 1994—in the face of many indications of worsening employment conditions. Of those reported as employed, the share working less than 35 hours a week increased from 13.9 percent in 1979 to 22.4 percent by 1988. The share of the urban labor force driven into the informal sector increased from 26 percent in 1985 to 36 percent by 1992.²⁸

Poverty and inequality both increased up to 1989 but there is disagreement about what happened after that. The estimates by ECLAC given in Table 5 indicate that the poverty headcount increased from 34 percent in 1984 to 39 percent by 1989 but then fell back to 36 percent in 1992. Correspondingly, the income shares of the lowest 40 percent fell from 1984 to 1989 but partly recovered by 1992. But Carol Wise and Manuel Pastor question the reality of the improvement after 1989, particularly with respect to the corrections used for income in kind. They direct attention instead to data on the distribution of money income alone, excluding adjustments for income in kind. That alternative shows the income share of the lowest 40 percent falling without interruption, from 12.4 percent in 1984 to 11.0 in 1992. On the
same basis, the Gini coefficient worsened in both periods.\textsuperscript{29}

Although the damage to the poor was serious in Mexico by any measure, even the more negative estimates presented by Wise and Pastor suggest that it was less severe than in Chile under model A. Two factors that helped moderate adverse effects were that the Mexican government changed its wage policies from 1989 on, to promote increasing real wages under the Solidarity Pact, and that it introduced a major new social program in 1990. In terms of the Chilean models, Mexico stayed close to A in most respects but the new social program and wage policy made it more like a hybrid of A with the social part of model C.

The Mexican government never gave up its strong influence in wage setting, despite its retreat from intervention in most spheres. Up to 1989, that influence was used to force down wages decisively. Between 1980 and 1989 the minimum wage was cut by 47 percent in real terms, and average wages in manufacturing fell 24 percent.\textsuperscript{30} Wage negotiations under the Solidarity Pact then reversed the downward trend: average real wages increased by 7 percent a year from 1989 through 1993.\textsuperscript{31} In addition, the new social program adopted in 1990, PRONASOL, helped thousands of communities to implement local projects for schools, roads, housing, nutrition, and sanitation: it provided considerable employment while raising living standards of the communities involved.\textsuperscript{32}

With PRONASOL, Mexico’s adjustment program added direct measures to reduce poverty but retained the weakness of model A
in its dependence on foreign capital. That failure with respect to autonomy came home with a vengeance at the end of 1994. Adjustment to the new crisis seems certain to worsen poverty and inequality at least temporarily through loss of formal sector employment, lower real wages, higher inflation, and high rewards to the wealthy who managed to get their money out of the country before the value of the currency collapsed. The government’s emergency adjustment program of 1995 called for increased taxes, a cut of nearly 10 percent in public spending, and a decrease of 2.5 percent in GDP. By the second quarter of 1995, approximately a million people had lost their jobs and output was 10.5 percent below the same quarter of 1994. The great weakness of model A, the failure to limit dependence on foreign capital, swamped the attempted improvements through direct social programs.

The positive side to the forced devaluation proved surprisingly strong: exports rose swiftly and turned the previously large import surplus into a strong export surplus for the first half of 1995. Mexico’s prolonged efforts to build up more diversified exports has given it a highly elastic capacity to respond to the stimulus of devaluation. That should permit resumption of growth more quickly than could have been possible if the government had managed to continue avoiding devaluation. It should also help restore a measure of autonomy, though the immediate results of the crisis went the other way. Negotiations over conditions for emergency financing from the United States raised a host of sensitive questions about Mexican independence.
Debates in the United States about possible conditions included Mexican policies with respect to privatization, foreign investment, relationships with Cuba, migration, and drugs.\textsuperscript{35} Despite all this uproar, the two governments managed to reach a quiet agreement respecting Mexican sovereignty. But it is a real question if Mexico could, if it wished, follow independent monetary or fiscal policies, bring interest rates down to low levels such as those in Chile's model B, or use techniques included in Chile's model C such as controls and special taxes to restrict capital inflows. Mexico may not have had much autonomy in such matters even before the adjustment program; it almost surely has less now.

4. **Implications for Peru?**

Peru came relatively late to its neoliberal adjustment program, in 1990, just as it had come late to protection and controls in the first place. Its quarter-century of high protection, from 1965 to 1990, included some positive intervals but gradually turned into a miserable process characterized by falling income per capita, worsening inflation, a deteriorating state, and growing violence.\textsuperscript{36} The fastest growing category of employment in Lima from 1970 to 1990 consisted of selling in the streets: selling shoe laces, pieces of stove pipe, purses or stereo sets stolen the day before, clothes hangers, anything. Street vendors increased from 2.5 percent of Lima's labor force
in 1970 to 13.1 percent by 1990.\textsuperscript{37}

By 1990 the country was in desperate straits and ready to accept almost any kind of change that might restore at least a minimal sense of order. The new government of Alberto Fujimori delivered radical change very quickly. By early 1991 its adjustment program had replaced the previous emphasis on protection and controls with a full scale version of Chile’s model A.\textsuperscript{38} As in Chile in the late 1970s, deregulation of the financial sector in conditions of tight monetary restraint resulted in extremely high real interest rates and a capital inflow. Again, the capital inflow made the currency appreciate in real terms (table 6). Under these adverse competitive conditions for Peruvian firms, combined with continued violence discouraging investors, output per capita kept on falling through 1992.

The turning point toward recovery the next year was greatly helped by good luck in dealing with the revolutionary violence of Sendero Luminoso. In September 1992 the police in Lima captured the head of the movement and several of his closest associates. Sendero Luminoso remained able to mount sporadic attacks but lost its main thrust and its aura of invincibility. That change released a tremendous feeling of relief for the majority of Peruvians, and for potential foreign investors. Direct foreign investment began to enter the country on a large scale and helped, along with a revival of both private and public construction, to set off a steep rise in output.

In contrast to the beginnings of model A in both Chile and
Mexico, where prior devaluations had established an initially strong competitive position, Peru's version started against the background of prolonged deterioration. Its real exchange rate had fallen greatly from 1985 to 1990; the current account was saved from going into significant deficit only by the fact that steeply falling output and income had repressed demand for imports. As the real exchange rate continued to fall, and the economy began to recover, the deficit on current account increased exactly as it had in Chile and Mexico (table 6).

Intervention by the central bank temporarily reversed the fall of the real exchange rate in 1993, which helped interrupt the growth of the current account deficit for that year, but the combination of appreciation and a growing deficit returned in both 1994 and 1995. The deficit projected for 1995, at 6 percent of GDP, remains below the danger levels that touched off crises in Chile and Mexico, but not by much.

The possibility that Peru can avoid the severe shocks experienced by Chile and Mexico depends on both the course of economic policy and on the contribution of rising investment to the supply of potential exports. Jürgen Schuldt argues that the high rents available from mining and oil exports make them relatively immune to the negative effects of a real exchange rate that remains adverse for industrial exports. The inflow of foreign direct investment has gone chiefly into mining precisely because it does not depend on a competitive exchange rate in the sense that the industrial sector does. And the inflow has been so
strong that mineral exports can be expected to rise fast enough, at least for the rest of the 1990s, to offset even a complete disappearance of the capital inflow.\textsuperscript{40}

Schuldt's picture is precisely that of a country returning to comparative advantage under conditions in which the advantages are squarely on the side of primary exports and inimical to diversification into industrial exports. The implication for the medium term future is that Peru may not hit a crisis of external finance at all. But for the longer run it is likely to be restricted to a primary exporter's role adverse to diversification, to learning, to development of human resources, and to employment. Mining is not the leading sector one would choose if one were concerned with inequality or with human development.

Employment conditions in the first two years of the adjustment program were weakened both by macroeconomic stagnation and by drastic cutbacks in public sector employment. The recovery of 1993-94 stimulated moderate growth of private employment in the formal sector, though not enough either to reduce the rate of open unemployment or to stop the persistent shift of workers to the informal sector. The latter grew from 46.7 percent of the labor force in Lima in 1990 to 51.5 percent by 1994.\textsuperscript{41}

A comparison of the recovery through 1994 to the last preceding period of recovery (1984-87), brings out a considerably weaker effect on employment under the adjustment program. In the preceding recovery, open unemployment fell from 9 percent in 1984
to 5 percent by 1987; in the 1990s, it stayed practically constant at 9 percent. The elasticity of employment growth in the urban private sector, relative to growth of production, fell almost in half from the preceding recovery to that of the 1990s. Stated in a positive way, the increased competition opened up by trade liberalization put firms under great pressure to cut costs and raise productivity. But the negative effects on employment, and the degree of poverty in Peru, could have been moderated or even reversed by an offsetting increase in the real exchange rate. To allow the exchange rate to fall instead of raising it put all producers of tradable goods under unnecessarily severe competitive conditions. Some failed to survive at all, while others held down employment more deeply than they would have done, or that economic efficiency would call for them to do, at a competitive exchange rate.

The social component of the adjustment program in its first two years was almost purely nominal: it was given very little financing, or attention. The multilateral agencies supporting the adjustment program tried to change that approach, and provided significant financing for a variety of special projects in 1993-94. At the same time, the government began to make real efforts to implement a social program of its own. Its "program of support for extreme poverty," financed through the budget, amounted to 0.8 percent of GDP in 1993 and was budgeted for 1.7 percent for 1995. Peru began to follow a track not dissimilar to Mexico: continued reliance on a form of model A, but combined
with a social effort more like that side of Chile's model C.

The severity of poverty, as estimated by the Cuánto index of "critical poverty," worsened by 39 percent in the course of 1990 and 1991. But the index itself began to lose significance, because of one of the very factors worsening poverty. It had used the minimum wage as one of several indicators of incomes of the poor. But the minimum wage was cut so deeply under the adjustment program that it practically ceased to apply to anyone: this component of the index lost any real counterpart. Still, it serves as a rough indicator of worsening poverty through 1991, and as a bridge to a new study of poverty for the period 1991-94.

Some of the central results of the new study are summarized in table 7. Poverty headcounts went down moderately from 1991 to 1994, though they remained far higher than in the last comparable survey, for 1985. The decreases in poverty headcounts between 1991 and 1994 both for the nation as a whole and for the region with deepest poverty--the rural Sierra--have been cited as evidence that this adjustment model is proving to be "broad based," favoring the poor at least as much as the rich. It clearly constitutes an improvement for these years, due chiefly to the recovery of 1993-94 and perhaps in some degree to the new social programs.

Inequality worsened in the sense that wage earnings fell relative to capital values and to national income. Wages and benefit payments fell by 15 percent (in terms of constant prices) between 1990 and 1994, while the stock market index multiplied
five times. Wage and benefit payments to labor fell from 20 percent of GDP in 1990 to 15 percent in 1994.\(^{47}\) But inequality in terms of consumption seems to have remained practically unchanged. Two preliminary studies based on the poverty survey reported in table 7 go in contrary directions, though both suggest that changes were modest. One concludes that the decrease in poverty headcounts was slightly less than would be expected from the growth of total income; that it was held down by a small increase in inequality.\(^{48}\) The second calculates a Gini coefficient for consumption of .304 in 1991 and .298 in 1994: an indication of lower inequality, though an almost invisible difference.\(^{49}\)

Table 7 includes one interesting departure from the overall picture of decreasing poverty in the period 1991-94. The estimates of "chronic poverty" for comparable regions show no improvement at all. This concept, discussed briefly in section one, is meant to measure that segment of people in poverty who suffer persisting handicaps that limit their capacity to respond to improving employment opportunities. By this indicator, the reductions in poverty headcounts shown in table 7 do not reflect any progress at all in reducing the core of persistent poverty.

The Peruvian adjustment program looks much better after the expansion of 1993-94 than it did in its first years, and has made some headway in reducing the kind of poverty associated with weak employment conditions. But employment conditions did not strengthen to the degree that previous experience would suggest
for such a recovery period, external deficits have been increasing, and the structure of export growth led by mining and other primary products does not offer great promise for learning, for human capital development, or for future reductions in inequality.

5. The three adjustment models and the character of development

All three of the adjustment models discussed are consistent with non-inflationary growth in relatively open economies, with reasonably high allocative efficiency, and with favorable conditions for private enterprise. The purest versions of this orientation unfortunately favor model A and are therefore likely to aggravate inequality and weaken autonomy. They did so when model A was used originally in Chile and will probably always do so wherever it is used. But it is not a necessary choice. The second alternative developed in Chile gradually began to change the country’s development path toward increased equality and autonomy, and the third alternative has improved on that trend. What makes the consequences of the models so different? And what explains the preference for model A in Peru so far, and apparently in Mexico as well, after Chile demonstrated both its negative consequences and the superiority of alternatives?

Many factors enter into the different sets of consequences but two that are central, and closely related, are the effects of each model on employment and trade. If employment can be raised
steadily, to the point of making it possible to achieve something close to full employment in periods of prosperity, market forces can begin to operate in favor of wages. At the same time, opportunities will improve for workers to move from low to higher productivity occupations, and to gain new skills. To shift toward exports of manufactures can help the process by stimulating learning, providing better employment opportunities, and earning foreign exchange to reduce dependence on external capital.

Model A in Chile blocked this process; it led to extraordinarily high unemployment even in years of good growth that were considered to be prosperous, and then made things worse by setting up conditions of crisis and depression. Model B started from such high levels of unemployment that it did not help the poor at first but it kept increasing employment in a style sharply different from model A, until both poverty and inequality began to fall as a consequence of jointly increasing employment and wages. It is certainly true that the increases in poverty and inequality in Chile were aggravated by other policies of the military government adverse to labor and favorable to investors. But it also notable that inequality began to decrease as employment conditions improved under model B despite the continuance of much the same set of policy preferences.

What explains the contrast between steadily high levels of unemployment in model A and rapidly decreasing levels in model B? Again, multiple factors are involved but one that stands out as central is the difference between the drive to make the country’s
producers more competitive under model B contrasted to the acceptance of rising external deficits and currency overvaluation under model A. The former favored increasing employment through lower interest rates, a rising real rate of exchange, direct help to exporters, and an end to indexing of wage rates. Ending indexation hurt wages seriously for three years. It would have hurt much longer in the absence of basically expansionary policies, but given sustained growth of employment wages began to recover and continued rising through the next decade.

Mexico had a somewhat better record with respect to employment under model A than Chile, up to the crash at the end of 1994. Inequality and poverty worsened but not to Chile’s extreme degrees. That record—not great but not quite as bad—was helped by the country’s success in continuing to raise industrial exports, even in the face of model A’s standard effect of a deteriorating real exchange rate. Employment was further supported, from 1990, by large-scale social spending under PRONASOL. The combination of model A with a social program similar to that component of Chile’s model C proved less damaging than the pure version of model A. But the basic weakness of the latter model remained. Its standard current account deficit grew so large that the economy became vulnerable to the first signs of shock in response to domestic political strains.

Peru’s experience with model A may turn out to be more expansionary than that of Chile, but it is also notable for its weak record of employment. That was to be expected in the first
two years of severe macroeconomic restraint but even when output grew rapidly in 1993 and 1994 employment in the formal sector failed to respond at anything like the pace of the country’s preceding recovery period. Open unemployment failed to decrease, and the informal sector continued to grow relative to the formal. A major factor fostering this weakness for employment has been the combination of trade liberalization with an exchange rate adverse to successful competition by Peruvian industry. The same combination has led to a rising current account deficit, following the same path as Chile up to 1982 and Mexico up to 1994. Peru may still be able to avoid the resulting crises that set back the other two, but even without a crisis this set of incentives is adverse to equality because it favors capital intensive production and exports, and at the same time pulls demand away from domestic industry toward imports.

Why did Mexico and why does Peru accept the strains and dangers of model A when more positive alternatives are available, and have proven to be consistent with more equitable and more sustained growth in an open economy? A probable reason in the first place was the priority given to stopping high rates of inflation: model A is more effective for that particular objective, at least up to the point of breakdown from its external consequences. But decisions to stay with it even after inflation has been reduced to historically low levels may be more a matter of current conceptions, within the governments and the international financial agencies as well as the economics
profession, of the best course to follow under the new open economy orientation.

A central premise of that orientation is that capital should be allowed to move freely among countries and that each country’s current account should be expected to adjust to that flow. Current account deficits in these countries can be seen as the positive counterpart of well functioning capital markets. In a period of increased hope for Latin American economies, with a political environment much more favorable for private investors, the capital flows have been inward, favored currency appreciation, and financed large current account deficits. For many economists, and apparently for the international financial agencies at present, these effects are natural and desirable components of an open-economy strategy. In that view, it would be a mistake to interfere with the capital inflows, or with the exchange rate appreciation they promote, or with the structure of exports that results. The logic of this position points squarely toward model A, and against the activism of models B and C. The logic appeals to many. The costs, unhappily, are highest for the poor.

Chile has learned how to apply restraints to capital inflows without blocking foreign investment, how to stimulate new activities and new exports without recourse to protection, and how to run a powerful social program without fiscal deficits. It learned all that, or at least began to act on such lines, once it escaped from model A. For the sake of lower income people in
Mexico and in Peru, and all the other countries operating under their own versions of model A, one might hope that they will soon escape it too.
NOTES

1. Cf. Samuel A. Morley, 1995, Poverty and Inequality in Latin America (Baltimore: Johns Hopkins). Although the present analysis differs from that of Morley in a number of specific respects, this first hypothesis is closely similar to the central explanatory theme applied very effectively in his investigation of poverty and inequality in Latin America.


8. The estimates of consumption in table 1 are derived from Arturo León Batista, 1994, "Urban Poverty in Chile: Its Extent and Diversity," Kellogg Institute, University of Notre Dame, Democracy and Social Policy Series, Working Paper #8:63. An earlier study by René Cortázar, 1980, "Distribución del ingreso, empleo y remuneraciones reales en Chile, 1970-1978," Colección Estudios CIEPLAN (3):10, table 2, shows a greater increase for the highest fifth and a lower decrease (24 percent) for the poor. These studies are based on identical measures of the distribution of consumption but use different price deflators to calculate real consumption at constant prices.


11. The scale of under-reporting is high. A comparison of reported incomes in 1987 to national accounts for that year indicated that declared net incomes of employees needed to be adjusted upward by a correction factor of 27 percent, while "gains and profits" were so deeply understated that they needed a correction factor of 55 percent: León Batista 1994:101, table 5.8.


27. Sachs, Tornell, and Velasco 1995:7-21


34. Non-petroleum exports increased by 34 percent in the first half of 1995, compared to that of 1994; the trade balance shifted from a deficit of $8.8 billion to a surplus of $3.1 billion: *comercio exterior* 1995 45(9):712.
35. *New York Times* 1995: January 14, 16, 26, 27; February 1. A presentation to investors in New York, by Mexico's new Minister of Finance, was so reassuring about all possible problems that it almost conveyed the impression they were welcome to ask for anything they wanted.


42. Infante 1995:3.
47. Instituto Cuánto 1995:559.
Table 1. Chile: estimates of consumption by the 40 percent of households with lowest incomes, and of the incidence of poverty, specified years from 1968 to 1994.

<table>
<thead>
<tr>
<th>Year</th>
<th>Consumption index, poorest 40 percent of households, Gran Santiago</th>
<th>Percent of households, national measures</th>
<th>Extreme poverty</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>40 percent</td>
<td></td>
</tr>
<tr>
<td>Pre-Allende</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1968</td>
<td>100</td>
<td>17 percent</td>
<td></td>
</tr>
<tr>
<td>1970</td>
<td>[20 to 22] ( a )</td>
<td>[6] ( a )</td>
<td></td>
</tr>
<tr>
<td>Model A, before crisis</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1978</td>
<td>68</td>
<td>32</td>
<td></td>
</tr>
<tr>
<td>1980</td>
<td>32</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Model B, in recovery</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1987</td>
<td>38</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td>65</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transitional year, 1990</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1990</td>
<td>35</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>Model C</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1992</td>
<td>28</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>1994</td>
<td>24</td>
<td>7</td>
<td></td>
</tr>
</tbody>
</table>

Note (a): the standard published estimate for poverty in 1970 is 17 percent, but for reasons summarized in the text this must be adjusted upward to be reasonably comparable to later estimates. The estimate for extreme poverty in 1970, 6 percent, is probably too low for the same reasons.

Table 2. Estimates of households’ shares of consumption in Gran Santiago and of income at the national level, Chile, selected years, 1968-1994.

<table>
<thead>
<tr>
<th></th>
<th>Shares of consumption</th>
<th>Shares of income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Lowest 40 percent</td>
<td>Highest 20 percent</td>
</tr>
<tr>
<td>Pre-Allende</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1968</td>
<td>19.4</td>
<td>44.5</td>
</tr>
<tr>
<td>1970</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In model A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Before crisis,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1978</td>
<td>14.5</td>
<td>51.0</td>
</tr>
<tr>
<td>1979-81</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In depression,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1982-84</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In model B,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td>12.6</td>
<td>54.6</td>
</tr>
<tr>
<td>1989</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transition, 1990</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In model C</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1992</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1994</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 3. Chile: unemployment, real exchange rate, current account balance in dollars, and net exports of goods and services as share of GDP at constant prices, 1970-1994.

<table>
<thead>
<tr>
<th>Year</th>
<th>Unemployment in Santiago&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Real exchange rate&lt;sup&gt;b&lt;/sup&gt;</th>
<th>Current account Million dollars</th>
<th>Net exports % of GDP&lt;sup&gt;c&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reference base, 1970</td>
<td>6.9</td>
<td>51.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In model A, pre-crisis</td>
<td>1975-79</td>
<td>16.3</td>
<td>66.0</td>
<td>-634</td>
</tr>
<tr>
<td></td>
<td>1980-81</td>
<td>15.7</td>
<td>50.4</td>
<td>-3352</td>
</tr>
<tr>
<td>In model A, depression</td>
<td>1982-83</td>
<td>28.4</td>
<td>57.6</td>
<td>-1711</td>
</tr>
<tr>
<td>In model B</td>
<td>1984</td>
<td>24.4</td>
<td>65.6</td>
<td>-2111</td>
</tr>
<tr>
<td></td>
<td>1985-87</td>
<td>16.4</td>
<td>84.2</td>
<td>-1138</td>
</tr>
<tr>
<td></td>
<td>1988-89</td>
<td>7.7</td>
<td>98.5</td>
<td>-467</td>
</tr>
<tr>
<td>In model C</td>
<td>1990-92</td>
<td>5.8</td>
<td>96.2</td>
<td>-460</td>
</tr>
<tr>
<td></td>
<td>1993</td>
<td>4.7</td>
<td>91.0</td>
<td>-2093</td>
</tr>
<tr>
<td></td>
<td>1994</td>
<td>6.2</td>
<td>89.2</td>
<td>-753</td>
</tr>
</tbody>
</table>

Notes and sources for table 3 given on following page.
Notes and sources for table 3

Notes:

(a) Includes emergency programs of public employment.
(b) An increase indicates a devaluation (improvement of competitive position). Index is on base of 1990 = 100, with data for 1970-84 converted from original base of 1977 by using the ratio of the 1990 index to that of the earlier index.
(c): This balance is for non-factor goods and services. It excludes interest payments on external debt. Constant prices of 1977 were used for 1975-79, of 1988 for 1980-84, and of 1990 for 1985-94.


<table>
<thead>
<tr>
<th>Real effective exchange rate, 1990 = 100</th>
<th>Current account, $ billion</th>
<th>Net non-factor exports as % of GDP at 1990 prices</th>
</tr>
</thead>
</table>

Period similar to model B:
- average 1985-87: 112 + 1.2 + 6.2

Period similar to model A:
- average 1988-89: 105 - 4.1 + 2.6
- average 1990-91: 96 - 11.2 - 3.4
- provisional 1994: 86 - 28.9 - 10.0

Note (a): net exports of non-factor goods and services exclude payments of interest on external debt.


<table>
<thead>
<tr>
<th>Percent</th>
<th>1984</th>
<th>1989</th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Poverty: households</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>below the poverty line</td>
<td>34</td>
<td>39</td>
<td>36</td>
</tr>
<tr>
<td><strong>Income shares by sector</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lowest 40 percent</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urban</td>
<td>20.1</td>
<td>16.0</td>
<td>16.6</td>
</tr>
<tr>
<td>Rural</td>
<td>20.3</td>
<td>18.7</td>
<td>19.4</td>
</tr>
<tr>
<td>Highest 10 percent</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urban</td>
<td>25.8</td>
<td>36.9</td>
<td>34.8</td>
</tr>
<tr>
<td>Rural</td>
<td>26.4</td>
<td>27.4</td>
<td>28.9</td>
</tr>
<tr>
<td><strong>Shares of monetary income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(excludes income in kind)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lowest 40 percent</td>
<td>12.7</td>
<td>11.7</td>
<td>11.0</td>
</tr>
<tr>
<td>Highest 20 percent</td>
<td>54.3</td>
<td>54.9</td>
<td>56.9</td>
</tr>
</tbody>
</table>

| Coefficients |
| Urban | 0.32 | 0.42 | 0.41 |
| Rural | 0.32 | 0.35 | 0.34 |

Sources: ECLAC 1994:153 and 159, tables 18 and 22, for all except shares of money income; Wise and Pastor 1995:10 for money income.
Table 6. Peru: real exchange rate, current account balance, and ratio of net exports of non-factor goods and services to GDP at constant prices, 1990-1995.

<table>
<thead>
<tr>
<th>Real effective exchange rate, 1990 = 100</th>
<th>Current account $ million</th>
<th>% of GDP</th>
<th>Net non-factor exports as % of GDP at 1990 prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>- 678</td>
<td>- 2.1</td>
<td>- 0.2</td>
</tr>
<tr>
<td>1991</td>
<td>- 814</td>
<td>- 1.9</td>
<td>- 1.2</td>
</tr>
<tr>
<td>1992</td>
<td>- 1659</td>
<td>- 3.9</td>
<td>- 2.5</td>
</tr>
<tr>
<td>1993</td>
<td>- 1678</td>
<td>- 4.1</td>
<td>- 1.6</td>
</tr>
<tr>
<td>1994</td>
<td>- 2187</td>
<td>- 4.4</td>
<td>- 2.8</td>
</tr>
<tr>
<td>1995 estimates</td>
<td>- 3600</td>
<td>- 6.0</td>
<td></td>
</tr>
</tbody>
</table>

Notes:

(a) current account as % GDP calculated in dollars; net exports of non-factor goods and services as % GDP calculated at constant 1990 prices, excluding interest.

(b) real exchange rate at end of September, converted from base of August 1990 in source to base of year 1990.

(c) estimates by Banco de Crédito; information to September.

Sources:


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<th>1985</th>
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<td>37.9</td>
<td>55.3</td>
<td>48.2</td>
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<td>National estimate for all regions, 1994 only</td>
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<td>54.5</td>
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</table>

"Chronic poverty:" people both below poverty line and lacking basic needs\(^b\)

| National estimate for comparable regions\(^a\) | -- | 22.3 | 22.9 |
| Rural Sierra | -- | 47.8 | 45.2 |

Notes:

(a) The study for 1991 omitted the rural coast and the jungle regions; the national estimates for comparable regions make the same omissions.

(b) "Chronic poverty" includes those people below the poverty line who lacked one or more basic services, blocking "development of their capacity to escape from poverty" (Instituto Cuánto 1995:31).

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